TRADE POLICY ISSUES IN LATIN AMERICA AND THE CARIBBEAN: VIEWS FROM COUNTRY AUTHORITIES AND CURRENT STATE OF PLAY

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TRADE POLICY ISSUES IN LATIN AMERICA AND THE CARIBBEAN: VIEWS FROM COUNTRY AUTHORITIES AND CURRENT STATE OF PLAY

This paper presents the results of a survey of country authorities in Latin America and the Caribbean (LAC), conducted between September 2015 and September 2016. The survey covered the main aims and strategies of trade policy, views on regional integration, as well as some of the challenges of the current trading environment, including non-tariff issues. This paper also draws on existing policy research on trade policy in LAC, to put the findings of the survey into context.

1. The current challenging macroeconomic environment for Latin America and the Caribbean (LAC) has sharpened the focus on trade as a driver of growth and development in the region. At the same time, the global trade landscape has shifted dramatically over the past two decades, including through the conclusion of the Uruguay Round of the GATT, the entrance of China into the WTO and the rise of global value chains (GVCs). As a response to these developments, new issues have arisen in trade policy and trade agreements increasingly cover issues beyond tariff reduction. Most recently, a significant slowing of global trade growth since 2012 has been observed; trade growth has barely kept pace with world GDP growth, whereas between 1985 and 2007, real world trade grew on average twice as fast as GDP (IMF, 2016c). In part, this may be attributed to the maturation of major world trade policy initiatives which stimulated the growth of trade in the 1980s and 90s. At the same time, there is diminishing support, particularly in advanced economies, for a free trade agenda as well as new attention to the distributional implications of free trade.

2. When it comes to trade policy, Latin America and the Caribbean countries can be broadly divided into two groups. The first group has actively pursued trade integration, signing reciprocal “deep” trade agreements with the world’s largest economies and prioritizing market openness. The Pacific Alliance countries (Mexico, Peru, Colombia and Chile) are primary among these; Costa Rica can also be included. A different group of countries in the region, including Brazil and particularly Argentina, has used trade policy to protect domestic industries and has limited participation in trade agreements to shallow integration (Hoekman, 2015). However, the region as a whole has not yet been able to emulate the success East Asian countries have had in stimulating export-driven growth and increasing the technological sophistication of their exports over time. There is optimism, however, particularly with the new administrations in Brazil and Argentina and the continued dynamism of the Pacific Alliance, that the time is ripe for the continent as a whole to

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1 Thanks to Western Hemisphere Department country teams and country authorities who responded with some very comprehensive answers to our questions. Valerie Cerra, Stephan Danninger, Jaume Puig Forne, Gonzalo Salinas, and Metodij Hadzi-Vaskov provided useful comments on an earlier draft. This paper was prepared as a background study for the Western Hemisphere Department’s Cluster Report on Trade Integration in Latin America and the Caribbean. This paper describes research in progress by the author and is published to elicit comments and to encourage debate. The views expressed in this paper is that of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

2 However, changes in political leadership in 2015/16 have heralded a more open approach to trade in both countries.
exploit the potential gains from deeper regional integration and insertion into GVCs (Estevadeordal & Talvi, 2016).

3. While the Fund has produced a substantial body of analytical work on trade, coverage of trade issues in bilateral surveillance has been limited. Where there is a focus on trade in country reports, it has tended to be in relation to an assessment of the balance of payments, while the discussion of trade policy issues has been infrequent (IMF, 2015a). The aim of this research is to bridge this gap for Latin American and Caribbean countries, by asking country authorities directly about their trade policy objectives and concerns. At the same time, we have surveyed a selection of the most recent research by the multilateral institutions that are most closely involved with the trade policy agenda in LAC, including the Inter-American Development Bank (IaDB), the World Bank, and the U.N. Economic Commission for Latin America and the Caribbean (ECLAC). This provides some context to the responses to the questionnaire and calls attentions to areas where there might be differences between country authorities and multilateral institutions.

A. Methodology

4. Country authorities’ views on trade policy were provided through a survey and through mission engagement. To gain a better perspective of the LAC authorities’ perspectives on current trade issues, we drew up a brief questionnaire, which was either sent to the relevant authorities (typically the Ministry of Trade or the Ministry of Economy) or completed on the mission. The questionnaire consisted of seven open-ended questions, which focused on trade policy strategies and objectives, trade initiatives, constraints to exporting, regional integration, non-tariff measures, and the Trans-Pacific Partnership (TPP) (see Annex 1 for the full list of questions). Sixteen responses were received, out of a possible 35.³ To facilitate the analysis, the responses were grouped into three regions—Central America and Mexico, South America, and the Caribbean. The response rate was highest for Central America and Mexico, where all countries responded except for one, and lowest for the Caribbean region, with 4 out of 17 countries submitting a response. Survey responses varied significantly in length and level of detail provided.

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³ Responses from Brazil, Colombia, Grenada, Mexico, Panama, and St. Vincent and the Grenadines were obtained on mission. Brazil and Mexico also submitted written responses. Only Fund member countries were contacted, so we did not include, for example, Cuba, or French/British dependencies in the Caribbean.
5. **The trade policy landscape has shifted somewhat since the survey was conducted.** The survey was initially distributed in September 2015 and responses were received (or interviews conducted) between that time and September 2016. As such, the paper does not incorporate country authorities’ views on recent developments in trade policy.

B. **Results**

**Trade Policy Objectives and Strategies**

6. **Most countries are concerned with export diversification, both in terms of markets and products.** Broadly speaking, South American countries, for example, have traditionally depended on commodity exports and so are searching for ways to diversify into a wider range of goods and services. Also frequently highlighted was the goal of increasing export sophistication, particularly for Central American countries whose exports of manufactured goods tend to have low value-added.

![Figure 1. Objectives of Trade Policy](image)

7. **In terms of the overarching strategies of trade policy, countries highlighted regional integration more frequently than any other strategy.** Central American countries, Mexico and the Caribbean countries in particular put special emphasis on regional integration. Responses on regional integration will be discussed in depth in Section 4.
8. **Trade agreements were the most frequently-mentioned tool for expanding and diversifying trade.** Bilateral trade agreements or agreements between regional blocs featured most in country responses. Several responses mentioned that they are focused on seeking out new agreements with strategic partners (Brazil, Chile, Guatemala, Mexico, Nicaragua, and Trinidad and Tobago) usually with the goal of diversifying their markets. Some countries (Colombia, Nicaragua) saw opportunities for further leveraging current agreements, by identifying new products or firms in export markets where they already have preferential access. Other countries are expecting to deepen and modernize existing trade agreements (Brazil, Chile, Mexico), reflecting the need to bring trade agreements up to date with current global trade practices.

