

The Impact of Trade Liberalization Latin American Perspectives



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ECLAC

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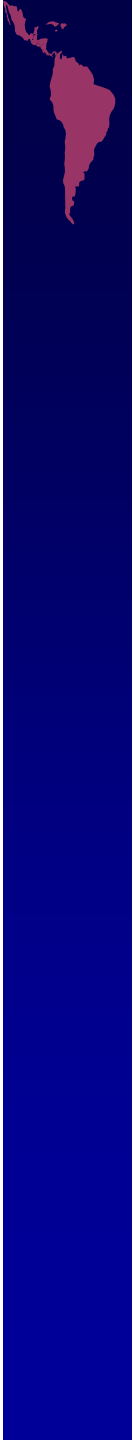
Buenos Aires, 11 de octubre de 2006



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1. Agricultural trade liberalisation: three levels

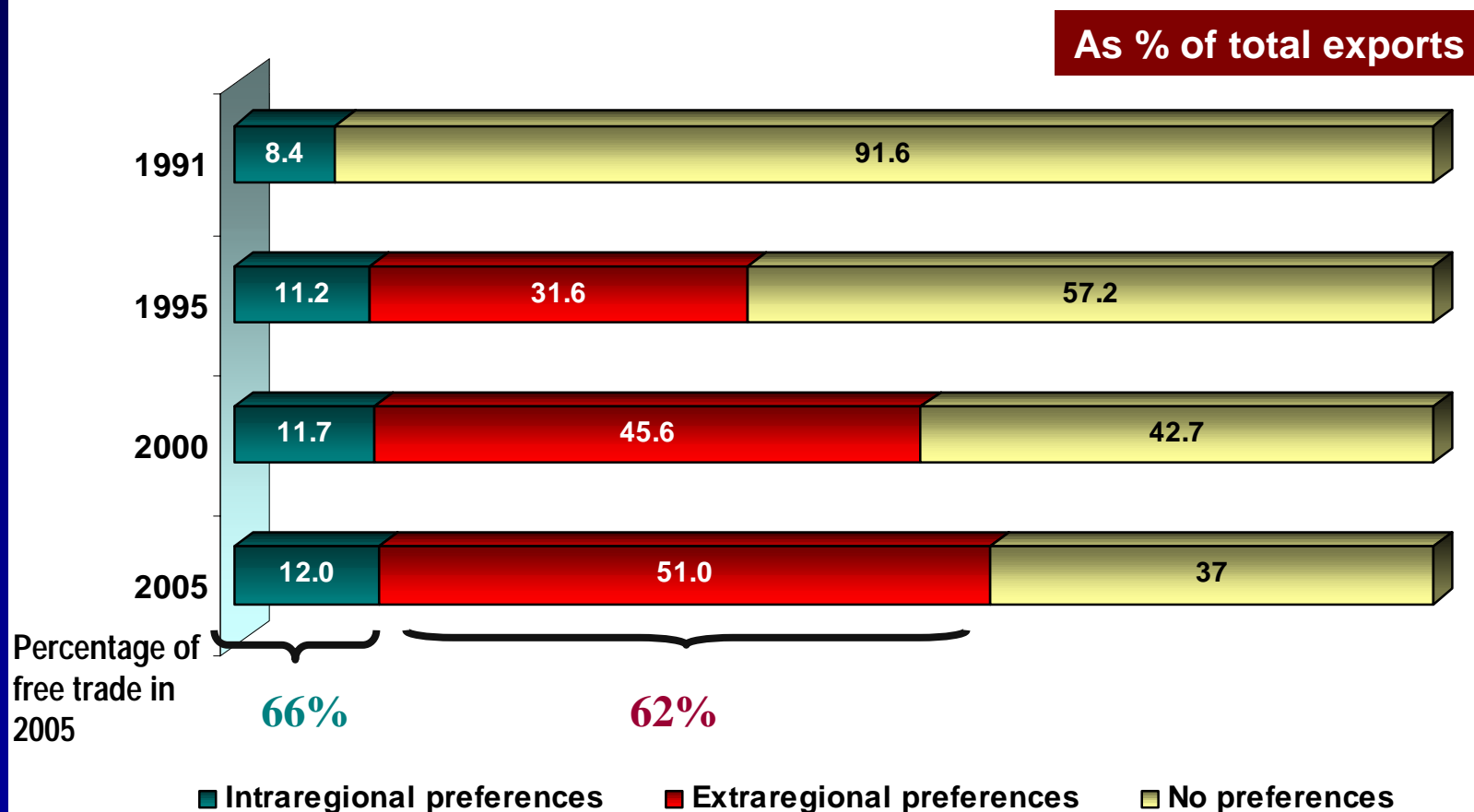


(a) Multilateral level: DOHA suspended

(b) Subregional level: Divergent trends

- Central America: consolidation (DR-CAFTA)
- Caribbean: strengthening - negotiations with EU, smaller islands join CARICOM, progress in design of development fund.
- South America: Loss of momentum in South America: disintegration of CAN, long liberalisation trajectories among CAN and Mercosur (until 2018!)
- The use of tariff preferences in extraregional trade is gaining ground in LAC.

Strong growth of extraregional agreements



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Kuwayama, J. Durán and V. Silva (2005) *Bilateralism and regionalism: re-establishing the primacy of multilateralism: a Latin American and Caribbean perspective*, Comercio Internacional series, No. 58.



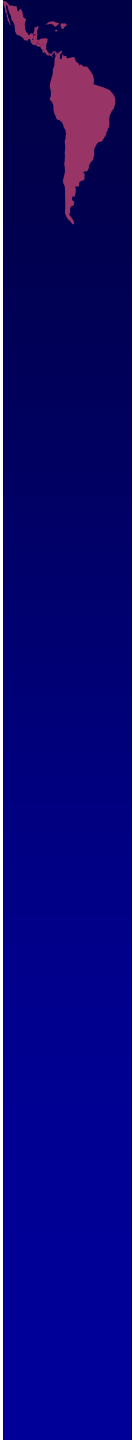
LAC subregional & bilateral agreements: Agriculture vs. other sectors

- Longer phase-out periods & more safeguard measures
- Stricter rules of origin, and more exceptions with respect to “de minimis” rule
- More exclusions, *e.g.* sugar, dairy products, cereals, beef, poultry and pork meat.



Latin American FTAs / Other characteristics for Agriculture

- SPS provisions: Chile–EU agreement is the most advanced
- Mutual recognition of technical regulations and standards: only in Chile–US FTA
- Export subsidies: eliminated in reciprocal trade (except products excluded from tariff liberalization).
- Domestic support–antidumping: no commitments
- Intellectual property: protection of: (i) geogra–phical denominations, (ii) agrochemicals, pharmaceuticals, new plant varieties.



