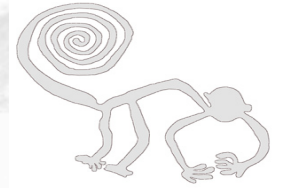


The Political Economy of Integration Agreements and the Crisis: Coping Strategies for Small States

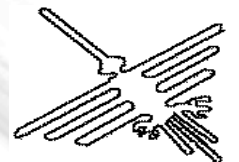
Carol Wise
University of Southern California

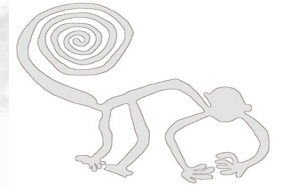




Summary

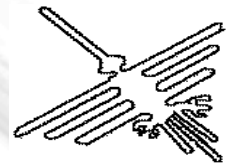
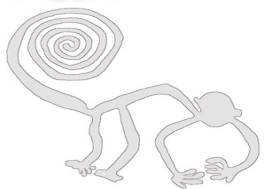
- Burden of the crisis has fallen on international trade
- Financial sectors and GDP growth took a hit but are rebounding quickly
- The crisis has helped to highlight reform success and effective strategies already underway
- My focus: Chile & Peru

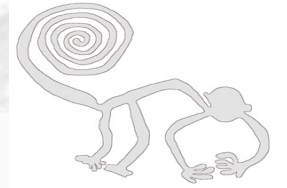
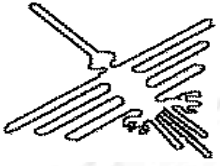




Summary: Chile & Peru

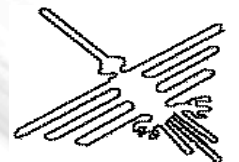
- Unilateral trade liberalization (Chile 1970s, Peru 1990s)
- Pro-active approach to bilateral & mini-lateral trade negotiations/agreements
- Simultaneous reform and modernization of services
- Liberal FDI regime

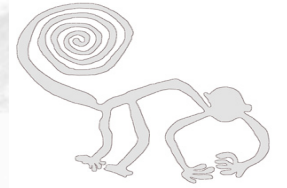




Export-led Development Model

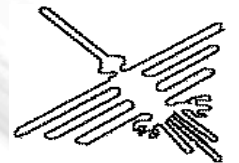
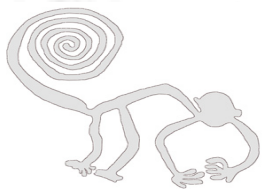
- Chile:
 - FTAs with Australia, Canada, China, Colombia, Costa Rica, El Salvador, Honduras, EFTA, Japan, Mexico, MERCOSUR, Panama, Peru, Republic of Korea, U.S.
 - Economic Association Agreements with Brunei, New Zealand, Singapore, EU
 - Partial Preferential Agreements: India, Peru, Ecuador, Colombia, Venezuela, Bolivia, Argentina