![Figure 2. Trade Policy Strategies (Number of countries)](image)

9. **Trade agreements can reduce trade costs by reducing both tariff and non-tariff barriers, the latter through regulatory harmonization.** The network of trade agreements within LAC, and between LAC countries and the rest of the world, has grown exponentially since the 1990s. However, calculations by the IDB on the percentage of trade that takes place with preferential partners show that many countries in LAC have a high proportion of trade with countries with which
they do not yet have RTAs, suggesting that there is potential to use new and existing RTAs to expand market access within and outside the region (IaDB, 2016). The complicated network of trade deals across the region—the so-called “spaghetti bowl” of RTAs—also entails costs, resulting in silos within the region and inhibiting the development of regional value chains (Estevadeordal & Talvi, 2016; IaDB, 2016). This suggests that a strategy of consolidating these RTAs would be important, as mentioned by Dominican Republic in their response to the survey. In Colombia, the Ministry of Trade is shifting increasingly towards understanding and addressing firm-level constraints to export instead of focusing on trade agreements, reflecting that the returns to additional RTAs may now be lower and RTAs are only one element of a comprehensive trade policy.

10. **Export and investment promotion activities were also highlighted as important strategies.** A variety of such strategies are used by LAC countries to promote exports. Those mentioned included the provision of information to exporters on new opportunities (Colombia, Costa Rica), training programs (Costa Rica), assistance to companies to obtain quality certifications and assurances (Nicaragua), and promotion of linkages between firms to form a supply chain (Chile, Costa Rica). Trinidad and Tobago uses its diaspora network in the U.S., Canada and the U.K. to promote export and investment opportunities.

11. **LAC country authorities selectively promote sectors with export potential.** Many countries in the region focus their trade policy on specific sectors which they believe have growth potential. The goal is often to stimulate non-traditional sectors, in order to diversify away from a dominant commodity export. Bolivia, for example, has a set of goals for 2020 such as increasing the share of manufacturing in total exports to 28 percent and that of organic products to 12 percent. In addition to services, Panama is targeting high quality agricultural products as an area where it could specialize. Costa Rica also has specific sectoral goals for exports and investment; in fact, it has a long history of “picking winners”. Colombia has created a regional opportunity map to share with potential exporters, in which they identify products with competitive advantages in each region. Moreover, pilot projects to help firms identify products with export potential and improve their innovation and managerial skills are showing positive results and should contribute to diversification in Colombia. Anecdotally, LAC countries have contracted consulting firms such as McKinsey to identify sectors with comparative advantages; multilateral organizations also conduct such studies—for example, ECLAC is helping Grenada to identify areas of competitive advantage in non-tourism services.

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4 According to the WTO, Regional Trade Agreements (RTAs) may cover any agreement between countries that reduces trade barriers, including FTAs and customs unions. Free Trade Agreements (FTAs) refer to the particular case where the agreement completely eliminates import tariffs and quotas between participating countries.

5 Mexico, Chile and El Salvador have the most trade with preferential partners, while Venezuela, the Bahamas, and Brazil are at the bottom of the list.

6 See Crespi et al (2014) pages 298-9 for a discussion of how Costa Rica’s investment promotion agency, Cinde, focused on attracting investment in electronics, medical equipment and business services.
12. **In recent years, the belief that industrial policy is distortionary has softened somewhat in Latin America and the Caribbean.** Many country authorities take the view that they are “doomed to choose”\(^7\) and therefore that a well-thought out industrial policy is better than none at all. Recent sectoral strategies in LAC take forms which are less interventionist and protectionist than the import substitution policies that characterized the region in the 1950s-1980s. Strategies are also much more likely to be focused on promoting exports rather than producing for the domestic market, and to target areas of comparative advantage (Crespi et al, 2014). Responses to the survey did not go into sufficient detail so as to allow an analysis of current approaches. Nevertheless, this is an area that merits further investigation, given the mixed history of industrial policy in the region, and the potential pitfalls of “picking winners”, including the emergence of rent-seeking behavior.

13. **The service sector was underlined by a number of countries as offering potential for growth.** Services currently represent about two-thirds of global GDP but only a quarter of global trade. Moreover, policy barriers to services trade remain large, which suggests that there is significant potential to expand services exports if trade initiatives such as the WTO’s Trade in Services agreement are successful (IMF, 2016c). Also, advances in information and communications technology (ICT) have made it possible to export a wider range of services. Transport costs, which tend to be significant in the region, do not matter nearly as much for services as for goods. Colombia considers it may have growth potential in health and back-office services in particular. Grenada sees potential in exporting health and education services, as well as back-office services and culture/entertainment/ICT. Costa Rica, which already exports a significant amount of services, considers it essential to work on international standards, in order to eliminate or reduce barriers to trade in services. Panama is also already a major exporter of services and is looking to expand its service exports, particularly in the Central American region.

14. **Tax incentives did not feature prominently in country responses to the survey.** Only two countries mentioned tax incentives as a strategy to increase exports (Panama and Trinidad and Tobago), perhaps because they are not typically thought of as instruments of trade policy. In practice, however, such instruments are widely used, particularly in Central America with its free trade zones (FTZs). The goals of these incentives are to attract FDI, stimulate exports, and create jobs—but they also have had the effect of creating harmful tax competition in the region. Under the WTO Agreement on Subsidies and Countervailing Measures, FTZs should be phased out starting in 2016, except for certain countries that are considered “least developed” or have income per capita below a certain threshold—in Latin America this includes Bolivia, Haiti, Guyana, Nicaragua and Honduras. Although many other LAC countries were given extensions for certain programs, these expired at the end of 2015. The impact of this decision has been mixed; in response, Costa Rica, the Dominican Republic, Guatemala and El Salvador have changed their tax legislation to allow FTZ and other exporting companies to sell locally, while still benefiting from some tax incentives and arguably still complying with the WTO decision. In Guatemala’s case, they have used the opportunity

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7 This phrase comes from a 2006 paper by Rodrik and Hausmann called “Doomed to Choose: Industrial Policy as Predicament”. The authors argue that economic activity is dependent on highly specific capabilities that are partly produced by the market and partly by the state, and that without purposeful action to move to new activities, countries may not be able to overcome the market failures that affect the process of structural transformation.
to cut back on tax incentives and the number of sectors which can benefit from tax incentives has been reduced significantly; in other countries less so.

15. **Trade facilitation measures could significantly increase trade integration in LAC.** Trade facilitation encompasses a number of different initiatives and policies which aim to reduce logistical bottlenecks to trade, such as risk-based inspections, replacing paper-based border systems with electronic ones (single window system), and authorized economic operator programs. The time and cost involved in completing border formalities can add significantly to the cost of trading.

