Caribbean Policy Research Institute

Taking Responsibility

The Role of Regional Trade Agreements in the Agribusiness Sector

Caribbean and Latin American Economies

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In response to changes in the multilateral trading system in the 1990's, the Latin American and Caribbean (LAC) region revitalized existing Regional Trade Agreements (RTAs) and signed new ones, mainly Preferential Trade Agreements (PTAs). Through the removal of market distorting trade obstacles, RTAs should allow countries to achieve a higher level of welfare by specializing in production in which they enjoy comparative advantage, as well as by taking advantage of the technological inflows facilitated by trade and by larger scale production. (See appendix for a list of relevant RTAs.)

By linking the smaller economies of the Caribbean to the larger economies of Latin America, RTAs might assist countries to implement their development strategies and create opportunities for new ones. The creation of improved market access beyond the region's borders and the expansion of markets beyond the domestic domain, can help increase demand and income and also create new demand, facilitating specialization and promoting technological change. The region's experience suggests that intra-regional trade holds more potential for export diversification, growth of small and medium enterprises (SMEs) and more added value than does trade with the rest of the world.[1]

Integration initiatives in the LAC region are mainly characterized by bilateral agreements, with countries and groupings in the region -- such as CARICOM, the Andean Community, MERCOSUR and the Central American Common Market – forming agreements with other countries such as the CACM, EU-CARIFORUM EPA, and the MERCOSUR-EU.[2] The CARICOM regional integration process is behind those of the other sub-regions because of a lack of coordination of policies. In spite of this, the region boasts the highest level of intraregional trade which, as a percentage of total exports, moved from 12% in 1990 to 23% in 2005.[3] Exports from the various regions of the Americas are diversified, with the Southern American countries exporting raw material- and natural resource-based processed products; Mexico and Central America, assembled manufactured products; and the Caribbean countries, services.

Export Composition and Trade Performance

The region's major trading partners are similar, with market concentration in the United States, the EU, Canada and Asia. As a group the LAC region is a net exporter of agricultural products, with over 60% share of agricultural production from crop farming. There is diversity in production – soybean oil in Brazil, Argentina and Paraguay; fruit and salmon in Costa Rica and Chile; cut flowers in Colombia and Ecuador; beef in Uruguay; and bananas in Ecuador. The Andean and MERCOSUR regions are the two market leaders in the LAC region, accounting for 50% of total LAC Trade and 74% of intraregional trade. Trade among the members of the LAC region has been steadily growing, with growth of over 100% between 1990 and 2005, moving from US$130214m to US$263,209m.[4] Similarities in production structure do not

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[1] CARICOM-Caribbean Community, CACM- the Central American Common Market, MERCOSUR- Southern Common Market and the Andean Community.
[2] CARICOM-Caribbean Community, CACM- the Central American Common Market, MERCOSUR- Southern Common Market and the Andean Community.
[3] ECLAC Briefing Paper, Ibid.
[4] ECLAC Briefing Paper, pg. 97

preclude gains: Jamaica produces coffee, while other countries in LAC are large producers as well.

The Policy Framework

The translation of new trade opportunities into real trade gains will depend on the state of a country's economy, existing policies and the flexibility of the institutions to adapt to new policies. The policies in question are those which concern the regulatory framework, the provision of infrastructure, the operations of financial markets, and social adjustment. Government must assist the non-government sector to improve market performance, and sectoral policy should provide the conditions for better private sector decision-making while expanding access to efficient productive opportunities. There must be a convergence of policies among countries through trade and investment liberalization so as to facilitate the free movement of goods, services, factors of production, and financial assets among members. It is within this framework that market-oriented cross-border supply chain development can be facilitated by investments in regional infrastructure to create connectivity across countries, populations and markets of different geographical locations, the result being a reduction of transportation, transaction and communication costs.[5] The presence of such elements will ensure that cross-border supply chains can stimulate the local agro-industry, generate employment, add value in local food production, encourage technology transfer and improve food safety and nutrition.

