REGIONAL INTEGRATION IN THE AMERICAS AND THE ECONOMIC CRISIS

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Panel 3: A role for regional integration agreements in the architecture of international finance?

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Organization of my comments

- Pre 2008-2009 management of macro crisis in LA and the "old" IFA

  ("Better to die alone than with bad company")
- Lessons from the recent crisis

  ("saving pays")
- Toward a new IFA

  ("We are not the only that do things in a wrong way, so watch out")
- Is there a role for regional integration agreements in the formulation and establishment of a new IFA framework?

  ("No, but please try to convince me otherwise")

Pre 2008-2009 management of macro crisis in LA and IFA

- Governments were not able to act countercyclical; on the contrary fiscal and monetary policy many times propagate the effect of initial negative shocks (both trade and financial disturbances)

- Of course this was in part as a consequence of previous unsustainable expansionary policies which in part were fueled by a very much pro-cyclical international credit market.

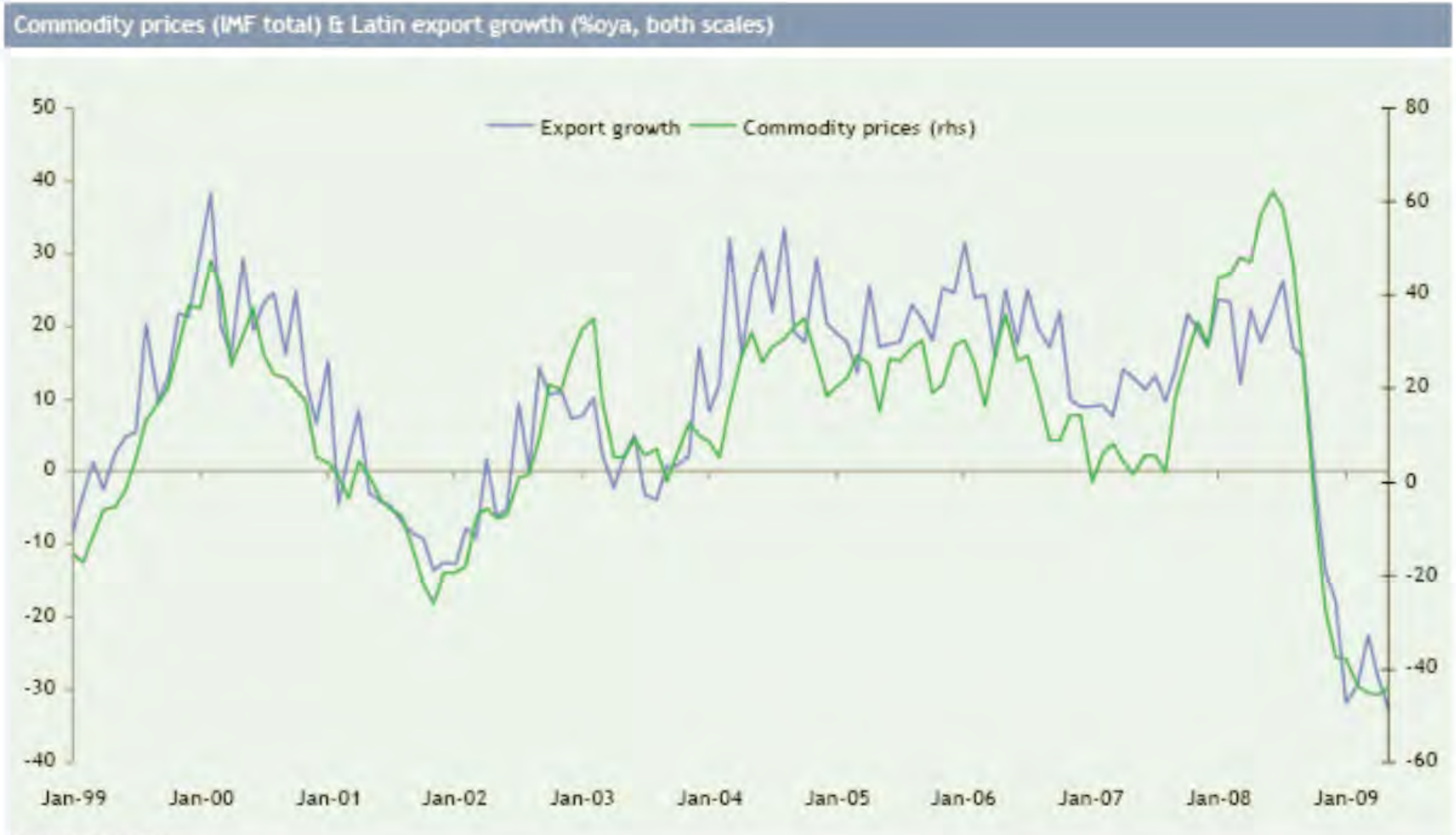
- IFA (say IMF led regime) did not help much to avoid this (it also acted on average in a pro-cyclical way).