16. **Several countries mentioned initiatives to facilitate faster clearance of merchandise in their responses.** In particular, Brazil has just implemented a single window system and is reformulating its export, import and customs transit processes. Colombia has decreased the time it takes for merchandise to clear its ports to one day from five. Trade facilitation measures were also considered a priority by Chile, Costa Rica, Mexico, and Panama. On the multilateral front, the WTO Trade Facilitation Agreement is close to having the required number of ratifications for its implementation, which should help to reduce trade costs significantly (IMF, 2016b). Trade facilitation can also promote greater regional integration by increasing the ease of moving goods across borders, regardless of whether an FTA is in place or not (Estevadeordal & Talvi, 2016). Some of the Central American countries noted that the Central American Integration System has a trade facilitation strategy which is currently being implemented. The Pacific Alliance has a similar initiative to facilitate trade among its members.

17. **For many Latin American countries, better integration of small and medium enterprises (SMEs) into trade is an important goal.** Enhancing SME participation in trade was mentioned as an objective by Bolivia, Brazil, Chile, Costa Rica, El Salvador, Mexico, and Nicaragua. For example, Brazil has a program aimed at SMEs which offers training, reduces transaction costs by minimizing red tape, and provides financing. In Mexico’s case, there is a dedicated unit inside the Ministry of Economy working to increase the participation and value added of SMEs in global trade. It runs various programs for start-ups, including matching capital contributions from government. Colombia is currently revamping its assistance to SMEs to enable them in placing their products in global markets. More generally, the Pacific Alliance also has an initiative underway to promote the export capacity of SMEs ( Arnson, 2016).

18. **Insertion into global and regional value chains is an important goal for a number of countries in LAC, and could also provide opportunities for small businesses.** The slicing up of production processes and their distribution across multiple countries offers developing countries new opportunities for export diversification and technology transfer. Also, measures of GVC participation and value added in exports are highly correlated (IMF, 2013), and in turn are associated with higher growth. However, LAC has largely missed out on the recent wave of fragmentation of

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8 The illicit trade in narcotics and other contraband has increased the need for security measures at borders, which has also resulted in longer processing times. To counter this, countries may issue licenses to authorized economic operators who are pre-approved and do not need to be subject to a high level of security (Volpe Martincus, 2015).
production, and the participation of LAC countries in GVCs tends to be low relative to other regions (Blyde et al, 2014). Insertion into GVCs was mentioned by a few countries in the survey as a goal; these included Nicaragua and Panama, which would like to increase their participation in GVCs, while Chile, Costa Rica and Mexico saw potential for the development of regional value chains. Chile and Mexico also highlighted the trading opportunities for SMEs that GVCs create. Global or regional value chains offer an opportunity for smaller firms to export—or to provide goods and services to exporting firms—without having to make large investments. At the same time, including SMEs in trade helps to share the benefits of trade integration more widely. A study by ECLAC (Martner et al, 2015) found that less than 1 percent of all Latin American firms exported in 2012, with the share of SMEs even smaller. By contrast, the share of Asian SMEs participating in exports was 10-30 times larger. There is therefore scope for Latin America to learn from the experience of Asian countries in developing their SMEs into competitive exporters.

19. Increasing participation in GVCs requires addressing a range of constraints that are prevalent in LAC (Blyde et al, 2014); some of these will be discussed in Section 3. Moreover, a study published in the Western Hemisphere Department’s Regional Economic Outlook (IMF, 2015c) cautions that the Asian experience of benefiting from GVCs may not be easily replicable in LAC, due in part to different comparative advantages.

20. Apart from promoting SMEs, most responses did not reflect serious concerns about trade’s impact on inequality or indicate a tendency towards protectionism. There appeared to be a general view that trade was mostly positive for growth and jobs, but that this also depended on the composition of the export basket. Some countries highlighted the critical role of trade in creating jobs (Bolivia, Costa Rica, Guatemala, Mexico), suggesting that increased trade integration is considered a net positive for workers. In Mexico, the role of the manufacturing industries in creating jobs and promoting development in underdeveloped areas of the country was highlighted. Chile also mentioned the inclusion of women in trade as an important objective. Brazil and Argentina have historically been amongst the countries that have protected their domestic manufacturing industries heavily. However, Brazil did not raise concerns about the impact of trade liberalization on workers in its response, perhaps reflecting an implicit recognition of the need to swing the policy pendulum back towards further trade liberalization, which has stalled since the mid-1990s. Rather, Brazil’s response expresses the view that increased trade improves productivity in competitive sectors and that there is a positive effect on the labor force in sectors more exposed to competition.

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9 This does not mean that LAC does not participate at all in GVCs—Mexico and Central America, for example, are engaged in production networks with North American firms in particular and tend to participate at the final stages. On the other hand, South American countries tend to be involved in the earlier stages of supply chains, given their strong natural resource endowments (Blyde et al, 2014). However, drawing on de la Torre et al (2015) and IMF (2015c), the goal should be less about increasing foreign value added in exports per se and more to do with the specific tasks undertaken by firms in supply chains and the spillovers these create.
Most Important Trade Policy Initiatives

21. Responses indicate that LAC countries are typically pursuing bilateral, regional and multilateral trade initiatives simultaneously. For example, Mexico notes that “rather than focusing on just one trade initiative, Mexico is actively participating in several efforts with the objective of diversifying Mexico’s trade relations and strengthening its presence in all corners of the world.” Regional agreements in particular were mentioned as being among the most important trade initiatives; this was particularly true for Central America and the Caribbean (these will be discussed in the section on regional integration). Also significant were the responses indicating the many bilateral trade agreements with other Latin American countries in effect or with negotiations underway.

22. Multilateral trade negotiations remain important but not necessarily central. Several countries highlighted their commitment to the WTO; for example, Costa Rica states that, “the rules of the multilateral trading system are the backbone of the country’s trade policy and provide security and predictability to trade and investment flows.” However, the responses mostly suggest that current priorities focus on deepening regional integration and building bilateral trade networks. Costa Rica, Grenada and Mexico cited the WTO Agreement on Trade Facilitation as one of their most important initiatives, while a few (Costa Rica, Panama) highlighted their participation in the WTO’s Trade in Services (TiSA) plurilateral negotiations. A few other countries (Bolivia, Nicaragua) expressed concern about the possible fragmentation of the world trading system if the WTO is not able to play a stronger role; this would particularly hurt smaller developing countries which are outside the mega-regional and plurilateral negotiations currently on the table.

23. Also evident is a goal among some LAC countries to link more with countries of the Asia-Pacific. Trade between Asia and LAC has increased significantly in recent years, and by 2012, Asia had become the second largest destination for LAC exports after the United States, with the main driver being the rise of China and its high demand for natural resources. There is also a growing middle class in Asia, which has created diversification opportunities (Estevadeordal, 2016). Chile and Peru, because of their location and the importance of Asia as a market for their exports, have the most FTAs with Asian countries (11 and 5 respectively). The potential to increase trade with the markets of Asia and the Pacific was mentioned by TPP participants (Mexico and Chile) as being one of its key benefits. Costa Rica and El Salvador also cited Asia as a key target market; these and other Central American countries mentioned the importance of the current FTA negotiations between Central America and South Korea.
24. **Trade initiatives with the United States feature prominently among the most important initiatives.** This was particularly true for both Mexico and the Central American countries, for whom the U.S. is the major trading partner, solidified by two important FTAs (NAFTA and CAFTA-DR). Regional supply chains are extensive, notably in the automotive industry. On the South American side, both Bolivia and Brazil mentioned agreements with the United States; in Bolivia’s case, it benefits from the U.S.’s Generalized System of Preferences for developing countries, while Brazil mentioned a bilateral trade agenda with the U.S., which includes agreements on trade facilitation and regulatory convergence.