2. Impact of Trade Liberalisation



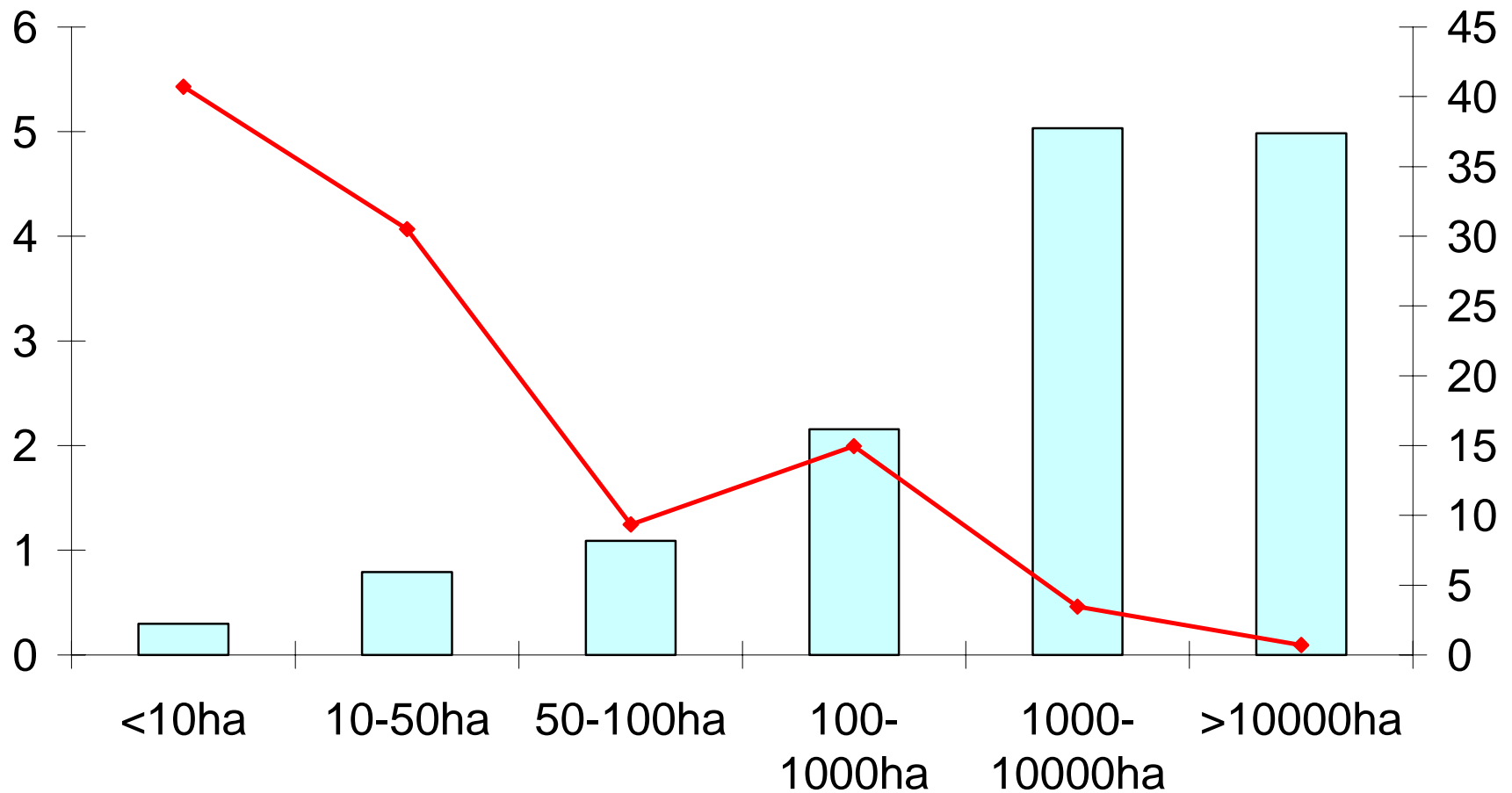
Evaluation of Impact: ECLAC studies

Three types of approaches:

- A. Competitiveness assessment
- B. Partial equilibrium
- C. GCE models

LAC agriculture is extremely heterogeneous

BRAZIL, 1996



■ Labor productivity, sector average = 1 (left axis)

◆ Share on employees, % (right axis)

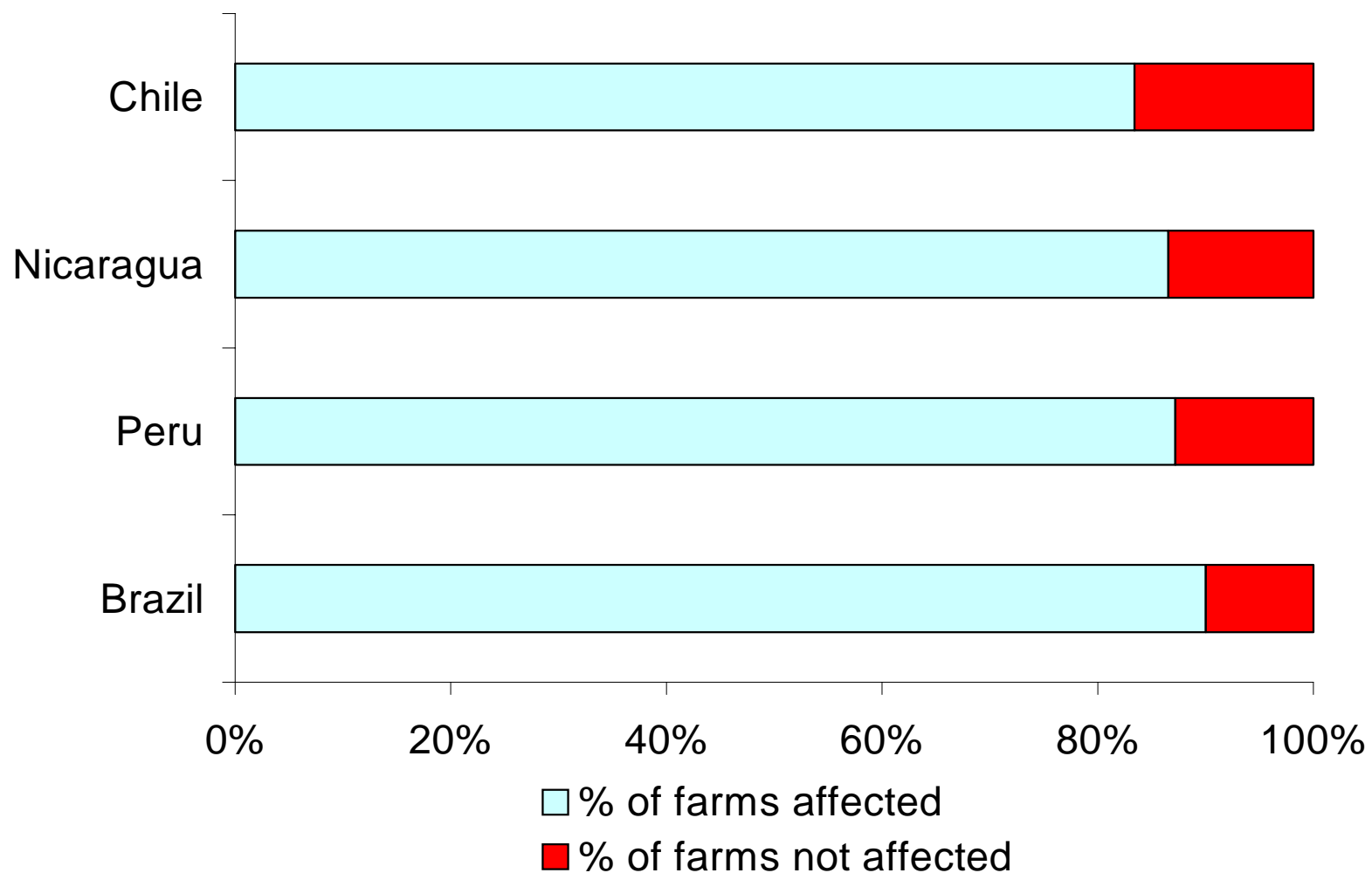
Source: Eclac, United Nations. Agricultural Development Unit based on Brazilian agricultural census



Approach A – STEP 1: Product & Farm effects of liberalization

- **Identify** product & farm threats & opportunities
- **Countries:** Brazil, Chile, Nicaragua, Peru
- **Liberalization scenarios:** Intra-AL, USA, Canada, EU
- **Method:** 3 key determinants:
 - revealed comparative advantage of trading partner
 - import market growth,
 - import market trade protection (tariff and non-

