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Addressing the crisis through enhanced cooperation among Latin American and Caribbean countries

Speech by the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD),
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REGIONAL SEMINAR ON TRADE AND COMPETITION:

PROSPECTS AND FUTURE CHALLENGES FOR LATIN AMERICA AND THE CARIBBEAN

Caracas, Venezuela, 20 and 21 April 2009

Talking points for UNCTAD SG, Dr. Supachai Panitchpakdi

"Addressing the crisis through enhanced cooperation among Latin American and Caribbean countries"

Mr. Chairman.

Excellencies,
Ladies and Gentlemen,

It is a great pleasure for me to address this Regional Seminar on Trade and Competition for the Latin American and Caribbean countries. I also wish to express my gratitude to the Government of Venezuela and the Latin American and Caribbean Economic System (SELA) for the warm hospitality and the excellent arrangements made for this Seminar.

The purpose of this seminar is to identify issues that are at the crossroads of trade and competition, and to review existing regional initiatives. Of course, today, the issue that is at the forefront of every policy-maker's mind is the global financial crisis and its broader impact on the world economy, and particularly the developing countries that have been mere "innocent bystanders". Our discussion about regional cooperation in this region should therefore also address how South-South cooperation can play a role in overcoming the crisis, and I would like to offer some thoughts on this broader issue.

Mr Chairman,

After experiencing solid economic growth at an annual average rate of 5.3% between 2004 and 2008, thankfully, the Latin American countries are facing this crisis from a much stronger macroeconomic position than was the case for instance in the Asian crisis. The relatively strong growth helped to boost fiscal revenues and reserves in many countries, thus widening the room for manoeuvre today. The Latin American region is being affected through three key channels:

First, of course, is the direct, financial channel. In a general panic of investors, the region has seen capital outflows, resulting in depreciating exchange-rates. While no bank has collapsed, stock-markets in the region were hit hard. However, the effect of the fall on the real economy may be moderate. This is because they tend to involve only few firms, and do not represent a large share of household savings. Nevertheless, the fall threatens some privately capitalized pension schemes. Finally, as is the case for borrowers around the world, the conditions for access to international finance have worsened significantly, even if the extra financing costs have not yet reached the levels of previous crises.

The second channel is trade. Both trade and the volume of manufacturing production show a two-digit contraction year-on-year in several countries in late 2008 and early 2009. As imports have generally declined along with exports, the overall effect on the trade

2

balance has been moderate so far. Nevertheless, several countries have experienced terms of trade losses, and fiscal revenue from state owned enterprises has declined.

Thirdly, we are beginning to see a stagnation of remittances, which in recent years had become an increasingly important source of income for Latin America. Indeed, after tripling from \$20 billion in 2000 to a peak of \$60 billion, preliminary estimates are showing a stagnation of growth rates in 2008. Indeed, in some cases, we are even seeing an overall decline. In Mexico and Jamaica, inward worker's remittances fell by 10 and 18% respectively in January and February of this year, when compared to 2008.

Most governments have already embarked on very sensible counter-cyclical responses to the crisis - instead of following some of the recessionary prescriptions received during past crises. Central Banks have provided much needed liquidity to commercial banks and reduced reserve requirements. Several countries have also provided crucial support to the economy through new credit facilities and tax reductions or new expenditure, including on infrastructure.

It is too early to tell how severe the impact of the crisis will be in the region, and how these policy responses will affect it. Nevertheless, it is expected that the region will enter into recession in 2009, with overall GDP growth estimated between 0 and -1%. Thus, further action will be needed.

In this context, there is growing interest in strengthening regional cooperation in the area of finance. There is great hope for the new Banco del Sur, which should begin its operations in the coming months. Governments are also beginning to consider the use of national currencies for intra-regional trade. Such a decision would clearly serve to reinvigorate the regional payment and clearing mechanism, which exists since the 1960s but has not been much used since the 1990s.

In addition to these crucial initiatives, let me briefly outline some of the other collective measures that the region could consider:

1. Keeping trade going as an engine for development

First, as shown in the Asian crisis, trade could be an important tool in the recovery process. Although we are all aware that this time the global situation is significantly different, the potential of trade must not be underestimated. Thus, strengthening instruments to improve market access and market entry, such as concluding the Sao Paulo Round of Negotiations under the Global System of Trade Preferences among Developing Countries (GSTP), are key. Efforts should also be made to strengthen South-South regional trade agreements. South-South trade in commodities, especially commodities with a pro-poor dimension must also be strengthened.