**Constraints to Increasing Exports**

25. **Constraints to increasing the volume of exports from LAC, as well as their diversification and sophistication, include both domestic and international factors.** However, domestic factors such as quality of infrastructure, skills development, and high production costs tended to outweigh the international factors in the survey. Of the latter, non-tariff barriers appear to be considerably more of a constraint than tariff barriers.

26. **The most frequently mentioned constraint to export growth was infrastructure weaknesses and transportation costs.** In Latin America and the Caribbean, due to geography, the lack of adequate roads and railways, and inefficiencies at ports and airports, the costs of getting goods to market is high. Infrastructure quality is particularly important for GVCs, given the need to control costs and minimize disruptions in the supply chain (Blyde et al, 2014). In fact, infrastructure
indicators in the region compare reasonably well, on average, with those of emerging markets, including emerging Asia. However, they fare less well when compared with their main export rivals (Cerra et al, 2016). Also, it bears repeating that good infrastructure does not necessarily equal a low cost of trading, as other factors such as the existence of uncompetitive markets in logistics operations or inefficiencies at the border also plays a role. In its response, Bolivia highlighted the problems of being a landlocked country, such as being subject to additional administrative procedures, often requiring several modes of transport to get goods to market, and having its access to ports in Chile affected by Chile's internal developments. Another example is St. Vincent and the Grenadines, which is currently constructing its first international airport in order to expand its potential to attract tourists and export smaller quantities of goods to niche markets. Of the questionnaire respondents, only Panama viewed its infrastructure as a comparative strength; indeed, Panama’s average cost of trading, as calculated by the World Bank, is the lowest in Latin America (de la Torre et al, 2015).

27. **The region has considerable variability in the cost of trading.** According to de la Torre et al (2015), the best performers—Panama, Chile and Peru—have lower average trading costs relative to advanced economies, while trading costs are very high in Venezuela, Colombia and Brazil. Peru is an interesting example, because its trading costs are lower than one would expect, given the quality of its infrastructure. This is because of the high percentage of exports which are mining products, where the existence of rents may allow companies to build proprietary infrastructure (Cerra et al, 2016). Brazil, Costa Rica and Mexico are designing national infrastructure plans to address some of these problems, including through the use of public-private partnerships.

28. **Information and communications technology is a key component of infrastructure.** Despite that only two countries, Grenada and Mexico, citing ICT as being important for productivity and growth, ICT infrastructure is crucial to allow firms to move information over long distances quickly, cheaply and reliably. It is particularly important for GVCs, as it allows the unbundling of production processes to distant locations (Blyde et al, 2014).

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10 Average cost of trading is measured by the average cost associated with exporting and importing a standardized cargo of goods by sea transport, including port fees and fees required for processing imports and exports, and the cost of land transport to warehouses. See de la Torre et al (2015), page 107 for a full list and description.
29. **Non-tariff measures (NTMs) were also cited frequently as constraints while tariff barriers were barely mentioned by survey respondents.** More specifically, sanitary and phytosanitary standards or technical barriers to trade were the most common complaint relating to NTMs (these will be discussed further in Section 5). Tariff barriers, on the other hand, did not attract many mentions, probably because they have significantly decreased globally in recent years (Hoekman, 2015).\(^{11}\) Colombia noted the uneven dispersion of its tariffs across sectors, likely as a result of industry lobby, and that it is reevaluating its tariff schedule, as is Brazil. As noted in IaDB (2016), several countries in the region have significantly higher MFN tariff levels than the OECD average of 3.6 percent; these levels of protection are particularly high on intermediate and capital goods, which could impact on the ability of firms to participate in GVCs. For example, average MFN tariffs on machinery are relatively high in Brazil and Argentina, while Bolivia and Ecuador have high tariffs on intermediate goods such as wood, non-metal minerals, and paper.\(^{12}\) There is thus scope to further reduce tariffs, an aspect mostly missing from the responses to the survey.

30. **Human capital remains an important constraint for Latin America.** Crespi et al (2014) note that the increase in the average years of schooling observed in Latin America since 1970 has

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\(^{11}\) Average tariffs in the early 1950s were in the 20-30 percent range while today the average uniform tariff equivalent in OECD countries for merchandise trade is only 4 percent. Non-tariff barriers are also subtler today; in the 1950s, measures such as quantitative restrictions, licensing and exchange controls were common (Hoekman, 2016).

\(^{12}\) See IaDB (2016), page 87-89.
not translated into an increase in labor productivity—in contrast to, for example, China. Several responses to the survey mentioned human capital as a constraint to further growth of exports, including those that highlighted the low level of education of the population in general (Nicaragua, Guatemala, Paraguay). Beyond basic education, Costa Rica is concerned with developing the specialized skills needed to support the expansion of higher value-added exports. Current efforts are focused on updating programs at technical and university levels, improving vocational guidance, the promotion of second language learning and the development of IT and soft skills in the workplace.

31. **Lack of access to finance is another issue facing potential exporters.** Antigua and Barbuda, Grenada, Trinidad and Tobago and Nicaragua all mentioned access to finance as a constraint, especially for SMEs. This is consistent with the finding of Dabla-Norris et al (2015) that although the share of firms in LAC with a loan or line of credit is comparable to East Asia (46 percent versus 48 percent), collateral requirements are typically high in LAC, and “access to/cost of finance is seen as a major constraint by a large share of SMEs.”

32. **High energy costs were mentioned by a number of respondents.** These included three out of the four Caribbean countries which responded to the survey (Antigua and Barbuda, Grenada, St. Vincent and the Grenadines). Panama and Colombia also mentioned energy costs as having an impact on their competitiveness.

33. **A variety of other domestic constraints emerged from the survey.** Antigua and Barbuda and Panama mentioned high wage costs. Brazil and Colombia noted that their tax systems were affecting firms’ competitiveness. Brazil, for example, said that their tax system was too complex. The Caribbean countries also highlighted their small size and high costs of production, including due to a reliance on imports that are often expensive. Guatemala focused on the low levels of savings in the country, which reduces opportunities for productive investments.