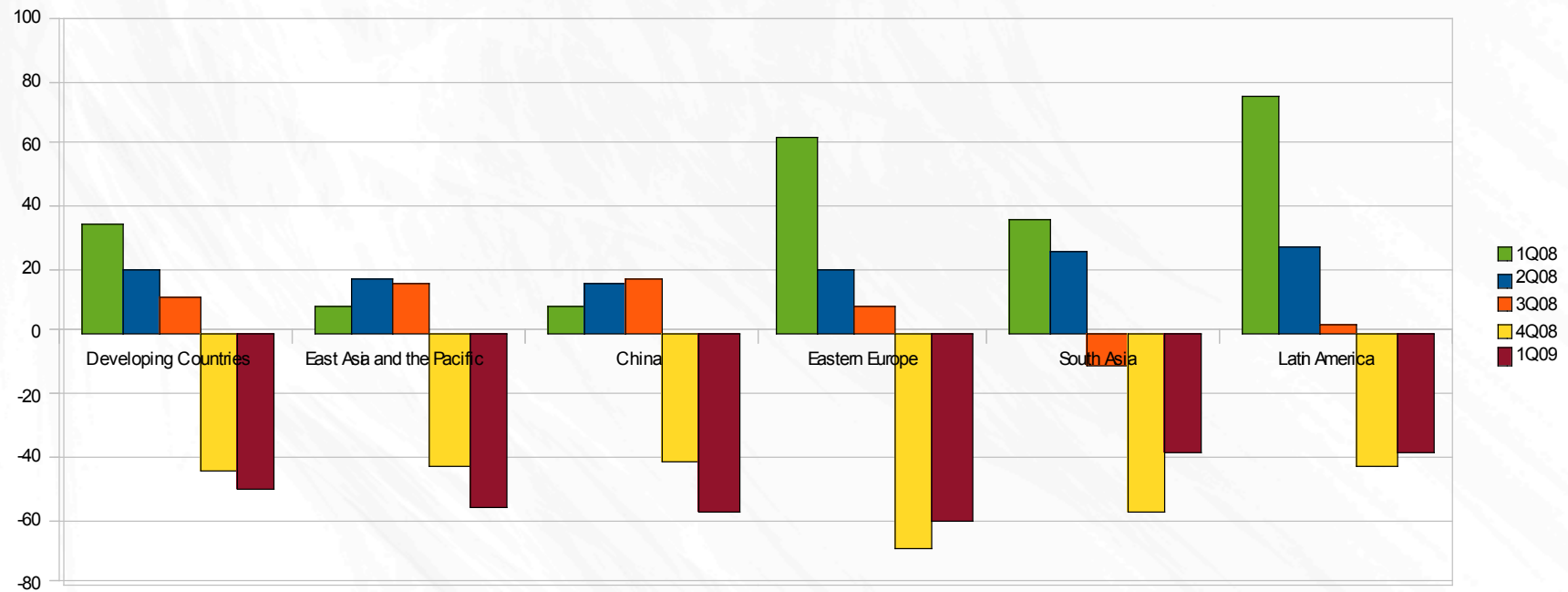
Export-led Development Model

- Peru:
 - FTAs: Canada, Chile, Singapore, U.S., (Signed but not yet in force: China, Thailand)
 - Framework Agreements: MERCOSUR-Peru, MERCOSUR-Andean Community
 - Partial Preferential Agreements: Andean Community – Argentina, Andean Community – Brazil, Chile, Cuba, Mexico



Merchandise Export Growth

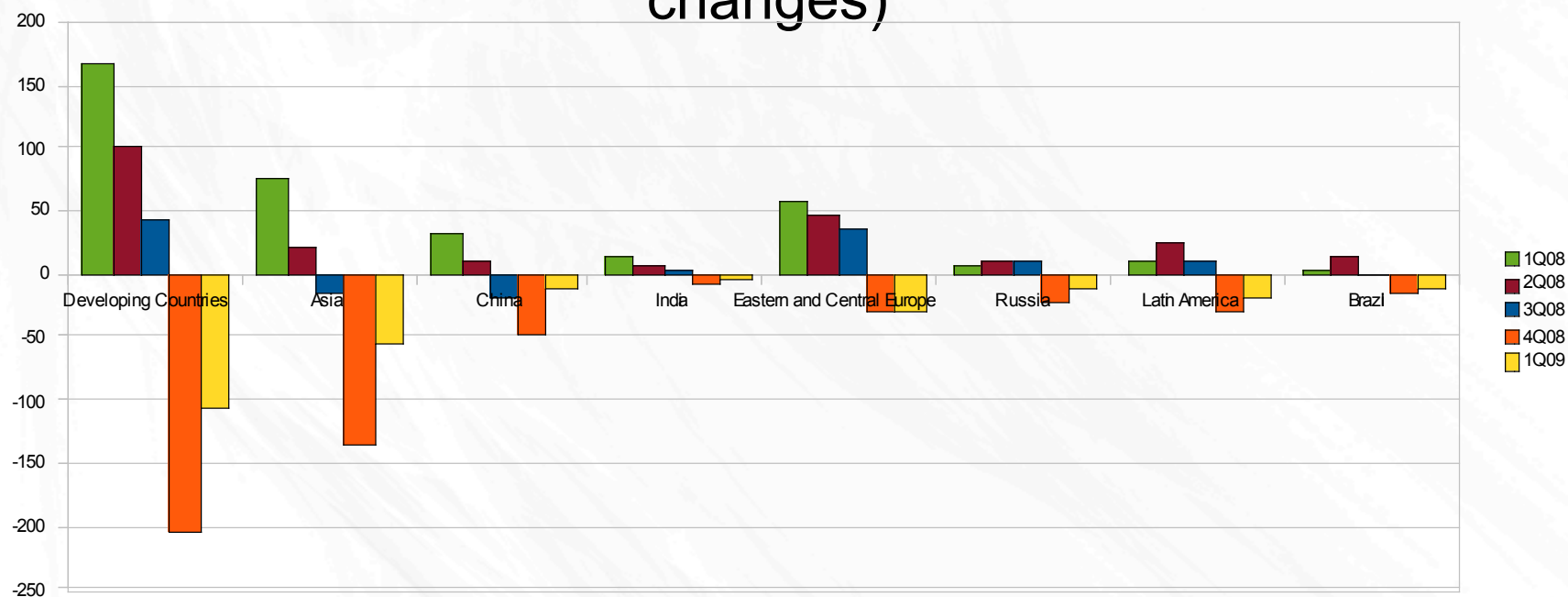
(percentage change in US\$, seasonally adjusted annual rates)