- Even regional development banks have not a clear mandate on short term credit assistance

Lessons from the recent crisis

- Shocks affecting LA economies were very significant affecting both trade flows and capital inflows
- This led to significant short term lost in GDP
- Key difference with previous periods was strong accumulation of reserves in 2003-2007 which in part reflected higher saving specially from the public sector.
- This allowed central bank to intervene in the exchange rate markets which, together with flexible exchange rate regimes, helped to stabilize exchange markets
- Also countries could manage monetary and fiscal policy in a counter-cyclical way

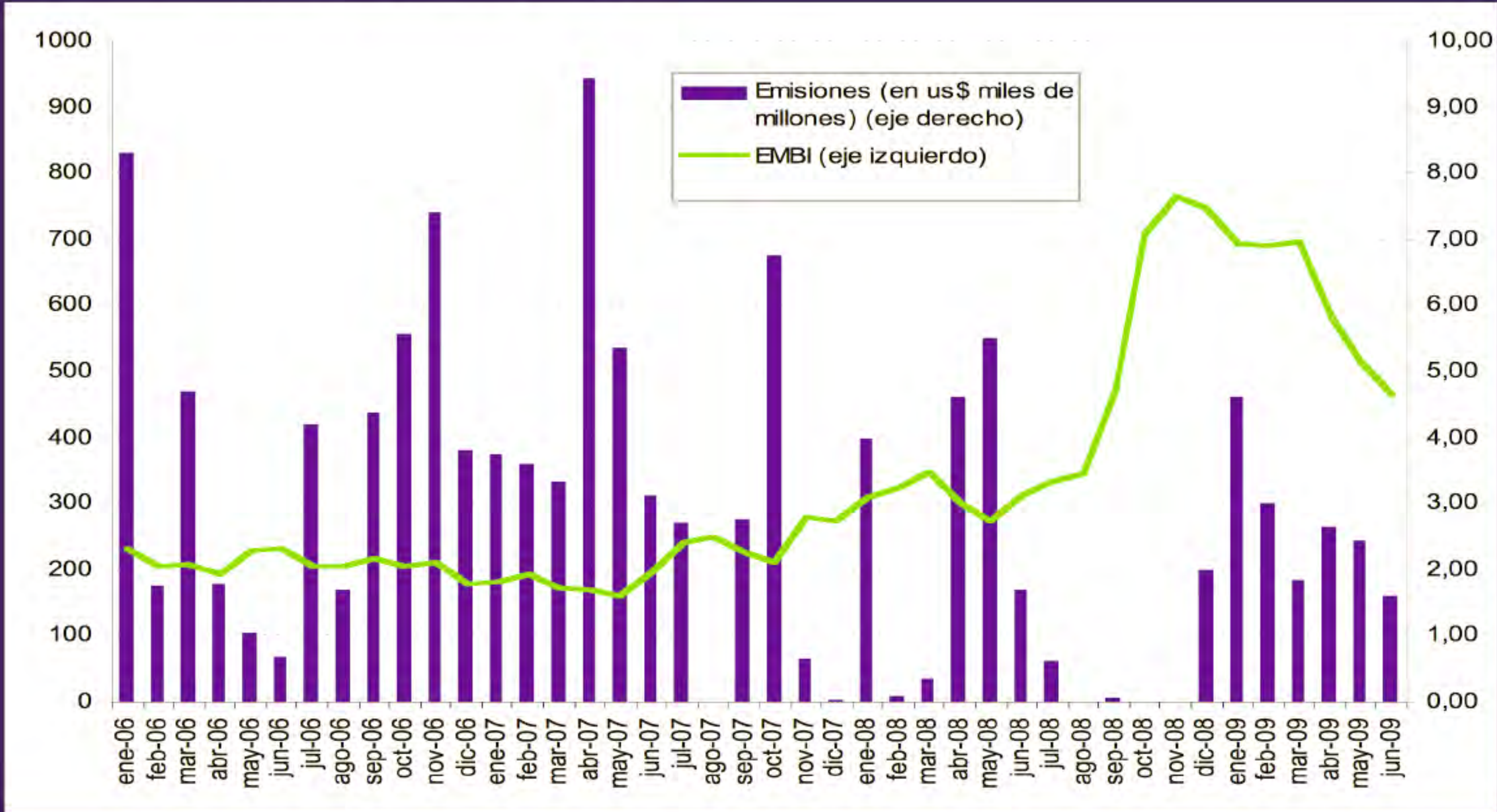
Commodity prices as well as exports fall sharply at the end of 2008 and the first quarter of 2009.