34. **Exchange rate volatility and competitive devaluations by other countries are two often-cited challenges for export performance.** Costa Rica noted that its private sector has raised concerns about competitive devaluations putting pressure on their exports (although the authorities consider their exchange rate to be in line with fundamentals). Colombia also considered that competitive depreciations have affected their exports; more generally, currency appreciation in the recent past has led to an increased reliance on imports and a possible weakening of “export culture”. However, Colombia also notes that many firms that export also use imported inputs, which offsets the impact of shifts in the exchange rate to some extent. Panama and El Salvador, both dollarized

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13 One recent concern is that the withdrawal of some correspondent banking relationships in the region due to de-risking in the U.S. could lead to finance for SMEs becoming costlier, or cause a loss of credit from U.S. exporters, who fear for the safety of their payment in the future (IMF, 2016a).

14 The Colombian authorities submitted a structural tax reform bill to Congress in October 2016, with proposals to reduce corporate taxation. The reforms, if passed, are expected to boost private investment and facilitate export diversification. It is also implementing other export-friendly tax measures, such as streamlining the process for exporters to defer VAT paid in capital goods.
economies, considered their respective exchange rate regimes to be a constraint, perhaps not surprisingly as they have experienced real appreciations over the past few years.

**Views on Regional Integration**

35. **Regional integration has recently been touted as a way to reinvigorate trade growth in Latin America, and to encourage the formation of regional value chains (Estevadeordal & Talvi, 2016).** There have been multiple waves of regional integration in Latin America, starting in the 1960s, with a revival in the 1990s. Overall, RTAs have achieved some success in tariff liberalization between members although, as mentioned above, the extensive network of RTAs has resulted in multiple overlapping trade agreements in the region. Nevertheless, the existing agreements provide a basis from which to further deepen integration. The current optimism about regional integration stems from the potential for better linking existing RTAs in the region. The Pacific Alliance has been another cause for optimism, as it has taken a more pragmatic approach to regional integration compared with some of the older initiatives. The focus is on economic policy coordination across a wide range of areas as opposed to a narrow focus on market access. This approach makes sense for these countries since intra-regional trade represents only a small percentage of the total trade of members and 92 percent of this trade has already been fully liberalized. The Pacific Alliance and Mercosur\(^ {15} \) have recently shown interest in advancing dialogue between the two blocs.

36. **Most survey responses on regional integration reflected a commitment to regional initiatives and were positive about prospects for deeper integration.** Particularly for the smaller economies in the Caribbean and, to a lesser extent, Central America, membership in a regional bloc allows them to negotiate FTAs with large economies as part of a larger group. CARICOM, for example, negotiates as a group at the WTO. Responses also mentioned that the reduction of tariff rates between different Latin American countries has mostly been achieved and that institutional frameworks have therefore been set up for other trade-related issues to be resolved, such as issues related to non-tariff barriers. On this last issue, the need to better align technical and SPS standards at a regional level was mentioned by a few countries (Chile, Dominican Republic, Trinidad & Tobago).

37. **At the same time, members of a regional grouping may have divergent interests.** Several responses noted that countries in the region (or the various sub-regions) produce similar products and therefore view each other as competitors. Asymmetries in economic size of countries in the LAC region were also highlighted as an obstacle to deeper integration, as some smaller countries feel that they are not able to compete with the larger countries in the region and so do not benefit as much from regional trade agreements (e.g. Guatemala with respect to Mexico; the Caribbean countries with respect to the countries of South America).

\(^{15}\) Mercosur members are Argentina, Brazil, Paraguay, Uruguay, Venezuela (since 2012) and Bolivia (since 2015)
38. The Caribbean countries view regional integration as essential. The Caribbean Community (CARICOM) was mentioned as being among the most important trade initiatives by three of the four Caribbean respondents (Antigua and Barbuda, Grenada and St. Vincent and the Grenadines), and Trinidad and Tobago notes that CARICOM countries are the largest market for its non-oil exports.\textsuperscript{16} The Organization of Eastern Caribbean States (OECS) is a subgroup of CARICOM that has taken further steps towards integration and was highlighted as important by two of its three member states that responded. OECS already has free movement of people and is moving towards free movement of goods. Although intra-Caribbean trade is limited, a World Bank study (Djiofack, 2015) demonstrates that the implementation of the planned common market in CARICOM would lead to an increase in the total export/GDP ratio of 3 percentage points.

\textsuperscript{16} CARICOM includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago. It is a customs union; however, not all member countries have signed up to be part of the customs union (e.g. Bahamas) and some countries are still working on implementing the agreement on the common external tariff (Antigua and Barbuda, Montserrat, St. Kitts and Nevis).
39. **Small size is seen as a major obstacle to Caribbean integration with Latin America.** For example, St. Vincent and the Grenadines notes that CARICOM has negotiated a trade agreement with Costa Rica and the Dominican Republic but smaller CARICOM members have not ratified the agreements because they do not have the scope and economies of scale to export to these markets. Trinidad and Tobago point out that many Caribbean countries are highly reliant on tariff revenue, which impedes efforts to reduce tariffs. Caribbean nations also often face high transport barriers in exporting to their Caribbean neighbors and the Americas; inter-island shipping costs are steep. In Grenada’s view, language barriers are also an important constraint to integrating the mainly English-speaking Caribbean with Latin America. Nevertheless, exports of services may hold more promise; for example, St. Vincent and the Grenadines has become a market for Ecuadorian teachers seeking to learn English.

40. **Completing the integration process in Central America is regarded as a priority for the respondents from this region.** The initiative has been in existence since 1960 and, although progress has been slow there has been reduction of trade barriers and an expansion of intra-regional trade. Panama recently joined the Central American Common Market\(^\text{17}\), which should provide some growth opportunities for the bloc. Countries in the region do tend to produce similar products, as noted above, and there is a history of tax competition in the *maquila* sector. However, Costa Rica argues in its response that that the Central American FTAs with the European Union and the United States have opened up opportunities for intra-regional trade as well. Panama also sees potential to export services to other Central American countries, but suggested that there was a lack of agreement in the region on trade in services. Costa Rica stressed the inefficiencies at the border and logistic operations as holding back regional integration in Central America. There are bilateral initiatives and a common strategy on trade facilitation in the region, mentioned by both Costa Rica and Guatemala.

41. **Central American countries expressed mixed views about integration with the rest of Latin America and the Caribbean.** For Guatemala, for example, the proximity of the U.S. and Mexican markets makes integration with South America less of a priority. El Salvador mentioned the idea of linking the various regional blocs, while noting some obstacles, including the lack of political will. Panama saw prospects for an agreement with Mercosur and the possibility of joining the Pacific Alliance, while Costa Rica saw potential for LAC-wide regional projects. The Dominican Republic and Nicaragua mentioned the Community of Latin American and Caribbean States (CELAC) and the Latin American Integration Association (ALADI) as an initiative that is important for them; Nicaragua additionally mentioned ALBA.\(^\text{18}\)

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\(^\text{17}\) The CACM includes Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua and Panama, and aims to establish a common market in the region. Most products are traded freely in the region (with the exception of coffee and sugar) and a majority of products have a common external tariff.