The Role of Government

To take advantage of trade liberalization, a government should provide a framework that captures the benefits of integration for a large segment of the population through reforms that empower the population to overcome supply-side constraints.[6] The focus of domestic reforms should be on internal markets, cross-border trade and enhanced market performance in the agricultural sector, with the objective of increasing agricultural exports and agro-industry income. Through the provision of these processes, small and large farmers, large businesses and SMEs should be able to clearly identify and respond to price signals that result from changes in trade policies. The involvement of the private sector can lead to improvements in infrastructure, transport infrastructure, and export marketing costs. The payoff for infrastructure investment is long term, therefore partnering with multilateral institutions and international donors to access low cost funding for private investment will be crucial.

[5] Infrastructure may be divided into four broad categories, namely: agriculture infrastructure (access to fertilizer consumption, irrigated land, and agricultural machinery); economic infrastructure (access to electricity, telephones, personal computers, banking facilities, and the Internet); social infrastructure (access to health facilities, media, education, and drinking water); and transport infrastructure (access to roadways, railways, airways, and ports).

[6] Institutional arrangements which influence internal and external processes should provide information about supply conditions within each sector, the level of skills and education, access to credit, access to technology, the availability of communications and transport services, mechanisms to offset production and consumption risks.

Areas for Collaboration

There are significant, unexploited complementarities among LAC economies. There are opportunities for greater collaboration in financial and monetary cooperation[7], energy, intraregional foreign direct investment (FDI), technology transfer, energy cooperation,[8] and transport infrastructure and communications connectivity. For example, Brazil is known for its research and development activities,[9] while its engineering and manufacturing industry has underutilized capacity that could meet the demands of some smaller LAC countries.[10] Jamaica, meanwhile, is known for its tourism sector. With limited linkages between tourism and the agricultural sector, partnership between the two countries could result in the introduction of technology in agricultural production and agro-processing, which could reduce the cost of imports and result in spill-over into other areas of the economy. The benefits to Latin American countries could be substantial: the Caribbean region is known for its high-quality services industry, entertainment, sports, and tourism; intra-regional FDI investments could improve quality and add value.

Caribbean economies have been producing primary goods for exports. The region could now move into agro-processing. This will require the large-scale production of fruit orchards and vegetable crops – lands taken out of sugar cane and banana production could provide input for agro-processing industries. Agro-processing could focus on specialty products such as coffee, cocoa and spices, while primary preparation of organic production could be channelled to the export and tourist markets. By attracting intra-regional FDI flows, trade creating potential could emerge in resource-extracting, production-fragmenting and product- differentiation strategies. The RTA framework allows for the setting up of production networks through vertical intra-industry trade. By encouraging large transnational food companies already present in the LAC region to locate production bases in the Caribbean- by setting up joint ventures or wholly owned subsidiaries- they could exploit cost advantages as different parts of the production process are allocated to individual countries. The LAC region has a good history of attracting FDI in various sectors from the developed countries, given its relatively stable economic climate. Regional investors should expect the same.

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[7] In the initial stages, financial and monetary cooperation could focus on information sharing in areas of capital flows, regulatory framework, payments and settlement system.

[8] Energy cooperation in the areas of natural gas and electricity would lower costs and improve reliability. The region has 11% of the world's oil resources and 5% of its natural gas, and with only a small part of the available 659.5 gigawatts of hydropower being used, the region has a surplus of power generating capacity which could be used to reduce energy costs.

[9] Research done by the FOA (Food and Agriculture Organization) provides data that Brazil is the world's largest exporter of agro- processed foods, thanks to its use of technology, research and innovation. ECLAC Briefing Paper, ibid, pg.136.

[10] World Energy Council 2008: Regional Energy Integration in Latin America and the Caribbean.

Emerging Opportunities?