Trade Liberalization* affects most farms

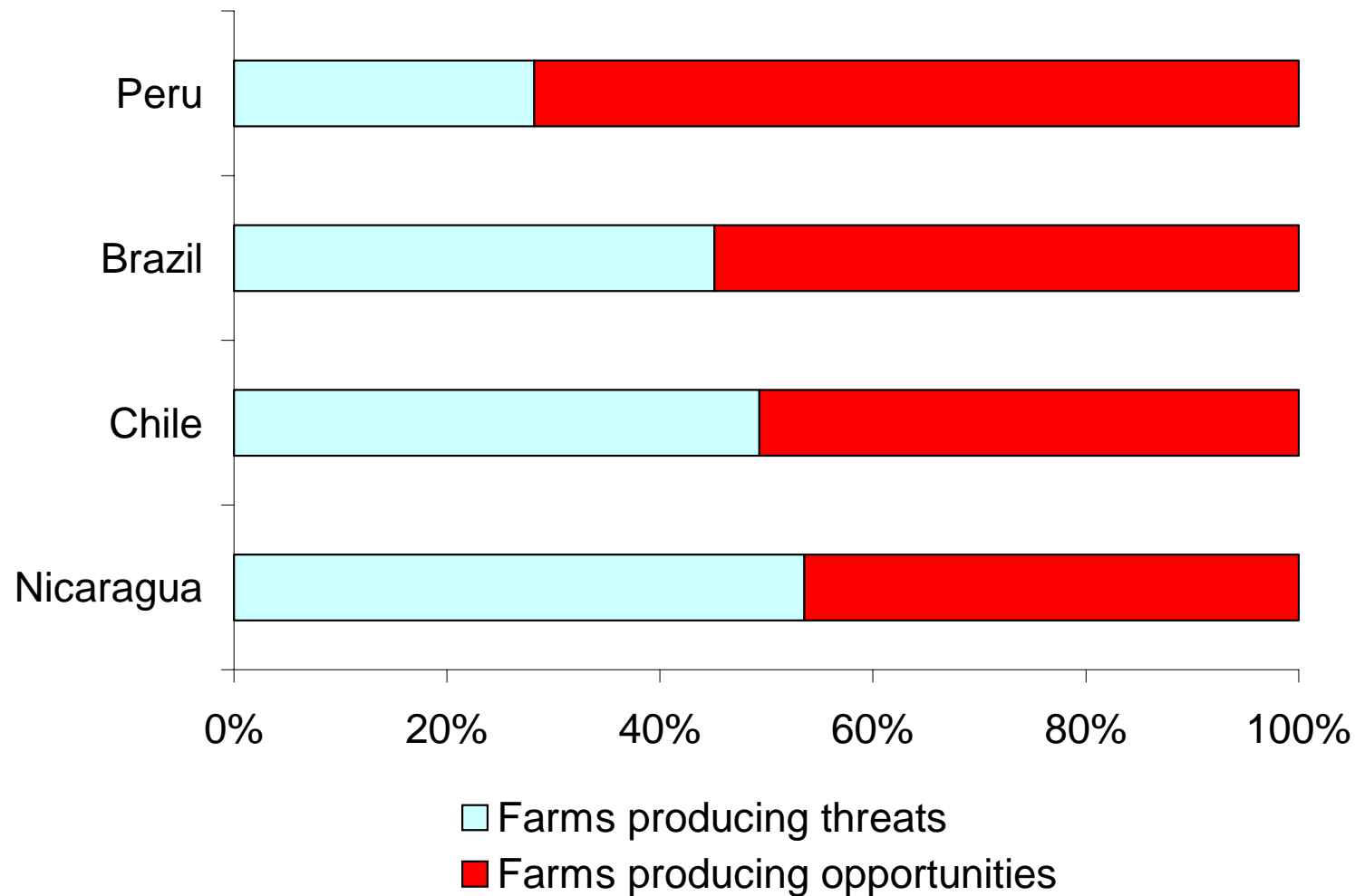


*** Intra-regional, Canada, EU and USA**

Source: Project FRA/03/003: "Impactos diferenciados de la liberalización comercial sobre la estructura productiva agropecuaria", Agricultural Development Unit.



..Farms produce both opportunities and threats..



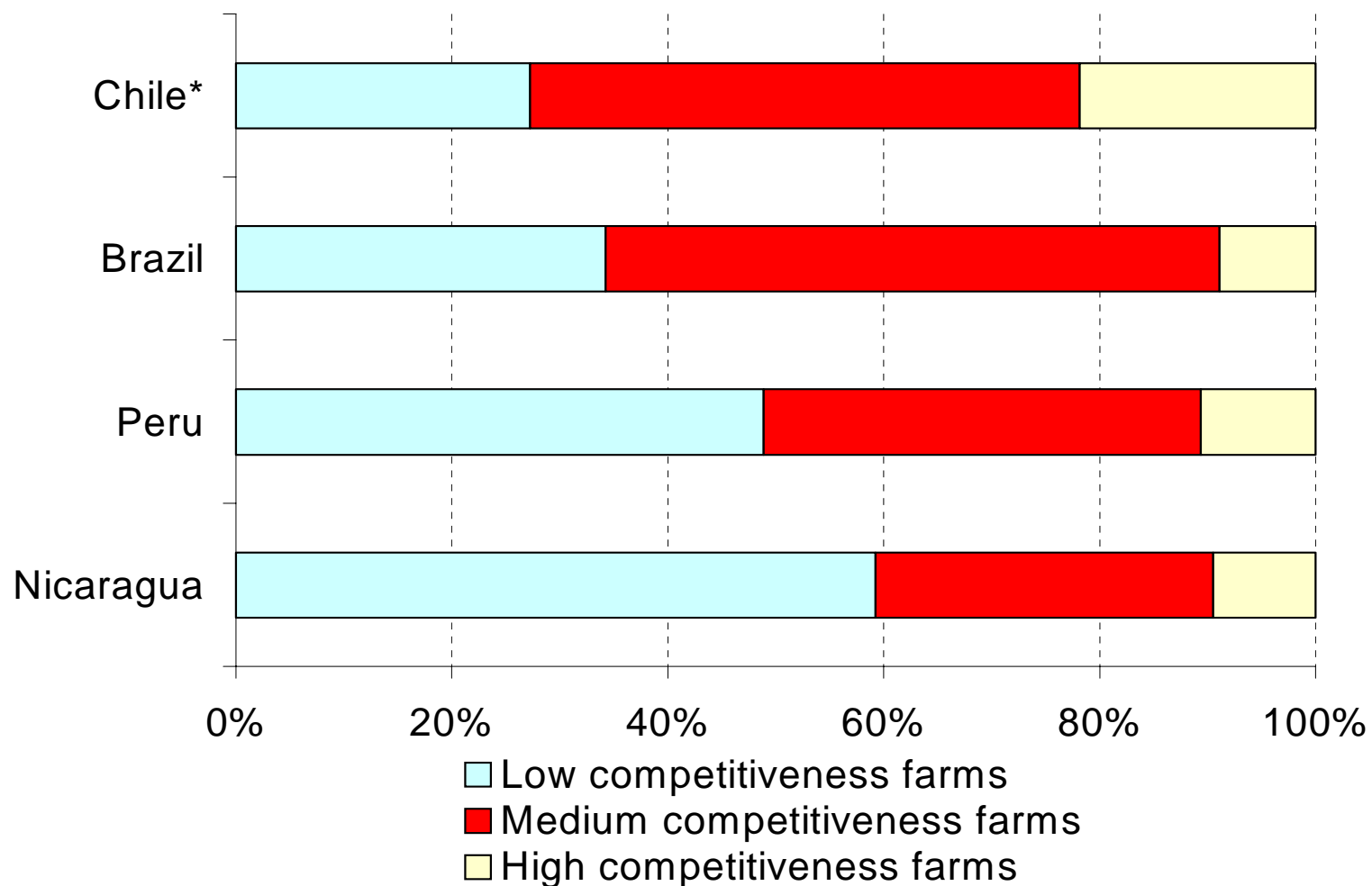
Source: Project FRA/03/003: "Impactos diferenciados de la liberalización comercial sobre la estructura productiva agropecuaria" , Agricultural Development Unit.