\(^\text{18}\) CELAC is an organization of Latin American and Caribbean states which was formed in 2010 as an alternative to the Organization of American States, which includes the United States. ALADI is a LAC-wide initiative with 12 member countries which aims at a common market. ALBA (Alianza Bolivariana para los Pueblos de Nuestra América) is an economic integration initiative spearheaded by Venezuela with 11 member countries from LAC; it is associated with a regional integration that is based on a vision of welfare, bartering and mutual economic aid.
42. **Mexico’s most important regional initiatives are NAFTA and the Pacific Alliance.** Mexico’s response considered the latter to be “one of the most fast-forward initiatives in the region” which “promotes the free movement of goods, services, capital and people”, and that the Pacific Alliance could pave the way towards increasing regional integration in Latin America. Mexico also argues that enhancing regional integration will require a greater democratization of the benefits of trade. It sees potential in greater trade integration at the regional level, saying that it “can be the tipping point to unleash Latin America’s productive potential, once and for all.”

43. **Within South America, regional integration did not stand out as a clear priority, relative to the responses from the Caribbean and Central American groups.** One country mentioned the slow pace of trade integration in Mercosur, in part reflecting the policies of its largest members, Brazil and Argentina at that juncture. As Mercosur is a customs union, its members in principle are not expected to negotiate tariff reductions with third parties on a bilateral basis. The implicit protection benefiting member countries’ intra-Mercosur exports may also have discouraged exports to the rest of the world. Brazil highlighted the resumption of the Mercosur-EU trade talks as a cause for optimism. Few views were expressed by member countries on the Andean Community. With respect to the Pacific Alliance, Chile highlighted the need for “further progress in pragmatic and flexible initiatives that tend to promote regional integration”.

44. **Regarding LAC-wide integration, South American countries are mostly focused on bilateral trade deals with their LAC partners.** For example, Brazil noted the agreement that it is currently negotiating with Mexico, which should deepen the trading relationship between the two countries. Chile is currently in trade negotiations with the Dominican Republic, while Bolivia mentioned that it is negotiating an agreement with Central American countries. The Chilean response notes potential for the establishment of more regional value chains and for regional projects in the areas of infrastructure, trade facilitation, connectivity, and energy, which could help to reinvigorate export growth. Bolivia also highlights the importance of the CELAC, UNASUR and ALBA initiatives.
Box 1. Regional Financial Integration in Latin America

Cross-border financial flows can be an important complement to trade integration. Regional financial integration includes allowing regional banks with cross-border operations and financial regulations which permit cross-border investments by important savings vehicles such as pension funds. Among the potential benefits of regional financial integration are (i) increased availability of finance through pooling of larger amounts of savings; (ii) increased competition in the financial sector, leading to a lowering of interest rate spreads and a more efficient allocation of resources; (iii) mitigation of output volatility, by increasing the depth of financial markets and by offering new opportunities for portfolio diversification.

The current state of financial integration in Latin America is not as advanced as in, for example, ASEAN countries or in Europe. However, there has been some progress.

In Central America, domestic financial institutions began expanding their activities across borders in the early 2000s. Currently, the region’s banking system has both regional and global conglomerates, as well as several Colombian conglomerates in operation. Panama and Colombia serve as financial hubs for the region. In response, the authorities have strengthened their regional regulatory and supervisory cooperation; however there is still scope to improve regional cooperation in consolidated supervision, macroprudential policies, and crisis management.

The Pacific Alliance issued the Paracas Declaration in 2015, which reaffirmed their commitment to foster market integration between their countries. The stock exchanges of Chile, Colombia and Peru merged in 2011 to form the MILA (Mercado Integrado de Latino América) exchange, with Mexico joining in 2014. Actual results from the capital market initiative so far have been limited and the volume traded on the exchange is very low. This may be because the financial integration process is only at an initial stage; beyond establishing MILA, there have been limited achievements in terms of harmonization of rules, for example, or reducing restrictions on pension fund investments in other PA countries.

Mercosur has an objective to create a single regional market for financial services, while maintaining monetary and financial stability. Commitments were made in 1997 in the Montevideo Protocol to liberalize the service sector, including financial services, along the lines of the General Agreement on Trade in Services (GATS). However, this process is incomplete and to date, the presence of regional banks in Mercosur countries is limited.


Non-Tariff Trade Policy Issues

45. The focus of trade agreements, at multilateral, plurilateral and bilateral levels, has broadened in recent years to include a wide range of non-tariff issues. Among these are so-called non-tariff measures (NTMs)\(^\text{19}\), which include a range of policies that may advertently or inadvertently restrict trade. The use of NTMs has risen since the 1990s and they tend to affect developing countries more than advanced economies. However, their regulation is difficult as their primary intent may not be to shield domestic industry from foreign competition, but rather to protect local consumers or the environment (IMF, 2015a). Multilateral rules on when and how

\(^{19}\) UNCTAD (2013) defines NTMs as “policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices, or both.” NTMs comprise a wider set of measures than non-tariff barriers (NTBs), which refer to barriers imposed by governments to favor domestic rather than foreign suppliers. By contrast, NTMs may apply to both domestic and foreign products.
countries may use NTMs are therefore not well-defined. More generally, the WTO has not yet reached full agreement on any of the issues listed; in some cases, the issues are being covered at the mega-regional level and are not even on the agenda of the WTO. For example, environmental and labor market issues were not on the table during the Doha Development Round; nor were government procurement, certain subsidies or investment (Hoekman, 2015).

46. The country survey listed 12 different non-tariff trade policy issues and asked which of these each country considered relevant for their own trade policy. The most frequently cited as “relevant” were those classified as “technical measures”—sanitary and phytosanitary (SPS) standards and technical barriers to trade (TBT). Other important issues included trade in services, agricultural subsidies, environmental issues, rules of origin, and investor-government dispute mechanisms.

47. Technical measures—both SPS standards and technical barriers to trade—appear to be a particularly relevant issue for the region. SPS standards refer to measures for preventing disease and ensuring food safety, while TBTs refer to non-SPS technical standards, including measures such as labeling, standards on technical specifications, and quality assurances. SPS and TBT are the most common form of NTMs, covering on average about 15 percent and 30 percent of trade respectively (UNCTAD, 2013). These standards make it more challenging for developing countries to export, as they may require improved production processes, investment in new technology, efficient trade infrastructure, and the use of more expensive shipping methods. Moreover, they often imply a fixed entry cost for firms, which makes it more challenging for smaller firms to enter into the market.

48. Technical standards are particularly important for agricultural exports. Both SPS standards and TBTs are having a disproportionate impact on LAC exporters because of the region’s comparative advantage in agricultural commodities; for some South American countries (Brazil, Argentina, Paraguay) agricultural exports make up the largest share of their export basket. At the same time, standards have become more stringent, driven by consumer concerns about food safety and chemicals used in the food production process (Chaherli & Nash, 2013). Also important is the efficiency of the SPS processes at the border or port; sometimes these can cause unnecessary delays, which can be very costly for perishable products. TBTs, on the other hand, may be applied on a wide range of products including those in the agricultural, agro-processing, automotive, and textiles and footwear industries (UNCTAD, 2013). In the context of the survey, both Costa Rica and Mexico reiterated the WTO requirements that SPS standards and TBTs should have a scientific justification (for the former) and should not be used to restrict trade (for the latter).