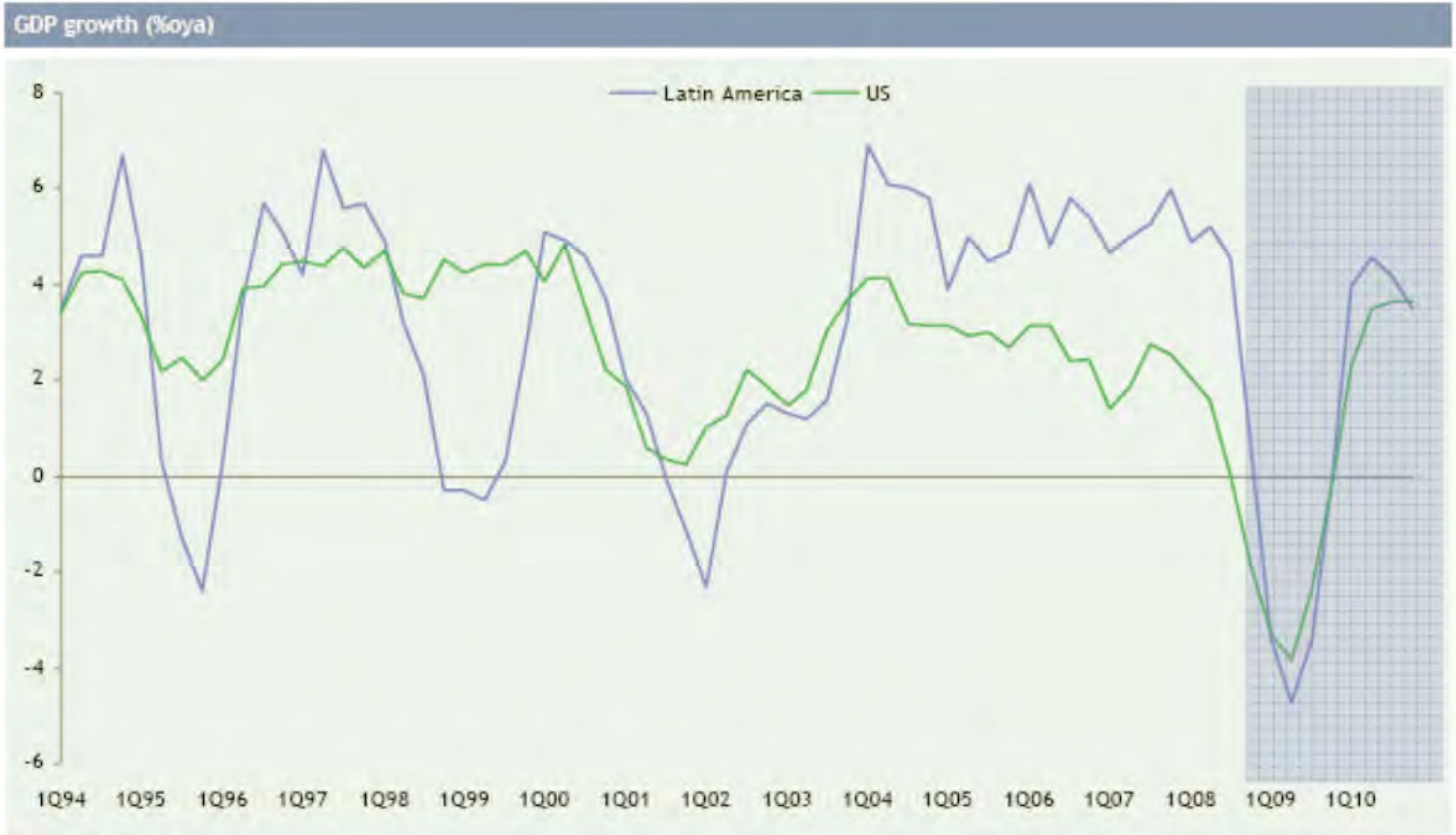
Source: J.P. Morgan

Sudden stop in capital inflows was also very significant

AMÉRICA LATINA: COLOCACIONES DE BONOS SOBERANOS Y CORPORATIVOS EN LOS MERCADOS MUNDIALES Y EL ÍNDICE EMBI+
(En miles de millones de USD y en puntos base)