STEP 2: Estimate Potential Competitiveness

- Three types of *performance categories*: low, medium and high
- **Examples of variables** considered:
 - Hired workers
 - Technology (machinery, irrigation, other inputs)
 - Access to credit
 - Human capital
- **Source**: Census data.

Impact of liberalization on farms depends on their competitiveness



Source: Project FRA/03/003: "Impactos diferenciados de la liberalización comercial sobre la estructura productiva agropecuaria", Agricultural Development Unit.

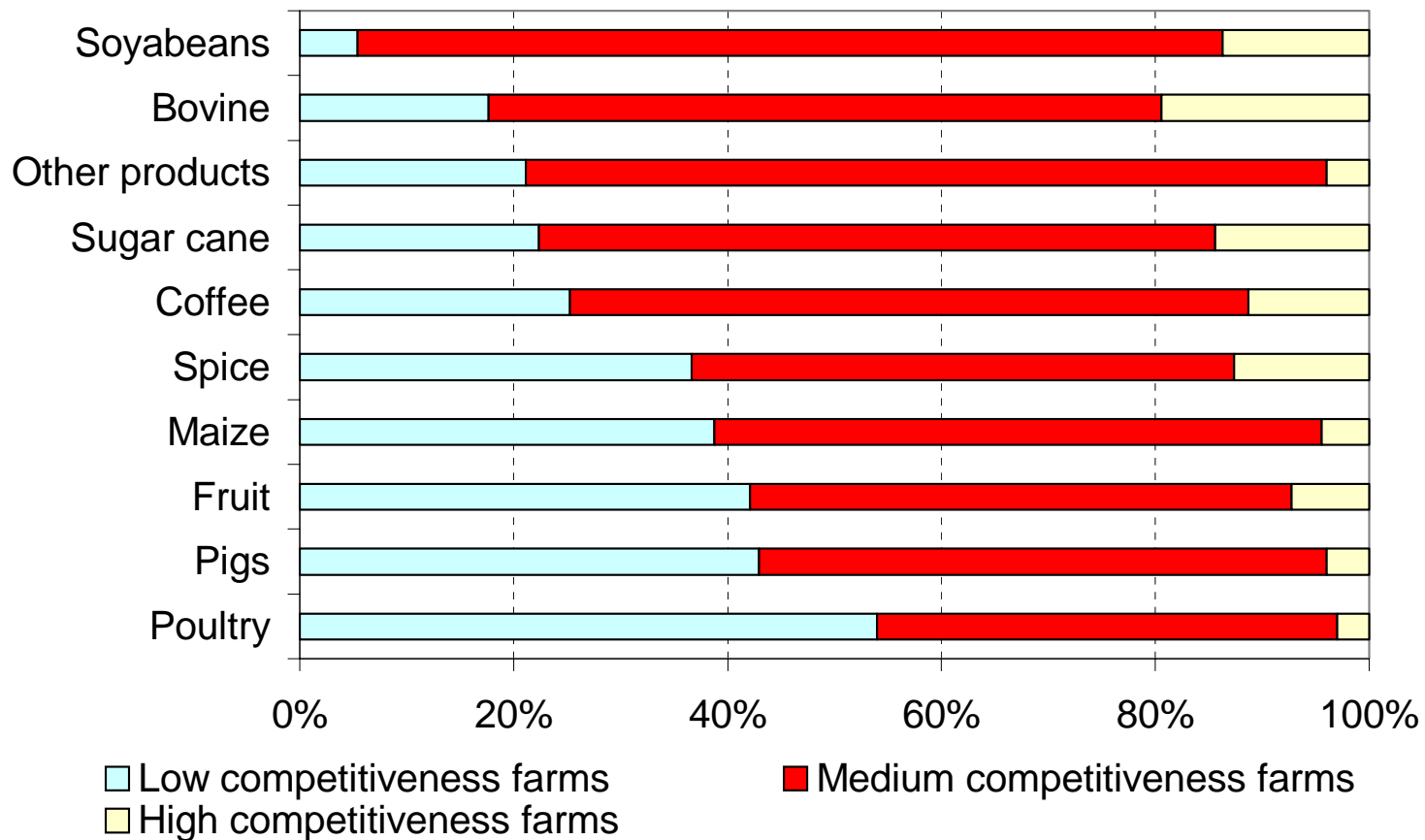


STEP 3: Estimate Potential Impact

Combination of A1 (trade opportunities or threats) and A2 (competitiveness of farms producing those products)

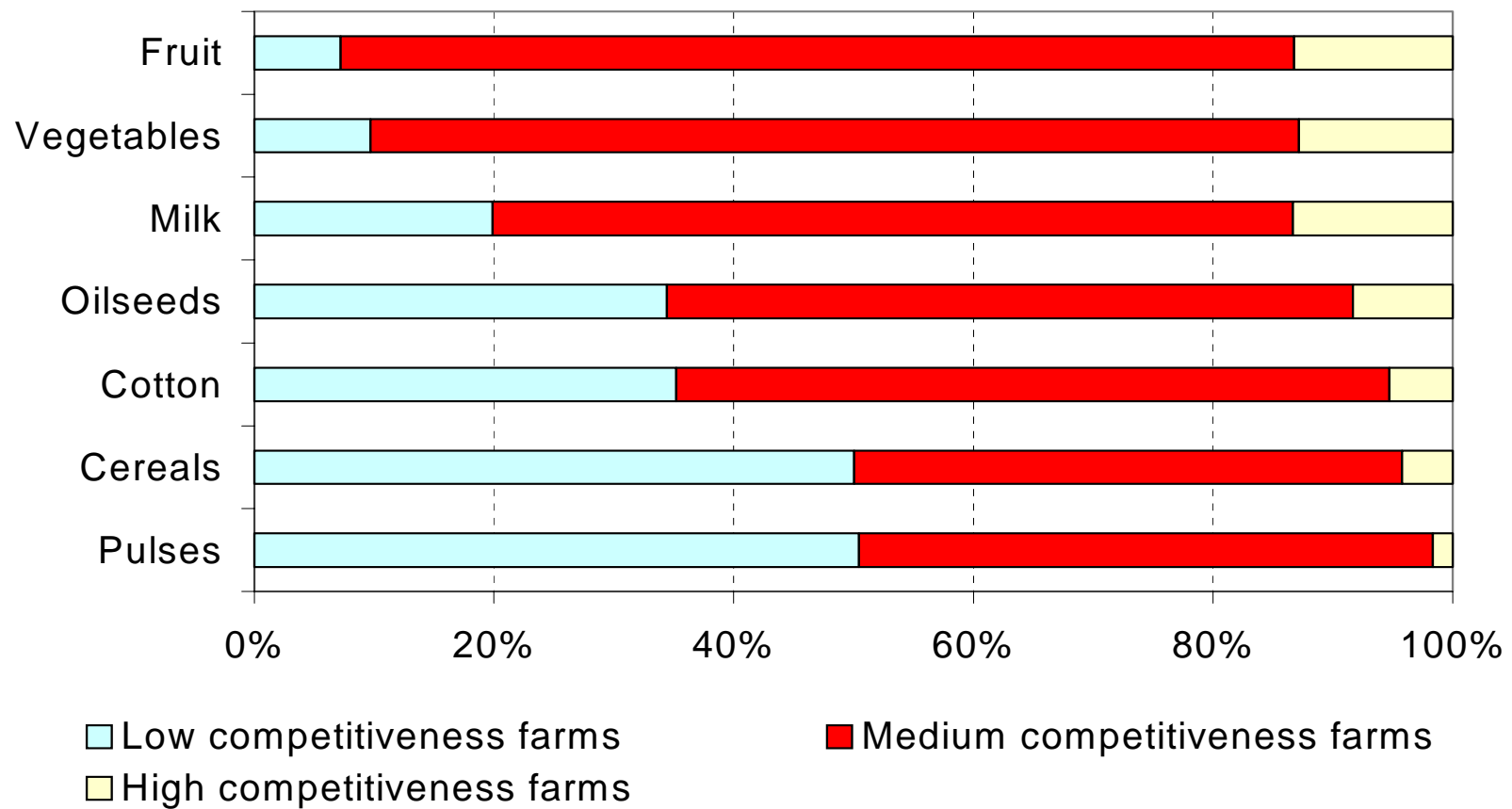
Impact of liberalization depends on competitiveness of farms & types of products