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20 The following issues were listed: (i) rules of origin; (ii) trade in services; (iii) trade remedies; (iv) common standards; (v) intellectual property rights; (vi) labor market issues; (vii) environmental issues; (viii) investor-government dispute settlement; (ix) government procurement and competition policy; (x) agricultural subsidies; (xi) sanitary and phytosanitary measures; (xii) technical barriers to trade.
49. **One of the challenges of compliance is the diversity of technical standards** (Ederington & Ruta, 2016). Trade agreements can therefore provide an opportunity to reduce the costs associated with SPS and TBT compliance. This can be achieved through, for example, reciprocal commitments to recognize the inspection systems of partner countries, which avoids duplication of SPS inspections. Several countries mentioned “common standards” as being among the most relevant non-tariff trade policy issues (see chart).

50. **Agricultural subsidies constitute an additional trade barrier for agricultural exports from LAC.** Agricultural subsidies in advanced economies imply that many agricultural exports from LAC do not compete on a level playing field (Mango, 2016). While agreement on the elimination of export subsidies for agricultural products was reached in 2015 in the context of the WTO, there is no agreement yet on trade-distorting domestic support to agriculture. Agricultural subsidies were highlighted by a number of countries as being relevant (Brazil, Costa Rica, Dominican Republic, El Salvador, Mexico, St. Vincent and the Grenadines). Both Mexico and Guatemala mentioned their positions taken at the WTO negotiations on agriculture, that all agricultural subsidies should be eliminated. Panama, on the other hand, recognized that it currently applies export subsidies to its agricultural products, but that it is removing them gradually.
51. **Trade in services is an important growth area, and is an area where multilateral trading rules still need to catch up.** With several countries aiming to increase their service exports, the goal is to avoid restrictions on services trade for protectionist purposes (Costa Rica, Panama). At the same time, there are countries for whom an agreement on trade in services is sensitive for their domestic services sector.

52. **Rules of origin were highlighted in particular by Central American countries and Mexico.** Rules of origin (RoOs) are important in preferential trade agreements, as they establish the extent to which a product has undergone substantial transformation in the originating country, and so whether it is eligible to benefit from preferential access under the agreement. In a regional trade agreement, rules of origin can favor the accumulation of origin between various countries in the agreement, promoting the establishment of regional value chains. However, differing rules of origin are a key concern when there is a “spaghetti bowl” of RTAs, due to the complexity and administrative burden of compliance they carry. Multiple RoOs are particularly burdensome for products made in global value chains (Blyde et al, 2014). Estevadeordal & Talvi (2016) therefore suggest that a priority for LAC-wide regional integration efforts should be convergence of RoOs among existing RTAs. This idea is echoed in Nicaragua’s survey response, where it calls for cumulation of origin mechanisms between trade agreements, which would facilitate better integration of productive processes across agreements. Mexico notes the importance of transparent and simple RoOs, and states rules of origin have a balance between promoting regional supply chains and production processes, while also allowing flexibility for sourcing purposes.

53. **Several countries mentioned other trade policy issues, not included in the list.** Nicaragua, Grenada and St. Vincent and the Grenadines raised the issue of special and differential treatment for less developed countries. These countries expressed discomfort with the shift away from multilateral trade negotiations, where they are afforded differential treatment, towards mega-regional deals, from which they are currently excluded. Chile, Costa Rica and El Salvador highlighted the importance of rules that govern the digital economy.

**C. Conclusions**

54. **The key conclusions from the survey can be summarized as follows:**

- **Trade agreements remain the primary tool for trade policy.** Some countries are focused on seeking out new agreements while others see opportunities for leveraging their current agreements further, or for deepening these agreements. It remains to be seen how the current wave of protectionist sentiment in the United States and other developed nations will affect these goals, and whether this protectionism will spread to countries in the region. There may be fewer potential partners for RTAs with LAC countries, for example, or that RTAs may become less ambitious and narrower in scope. Nevertheless, the current willingness of LAC countries to engage in trade negotiations at the bilateral, regional and multilateral level was apparent from the survey responses.
Regional integration is a widely shared goal of trade policy. Regional integration was most enthusiastically supported by Central American and Caribbean countries, in reference to integration within their own sub-regions. Larger economies such as Brazil and Mexico tended to demonstrate a more global outlook in terms of trade policy. However, the survey responses did not however demonstrate a tension between pursuing intraregional agreements and agreements with partners from outside the region, as most responses highlighted both trade agreements with outside partners and regional integration as priorities. Some countries saw potential for more regional infrastructure projects, or for the creation of more regional value chains.

LAC countries see infrastructure weakness as a core constraint. Although on average the quality of LAC’s infrastructure fares relatively well in comparison to other emerging economies, this masks large variations in quality between and within countries. Even in countries with relatively good infrastructure or low trading costs, infrastructure improvements may still be important in order to open up underdeveloped regions to trade. However, not all LAC countries currently have the fiscal space or the institutions to be able to address their infrastructure constraints.

Non-tariff measures are perceived as a more important constraint to exporting than trade barriers. In particular, SPS standards and TBTs increase trading costs for LAC exporters. The use of such instruments is more difficult to monitor and regulate under the WTO relative to tariffs, as these measures may be imposed for reasons of consumer or environmental protection. Within the context of RTAs, countries can therefore work towards harmonizing standards, or implementing mutual recognition regimes. More research is therefore needed in this area. These standards, combined with domestic support for agriculture in advanced economies, erodes the competitiveness of LAC’s agricultural exports. Rules of origin were also highlighted as a constraint for many countries, particularly in Central America; an effort to promote convergence of rules of origin within the region’s many RTAs is one idea that has been mooted to deal with this problem.

Overall, there is a broad degree of consensus on trade policies in the region. All countries surveyed appear to agree that increased trade can be an important driver of growth for their countries, that deeper regional integration could stimulate trade growth, and that trade costs are significant in the region and need to be addressed. Latin America has recent experience of an anti-globalization backlash, and has seen that disconnecting from the world makes the poor worse off. Country responses to the survey therefore reflected a degree of pragmatism that neither harked back to the import substitution policies of the past, nor clung tightly to the so-called “neoliberal” policy recommendations of the Washington Consensus era.
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Annex I. Trade Policy Mission Questions and Survey

1. What are your main objectives and strategies regarding trade policy?

2. What international or regional trade policy initiatives are most important to your country and what impact do you expect them to have going forward?

3. What are your country’s main constraints to increasing its total exports (or export diversification/value added/sophistication)? For example, how important have been regional or international trade barriers as well as domestic factors that influence competitiveness such as infrastructure, productivity, and currency overvaluation?