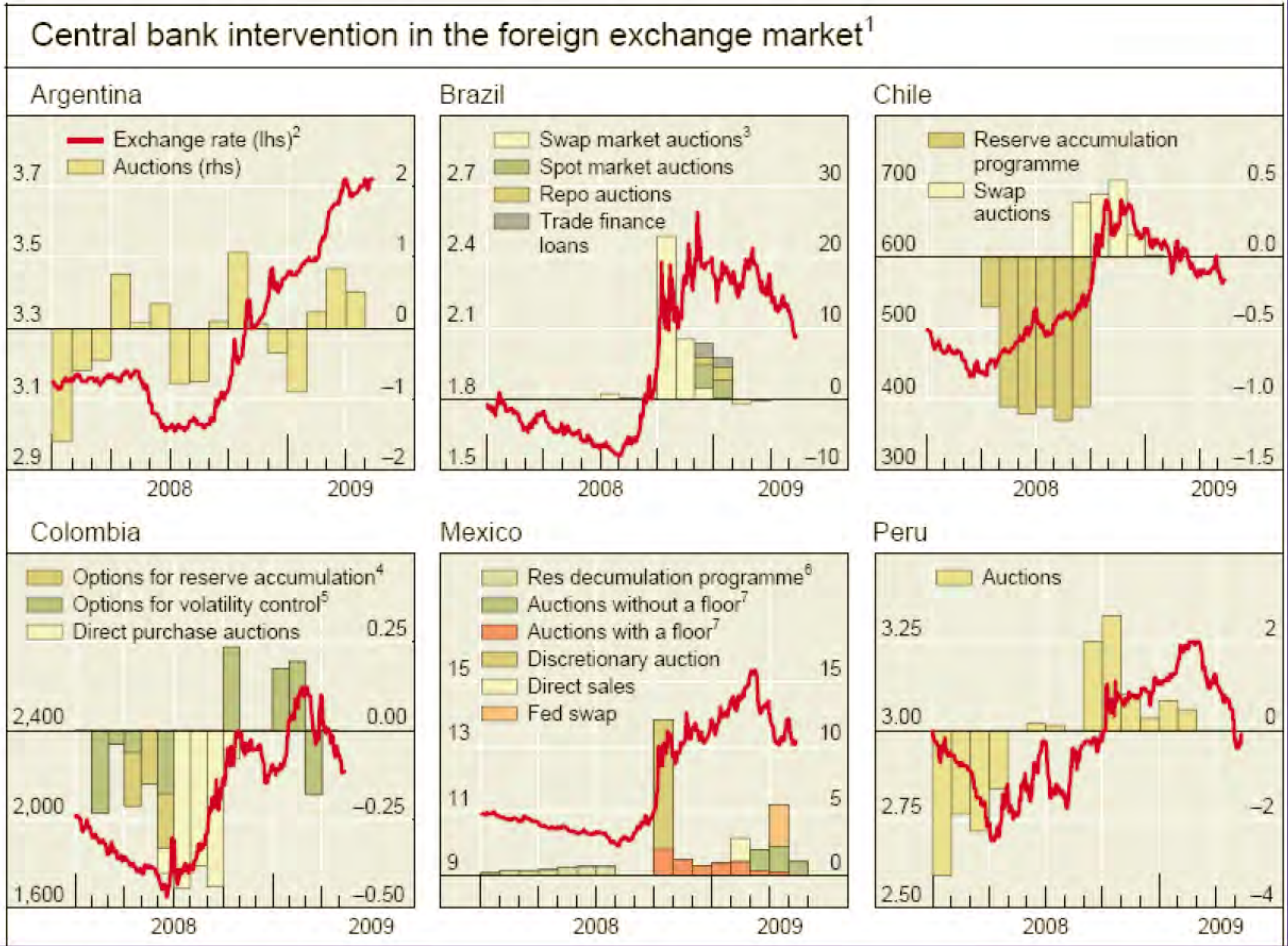


The combination of these shocks provoked a deep contraction in the last quarter of 2008 and 1st of 2009 But recovery is under way thanks to….