The growth of China and India hold great potential for the export of goods and services from the LAC region as the two countries are in the top ten exporters and importers of tradable services. The Asian countries have been showing unprecedented dynamism in forming strategic alliances with LAC countries. This has significant implications for improving the livelihood of the rural poor, food security, health and nutrition. Most LAC countries have a comparative advantage in primary products, and so are not in direct competition with China and India. As these two countries gradually move away from primary producing to manufactured products, and from there into high technology and value-added sectors (while India has not been able to create synergies between the hardware and software sectors to capitalize on the use of technology in food production), there is likely to be increased demand for high-quality processed and primary prepared foods.[11]

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[11] See ECLAC Brief, ibid, pg.58 for date on trade between LAC and Asia

Appendix: RTAs in the Western Hemisphere[12]

As Table 1 shows, in recent years, there has been a dramatic increase in the number of trade agreements negotiated by Latin American and Caribbean (LAC) countries with other countries in the Western Hemisphere, as well as with countries outside the Hemisphere.

Table 1. ***Customs Unions and Free Trade Agreements in the Western Hemisphere***

	Agreement	*Signed*	*Entered into force*
Customs Unions			
1.	CACM (Central American Common Market)	1960	1961
2.	Andean Community	1969	1969
3.	CARICOM (Caribbean Community and Common Market)	1973	1973
4.	MERCOSUR (Common Market of the South)	1991	1995
Free Trade Agreements			
1.	NAFTA (North American Free Trade Agreement)	1992	1994
2.	Costa Rica-Mexico	1994	1995
3.	Group of Three (Colombia, Mexico, Venezuela)	1994	1995
4.	Bolivia-Mexico	1994	1995

[12] Throughout this paper the term Regional Trade Agreements (RTAs) is used to include bilateral, plurilateral and regional agreements, including customs unions (CUs) and free trade agreements (FTAs). Where necessary, the relevant distinctions are made in the text.

Agreement		*Signed*	*Entered into force*
5.	Canada-Chile	1996	1997
6.	Mexico-Nicaragua	1997	1998
7.	Central America-Dominican Republic	1998	
8.	Chile-Mexico	1998	1999
9.	CARICOM-Dominican Republic	1998	
10.	Central America-Chile	1999	
11.	Mexico-Northern Triangle (El Salvador, Guatemala, Honduras)	2000	2001
12.	Costa Rica-Canada	2001	
13.	Andean Community-MERCOSUR	In negotiation	
14.	Central America - Panama	In negotiation	
15.	CA-4 – Canada	In negotiation	
16.	Chile-United States	In negotiation	
17.	Mexico-Ecuador	In negotiation	
18.	Mexico-Panama	In negotiation	
19.	Mexico-Peru	In negotiation	
20.	Mexico-Trinidad and Tobago	In negotiation	
AGREEMENTS WITH COUNTRIES OUTSIDE THE HEMISPHERE			
1.	USA-Israel	….	1985
2.	Canada-Israel	….	1997
3.	Mexico-European Union	2000	2000
4.	Mexico-Israel	2000	2000
5.	USA-Vietnam		2001
6.	USA-Jordan	2000	2001
7.	Mexico-EFTA	2000	2001

Agreement		Signed	Entered into force
8.	Canada-EFTA	In negotiation	
9.	Canada-Singapore	In negotiation	
10.	Chile-European Union	In negotiation	
11.	Chile-South Korea	In negotiation	
12.	Chile-EFTA	In negotiation	
13.	USA-Singapore	In negotiation	
14.	MERCOSUR-European Union	In negotiation	
15.	MERCOSUR-South Africa	In negotiation	
16.	Mexico-Singapore	In negotiation	

***Source**: Updated from Salazar-Xirinachs, Jose M. and Maryse Robert (2001) Towards Free Trade In the Americas, Brookings Institution Press/OAS General Secretariat, Washington D.C., p 4.*