4. What scope does your country have to increase its trade integration in LAC, and what have been the key constraints to regional integration so far?

5. How will the TPP affect your country? Do you see the TPP—including its emphasis on a wide range of (non-tariff) issues as a useful framework for other trade agreements? Why or why not?

6. What do you consider the most important non-tariff trade policy issues that should be on the agenda of multinational and regional trade agreements? Related to that, how relevant to your country are various trade policy issues currently on the agenda of TPP and other international agreements, such as:
   a. Rules of origin
   b. Trade in services
   c. Trade remedies
   d. Common standards
   e. Intellectual property rights
   f. Labor market issues
   g. Environmental issues
   h. Investor-government dispute settlement
   i. Government procurement and competition policy
   j. Agricultural subsidies
   k. Sanitary and phytosanitary measures
   l. Technical barriers to trade

7. What are the main ways the IMF could help support your country in designing policy to increase exports and/or trade integration, including through analytical work and technical assistance?
Annex II. Views on the Role of the Fund

Survey respondents were also asked about the ways in which the Fund could support them in designing policy to increase trade integration. Many of the responses fell outside of the Fund’s core mandate, or at least entail work in areas that the Fund currently does not cover, but provide some food for thought. Some of the ideas are listed below:

Training and technical assistance
- Training and technical assistance in assessing the impact of trade agreements on the economy, particularly in the use of general equilibrium models and looking at the impact on public finances.
- TA in designing diversification policy and identifying areas of comparative advantage.
- Training/TA on tracking trade in services.

Analytical work
- Analysis of the various trade agreements in the region, to identify the major differences between them with regard to rules of origin and other areas, as well as the new trends
- Productivity and trade policy, including lessons from the Asia-Pacific region.
- Trade and inclusive growth, including recommendations for enhancing women’s participation in trade and the insertion of SMEs in global value chains.
- Identifying diversification opportunities in countries.
Annex III: Selected Regional Trade and Integration Agreements in Latin America and the Caribbean

**Andean Community.** Formed as the Andean Pact in 1969 with the aim to liberalize intraregional integration, the Andean Community is currently a customs union that comprises Bolivia, Colombia, Ecuador, and Peru.¹ Member countries have reached full tariff liberalization of intraregional trade since 1993 and agreed to adopt a common external tariff since 1994.

**Caribbean Community (CARICOM) Single Market and Economy (CSME).** CSME was established by the Revised Treaty of Chaguaramas in 2002 with the objective of creating a single market and economy for its members and facilitate their insertion into the global trading and economic system. Now it includes 12 members (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago).² Progress toward the single market and economy stalled in the aftermath of the global financial crisis.

**Central American Common Market.** The common market is one of the oldest integration projects in Latin America, with efforts starting in the early 1950s and culminating in a treaty in 1960 with the objective of creating a custom union within a decade. The political turmoil in the 1970s and 1980s left the treaty ineffective, but the agreement was revived in the early 1990s. Important features of this agreement include free intra-regional trade and the introduction of a common external tariff for third-country imports. The countries also made efforts to reduce nontariff barriers at the borders. Membership includes Costa Rica, Guatemala, El Salvador, Honduras, and Nicaragua.

**Community of Latin American and Caribbean States (CELAC):** CELAC was formed in 2010 to foster political, economic, social and cultural integration between the countries of Latin America and the Caribbean. It positions itself as an alternative to the Organization of American States, and therefore as a counterweight to the hegemony of the United States. All countries of the LAC region, including Cuba, are members.

**Dominican Republic-Central America Free Trade Agreement (CAFTA).** Signed in 2004 and in effect since 2006, CAFTA-DR is the first free trade agreement between the United States and the economies from Central America and the Dominican Republic that aims to expand trade in goods and services, increase investment opportunities and promote intellectual property rights.³ Members include Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.

**Group of Three.** Comprising Colombia, Mexico, and Venezuela, the Group of Three was formed in 1990, with the aim of promoting trade and eventually forming a free trade area by January 1, 1995.⁴ The agreement was not only limited to liberalizing trade, but also included issues such as

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² Haiti is a full member of CARICOM and a partial participant in CSME.


⁴ Venezuela left the Group of Three in 2006.
investment, services, government purchases, regulations to fight unfair competition, and intellectual property rights.

**Latin American Integration Association (ALADI).** This group replaced the Latin American Free Trade Association (LAFTA) in 1980. The objective of ALADI is to promote regional economic integration, with the long-term goal of a regional common market. Currently there are 13 member countries, namely Argentina, Bolivia, Brazil, Colombia, Chile, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela. Membership of ALADI is open to all Latin American countries. Under ALADI, members are permitted by the WTO to offer preferential tariff rates to each other, with special treatment for the less-developed members (Bolivia, Ecuador and Paraguay).

**Mercosur.** Formed in March 1991, with the goal of the formation of the Common Market of the South (MERCOSUR) by December 31, 1994. Membership includes Argentina, Brazil, Paraguay, Uruguay, and Venezuela. MERCOSUR facilitates the free movement of goods, services and factors of production. The members set a common external tariff, adopted a common trade policy towards third parties and aim at tariff reductions and NTB elimination.

**North American Free Trade Agreement (NAFTA).** Includes Canada, Mexico, and the U.S. Came into force on January 1, 1994, superseding the Canada-United States Free Trade Agreement between Canada and the United States. The goal of the agreement was to eliminate trade and investment barriers amongst the signatory countries, and to protect the intellectual property rights on traded products. NAFTA has two supplements: the North American Agreement on Environmental Cooperation (NAAEAC) and the North American Agreement on Labor Cooperation (NAALC).

**Pacific Alliance.** Established by Chile, Colombia, Mexico, and Peru in 2011, the Pacific Alliance is an initiative of regional integration that aims to move progressively towards the free movement of goods, services, resources and people, promote economic growth, competitiveness, and social inclusion, and serve as a platform for further integration with the rest of the world, with an emphasis on the Asia-Pacific region. The Pacific Alliance is commonly seen as a pragmatic model for further trade integration that aims to build upon existing trade agreements.

**UNASUR:** UNASUR is a pact joining together the countries of Mercosur and the Andean Community, which was signed in 2008. Apart from the members of Mercosur and the Andean Community, it also includes Suriname, Chile and Guyana. Its ambit includes economic development, defense policy, infrastructure cooperation and free movement of people. The South American Council on Infrastructure and Planning (COSIPLAN) falls under the umbrella of UNASUR; this body promotes regional cooperation on infrastructure and planning. In 2011, the Initiative for Regional Integration in Infrastructure (IIRSA) was incorporated into COSIPLAN. UNASUR has a permanent secretariat in Quito, Ecuador.

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5 Venezuela’s membership has been suspended since December 2016 and Bolivia is an associate member currently following the adhesion process.