Opportunities to Brazil



Impact of liberalization depends on competitiveness of farms & types of products

Threats to Brazil

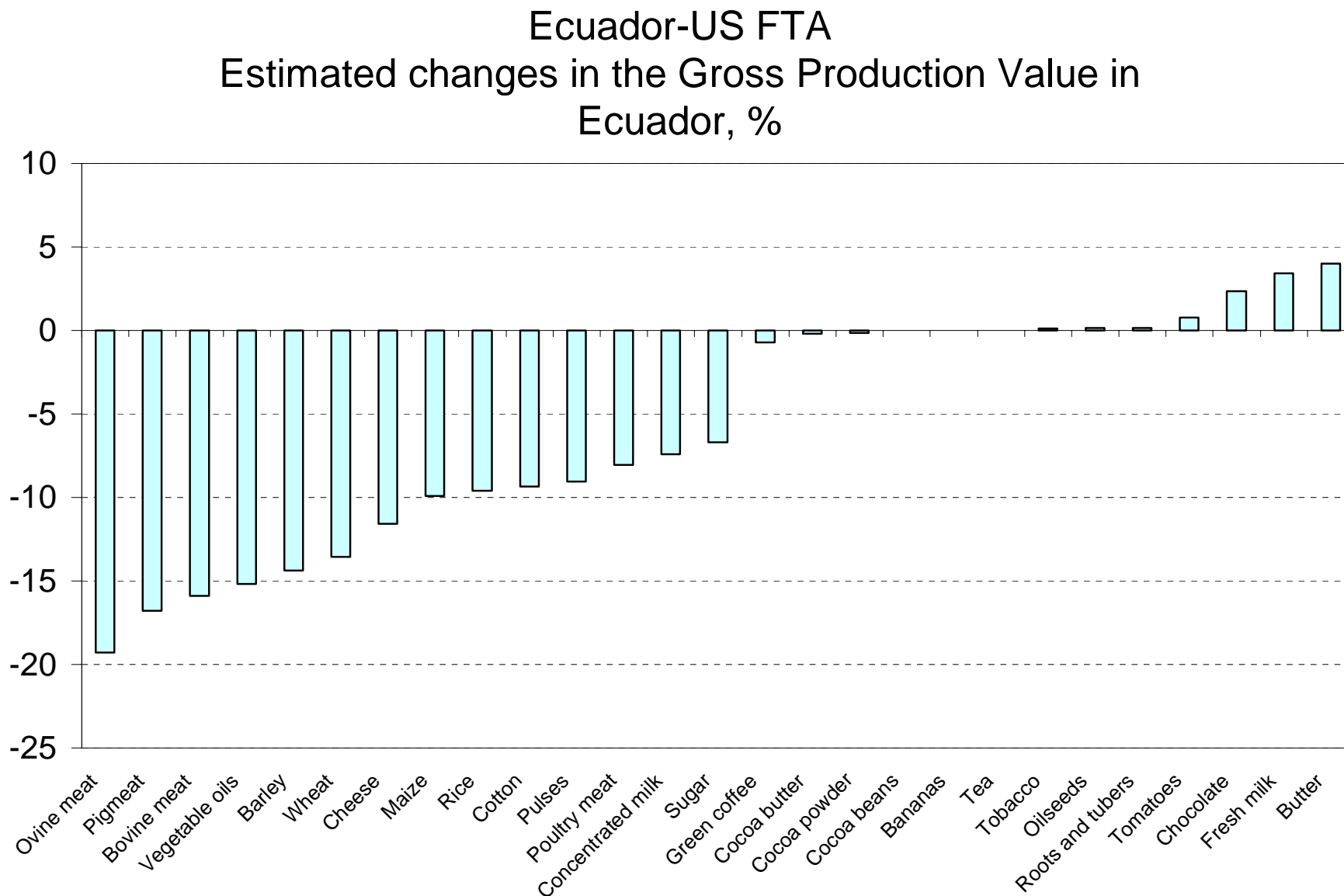




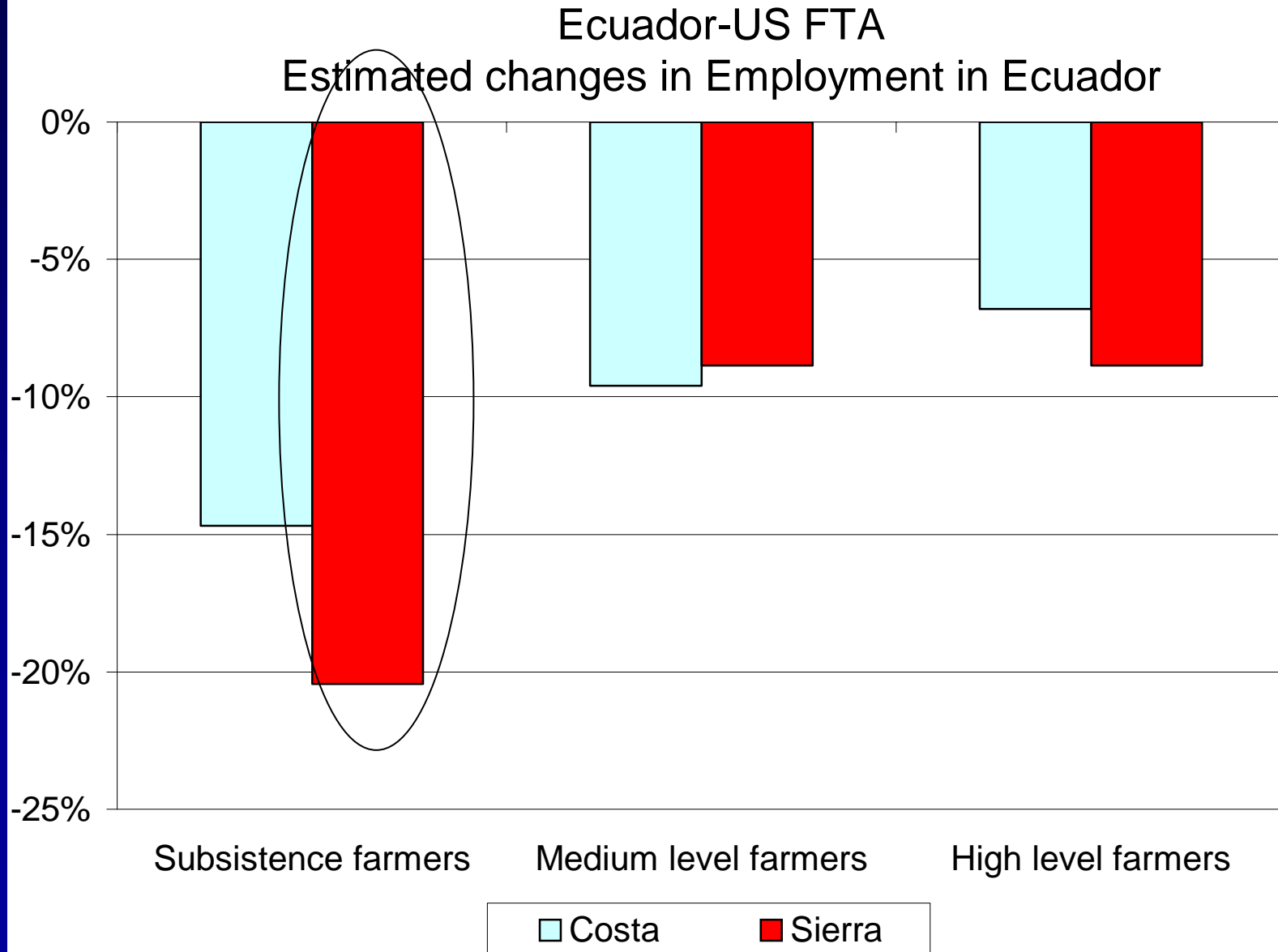
B. Partial equilibrium: liberalization between Ecuador and USA

- **Products:** main ones in bilateral trade and Ecuadorian agriculture
- **Elasticities:** Translog production functions for 3 farm types to obtain land, labor and capital elasticities: subsistence, commercial and commercial advanced
- **Impact assessment:** on trade, production and consumption volume for agriculture using UNCTAD's Agriculture Trade Simulation Model (ATPSM). Employment impact estimated by type of producers, based on elasticities.