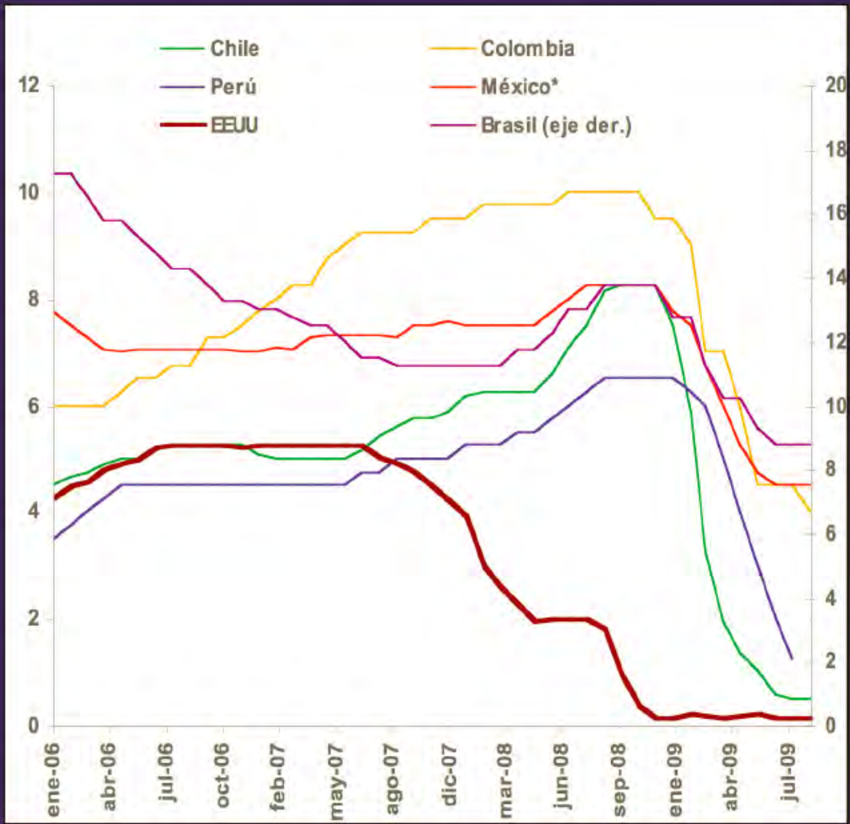
Source: J.P. Morgan

Reserve accumulation in 2003-08 allowed timely intervention during the crisis (currency depreciation also helped)