Supporting South-South trade further means facilitating access to needed finance and liquidity. Trade financing initiatives such as the Global Network of Export-Import Banks and Development Finance Institutions (G-NEXID) can be quite instrumental in the current credit crunch.

In addition, payment and credit agreements among central banks should facilitate South-South trade. For example, participating central banks can compensate the cross payments owed to each other for balance-of-payments transactions carried out during a given period and then settle the remaining debt in hard currency on a pre-established date. Countries participating in such payment arrangements need less international

liquidity for carrying out their intraregional trade, benefiting from short-term credit until the date of settlement.

Difficulties in accessing international financial markets or in obtaining ODA could also be alleviated by the establishment of regional bond markets.

2. Competition policy should ensure that restrictive business practices do not negate the benefits of trade and investment liberalisation

Trade liberalization alone is often not enough to maintain an optimal level of competition in all economic sectors. A number of trade barriers still exist and new ones are often introduced to compensate for the reductions in tariffs and abolition of quantitative restrictions on trade. For instance, contingent protection and in particular anti-dumping, has become a major bone of contention in international trade relations.

To the extent that dumping is potentially an economic problem for an importing nation, it can and should be dealt with through enforcement of national competition law. However, it has to be recognized that most anti-dumping actions do not in fact involve "predation" by dominant firms against importing country competitors. On the contrary, it is often observed that, when domestic firms file antidumping complaints, this increases the potential for anti-competitive practices to occur at home.

In other instances, anti-competitive private barriers can easily replace governmental barriers to trade. Therefore, even in the presence of more liberal trade policies, an effective competition policy is a highly desirable complementary measure. Greater regional cooperation among Latin American and Caribbean countries on competition policy along the lines of the UN Set of Principles on Competition Policy can help to address these issues.

3. Mitigating the impact of financial shocks

Ladies and Gentlemen,

South-South cooperation can also help to shield developing countries from the excessive gyrations of international capital markets.

One way of achieving this is through the diversification of foreign-exchange reserves by buying other countries' debt. Those developing countries with high levels of foreign exchange reserves could alleviate the financing needs of other developing countries by financing revolving or newly issued debt of other developing countries. The low interest paid on the former default option - US treasury bills - is an added incentive.

Another useful instrument is a regional arrangement specifically aimed at mitigating the impact of financial shocks. One concrete example is the Chiang Mai initiative arising out of the Asian financial crisis of 1997-1998. The initiative is geared both to crisis management and crisis prevention by providing participating countries with international financial liquidity through swap Arrangements.

4. Keeping financing for development flowing

We must also find ways to ensure that development finance does not become a victim of the crisis.

4

There is a great risk that donor countries will substantially reduce ODA due to the rapidly rising fiscal burden of the economic downturn and associated stimulus packages. Indeed, our estimates are that ODA flows could fall by 20 to 40%. Should this be the case, finance from regional development banks could play a key role in guaranteeing the continued financing of infrastructure or other development-related projects. This is why current efforts to replenish the funding of multilateral financial institutions in the wake of the financial crisis should also include regional development banks.

Another means is to pursue regional investment projects. Several developing countries have announced fiscal stimulus measures as part of anti-cyclical policies. Public investment in infrastructure may play a strategic role, not only to support economic activity and employment in the short run, but also to create the foundation for sustained development in the long run.

Mr. Chairman.

These are only some of the possibilities for South-South Cooperation initiatives. I am confident that you will identify many other areas. I very much look forward to hearing your deliberations.

5. South-South no substitute for North-South

However, before closing, I would like to add a note of caution. We must remember that - for all its potential - South-South Cooperation should not be seen as a substitute for North-South cooperation and much-needed ODA. Increased and intensified South-South cooperation should be welcomed and encouraged, but it can only play a supporting and complementary role to the North-South development partnership.

I therefore strongly urge participants here to have a vigorous and dynamic exchange of views on how to strengthen South-South cooperation in the current context of the global economic crisis, while also contributing ideas on how to strengthen the North-South partnership.

Thank you very much.