Meat and cereals are most negatively affected by Ecuador-USA FTA...



Subsistence farmers in the Sierra region would be the most affected





C. GCE models: Trade liberalization between Andean Community and USA (GTAP)

- **Features:** 24 countries/regions, 36 sectors, perfect competition, demand as in GTAP,
- **Factors:** Land, Skilled and Unskilled Labor, Capital and Natural Resources. Full employment.
- **Other:** Savings are fully invested. Fix investment shares among countries. Additionally, a steady-like state framework with capital accumulation based on Francois (1996), were implemented.



Impact on X of Andean countries

- **FTAs** have positive impacts on trade in all **FTAs** scenarios and for **all export sectors**, especially, **light manufactures**, sugar, transport equipment, wheat, milk and apparel.
- The exclusion of sensible products balance the results along sectors.
- **No FTA / No ATPDEA** provokes a fall of AC exports, mostly in **light manufactures** (textiles 20% and apparel 40% down).

Impact on exports: Ecuador

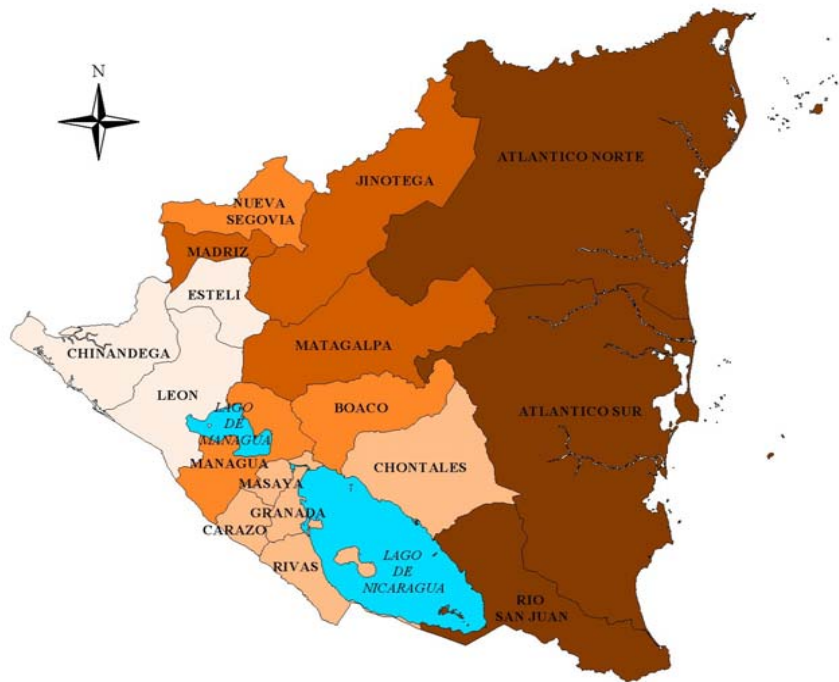
Total Exports	Andean Community 3 - USA		No FTAs / No ATPDEA	
	Changes	Contribution	Changes	Contribution
Main winners	Sugar, Wheat Dairy products	Sugar Food products Fruits and vegetables	Transport equipment, Dairy products Other manufactures	Combustibles, Food products, Fruits and vegetables
Main losers	Cereal grains Meat products, Oil seeds	Meat products textile, Chemical	Apparels, Textile, rice	Apparel Textiles

Source: Authors based on GTAP 6.1 simulations

The table shows 3 main GTAP products in each category

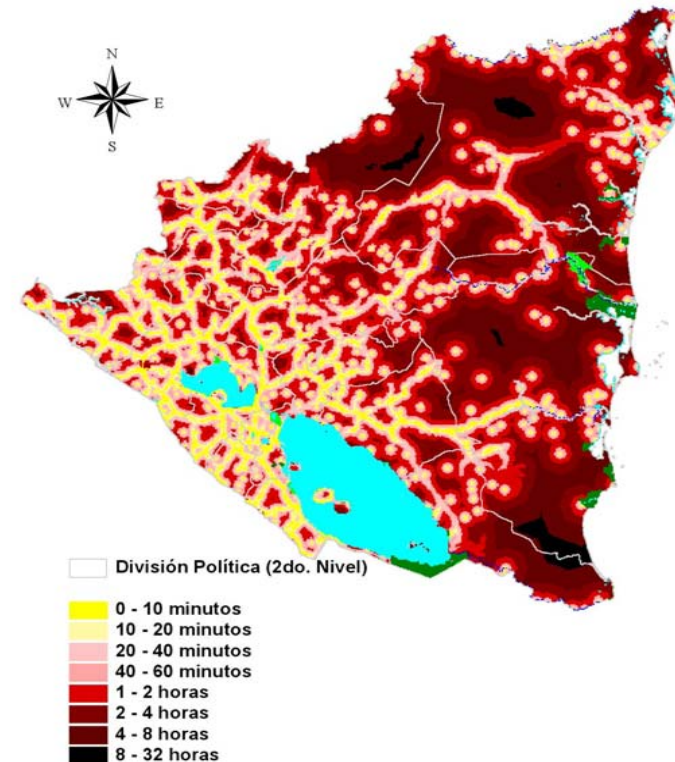
There are many variables affecting competitiveness not included in the models

Low competitiveness farms producing vulnerable products

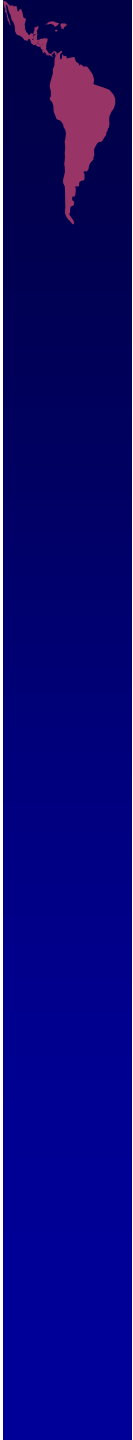


Distance to cities of more than 10 thousand inhabitants

Accesibilidad a ciudades de más de 10,000 habitantes



Fuente: Proyecto FRA/03/003: "Impactos diferenciados de la liberalización comercial sobre la estructura productiva agropecuaria", Unidad de Desarrollo Agrícola.