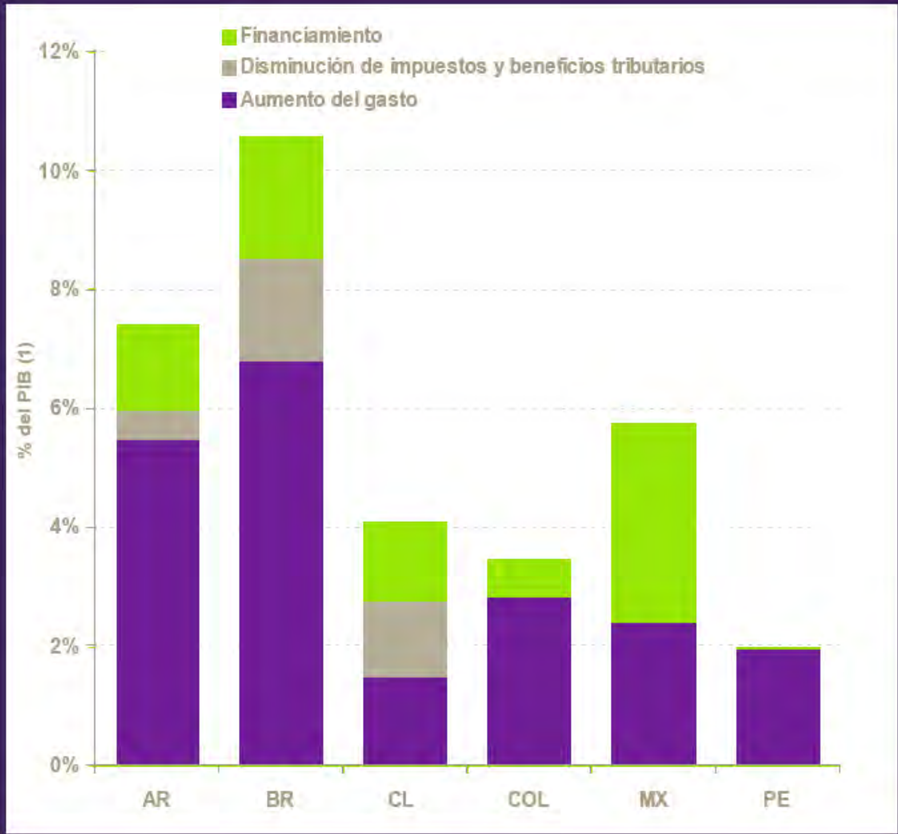


Better fundamentals allowed pro cyclical monetary and fiscal policies

Evolución de los tipos de interés de política
(% del PIB)

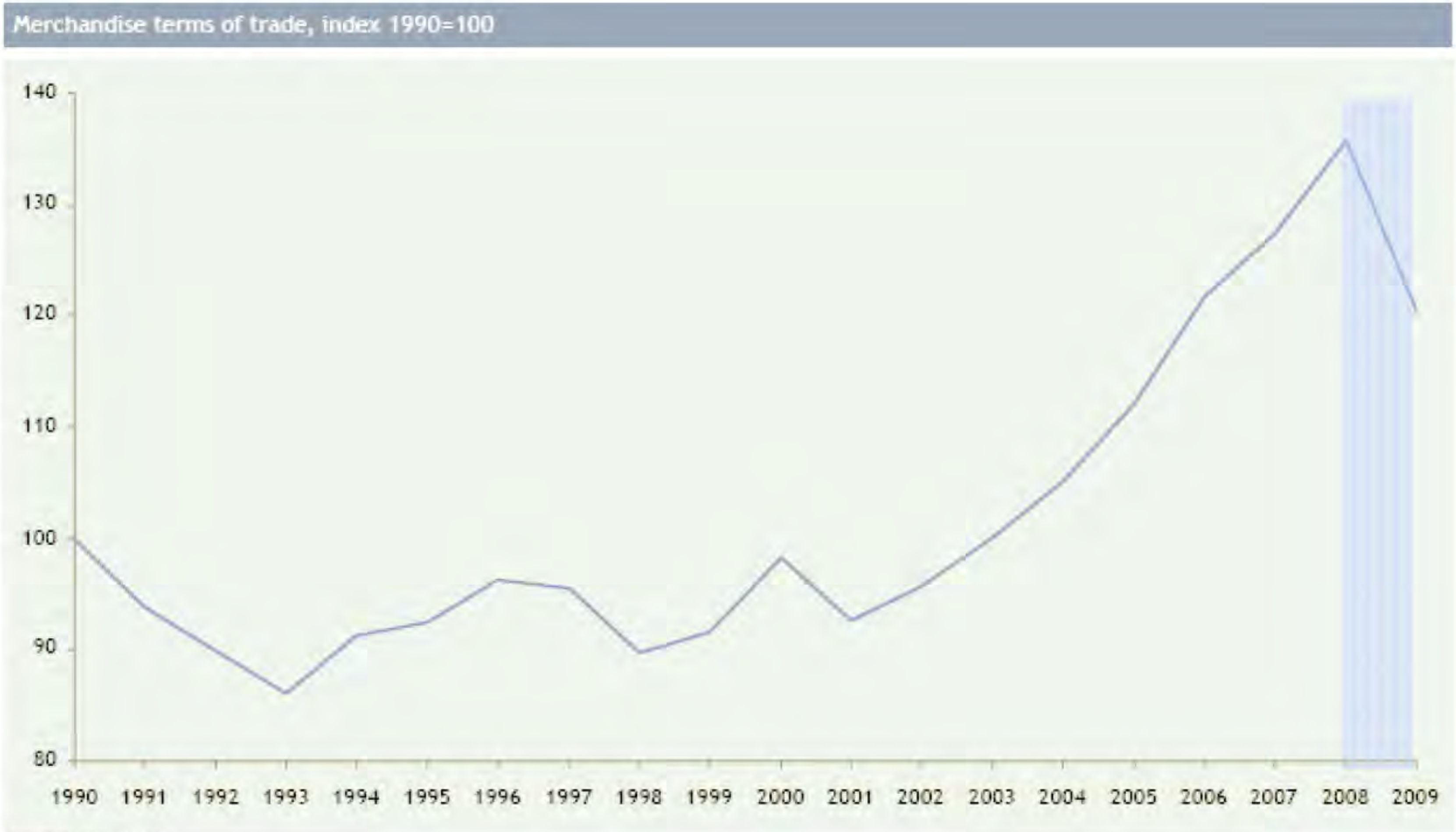


Costo fiscal de los estímulos anticíclicos programados para 2009
(% del PIB)



Fuente:CAF con base en Bancos Centrales y CEPAL

And terms of trade are still high compare to historical levels



Source: J.P. Morgan

Toward a new IFA

- Why we need a new IFA?

  - Recent crisis was provoked by development countries imbalances; we need to enforce macro-policy coordination at global level.

  - Improved financial supervision and regulation specially for systemic risk assessment. Avoid procyclicality of financial markets.

  - Recent crisis also show that propagation of a financial shock could be reduced when timely credit lines for liquidity purposes (with no conditionality and “ready to use”) are set up. (Examples: swaps between the Federal Reserve and Brazil, Mexico, Korea)

Toward a new IFA

- Why we need a new IFA?

- All these policies cannot be introduced unilaterally by countries; strong gains of policy coordination to avoid negative externalities (example, too much savings).

- As it stands, actual IFA (say, IMF) is not prepared to do the job. We need a more balanced governance were developed countries feel also the pressure to reform.

- G20 decisions and commitments in this area are a good first step, but how this will evolve into a new IFA structure and governance it is still open.

- So the question is: Could Regional Integration Agreements help in this transition?

Is there a role for regional integration agreement in facilitating the reform of IFA?

- Whatever the initial purposes of most RIAs they are in practice mostly trade agreements.
- In LA, Mercosur has advanced little beyond trade matters (the same for NAFTA).
- Attempts at formal mechanisms of macro policy coordination have gone not too far.
- Even in the recent crisis you didn’t see any special role played by these RIAs in coordinating initiatives to fight the crisis (on the contrary it seems that they even not helped to avoid trade disruptions and protectionism; (i.e Mercosur and CAN)
- It is not clear whether the fact that Argentina and Brazil belong to Mercosur make their participation in the G20 any different.

Is there a role for regional integration agreement in facilitating the reform of IFA?

But beyond the problem of lack of commitment of RIAs to macro issues we have the following:

- The sort of public good that need to be provided by the new IFA goes well beyond the regional sphere.
- Some of the shocks that need to be smoothed need cross regional cooperation in macro matters.
- I think it is good to separate things; we need RIAs to enforce trade openness at the regional and global level (together with the WTO).
- We need a new IFA to enforce macro coordination policies at the global level, to set short term credit lines for liquidity purposes, and to propose and enforce new standards in financial supervision.
- One potential side effect of the new regulatory framework that need to be avoided: dry out of financing for long term development.
- One way to go at the regional level for improving IFA is to strength regional development banks. But these are not directly linked to RIAs (i.e. CAF)