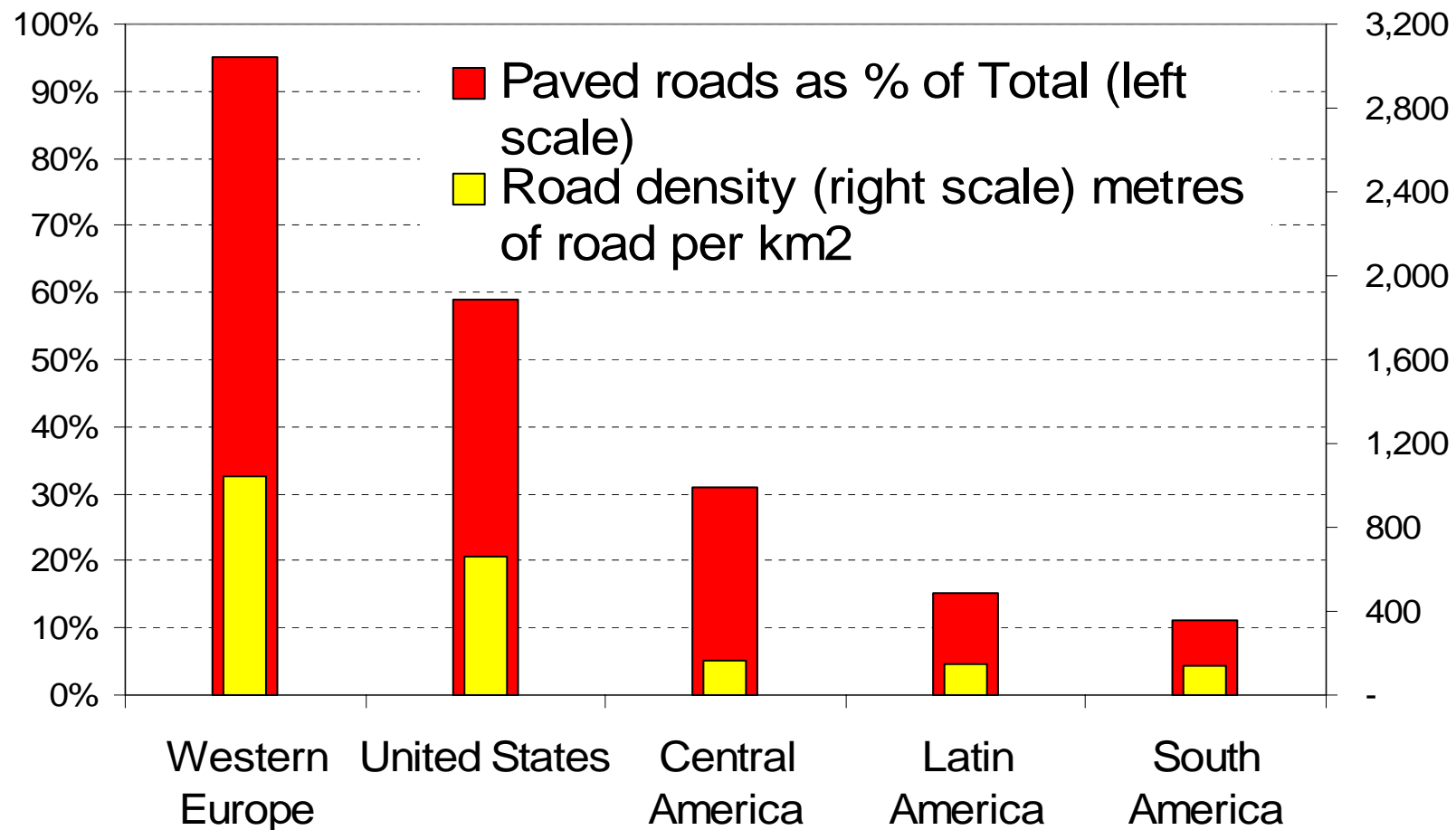


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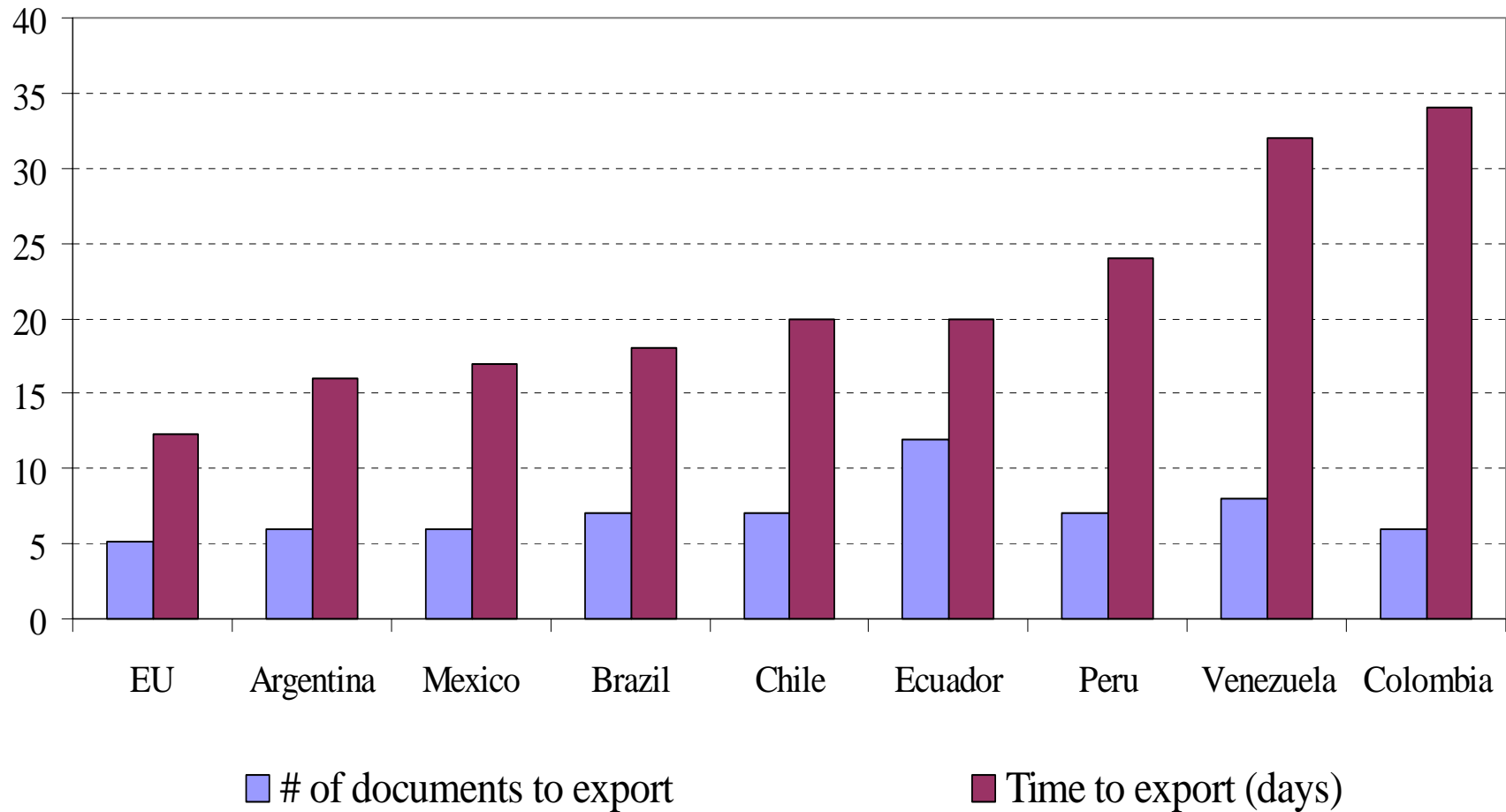
3. Seizing the opportunity: Competitiveness

Poor infrastructure, for example roads,



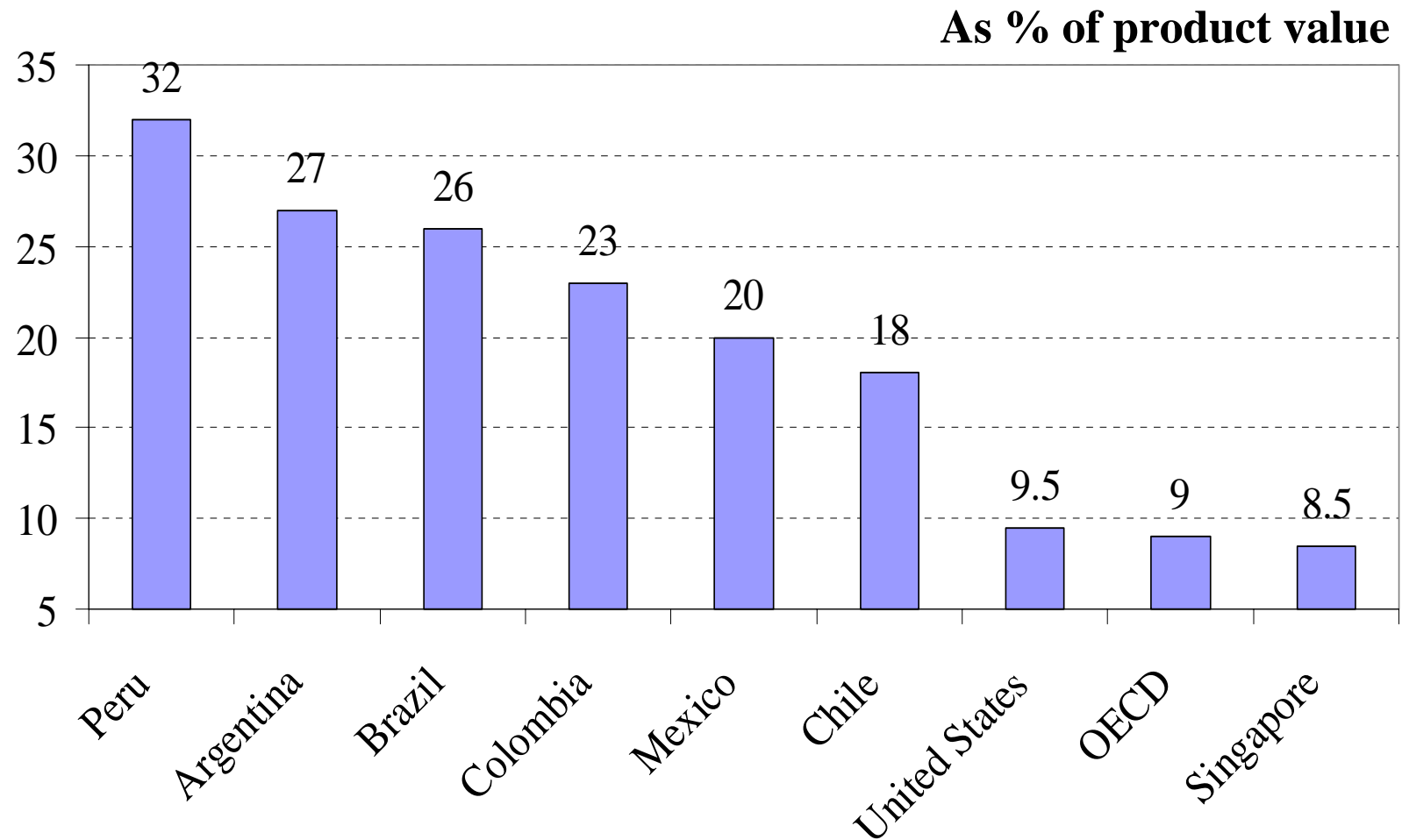
Source: J.L. Guasch y J. Kogan (2005), "Inventories and Logistic Costs in Developing Countries: Levels and Determinants, a Red Flag on Competitiveness and Growth", *Revista de la Competencia y la Propiedad Intelectual*, Vol 1, No 1.

... and burdensome customs ...



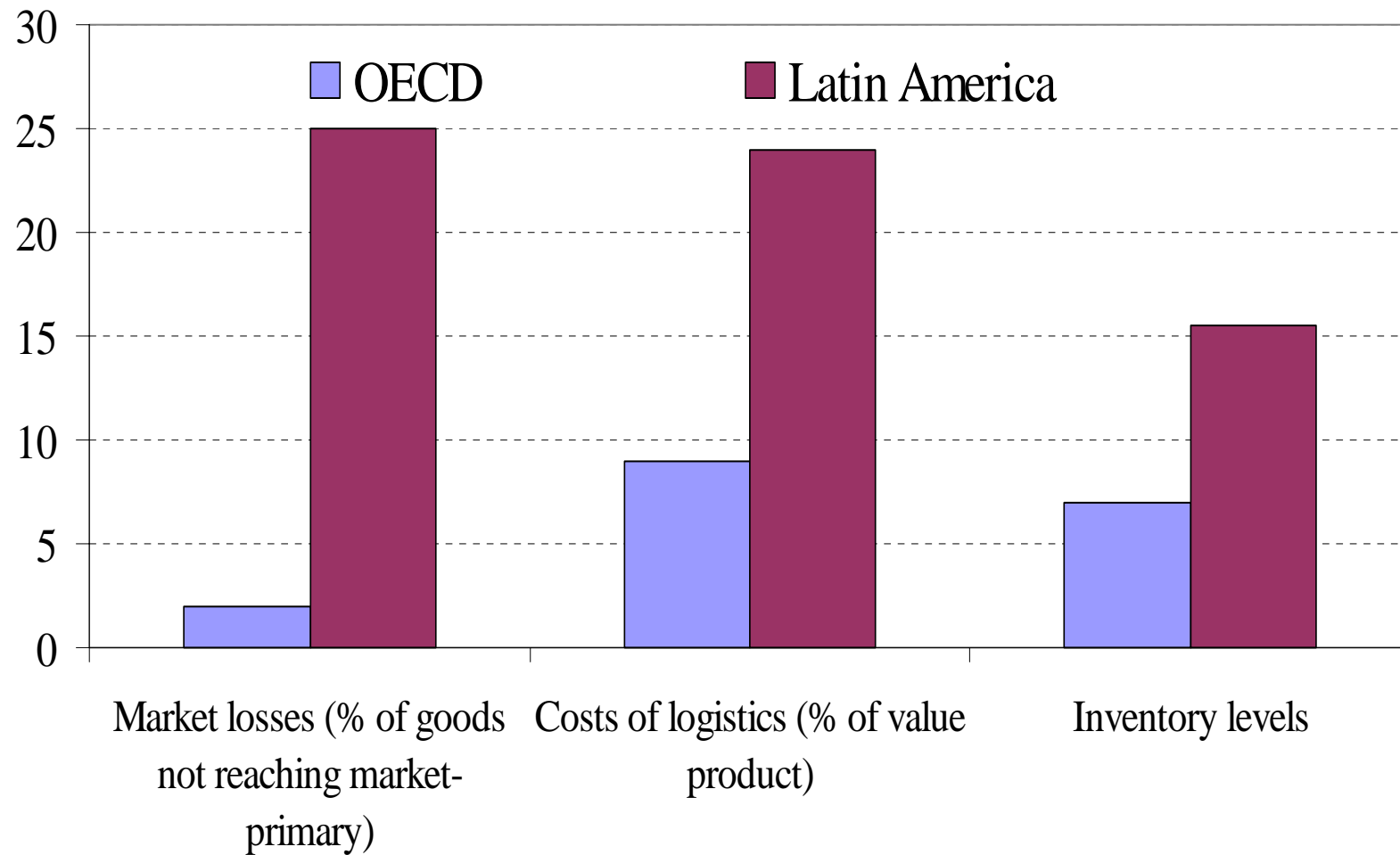
Source: World Bank, *Doing Business 2006*.

... raise the cost of logistics, ...



Source: J.L. Guasch y J. Kogan (2005), "Inventories and Logistic Costs in Developing Countries: Levels and Determinants, a Red Flag on Competitiveness and Growth", *Revista de la Competencia y la Propiedad Intelectual*, Vol 1, No 1.

... cause higher market losses and require more inventories



Source: J.L. Guasch y J. Kogan (2005), "Inventories and Logistic Costs in Developing Countries: Levels and Determinants, a Red Flag on Competitiveness and Growth", *Revista de la Competencia y la Propiedad Intelectual*, Vol 1, No 1.



Conclusions

- Trends in trade liberalization: increased outward orientation, divergent trends in subregional integration
- Diverse ECLAC approaches show mixed effects of liberalization, taking into account heterogeneity of farmers
- Need to improve competitiveness to seize opportunities of trade agreements

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