ECLAC – Latin America: the missing financial crisis p.12

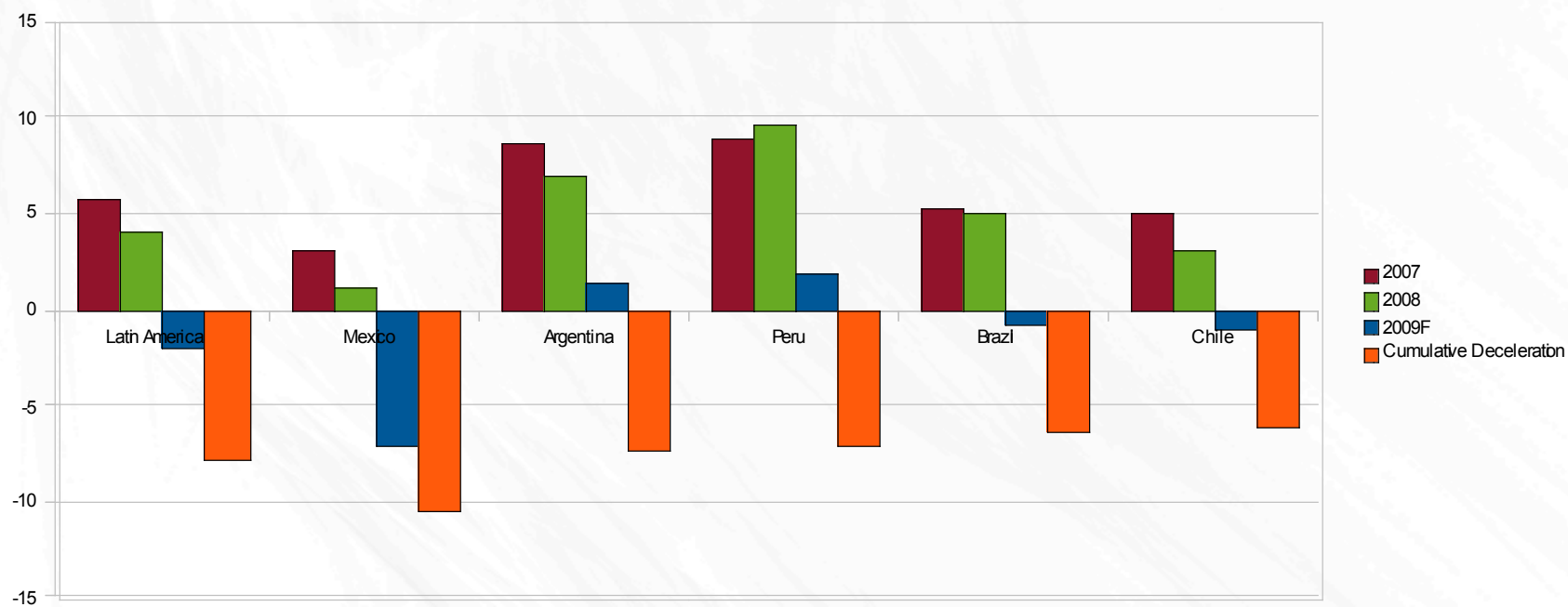
International Bank Loans Outstanding

(change in billions of US\$ adjusted for exchange rate changes)



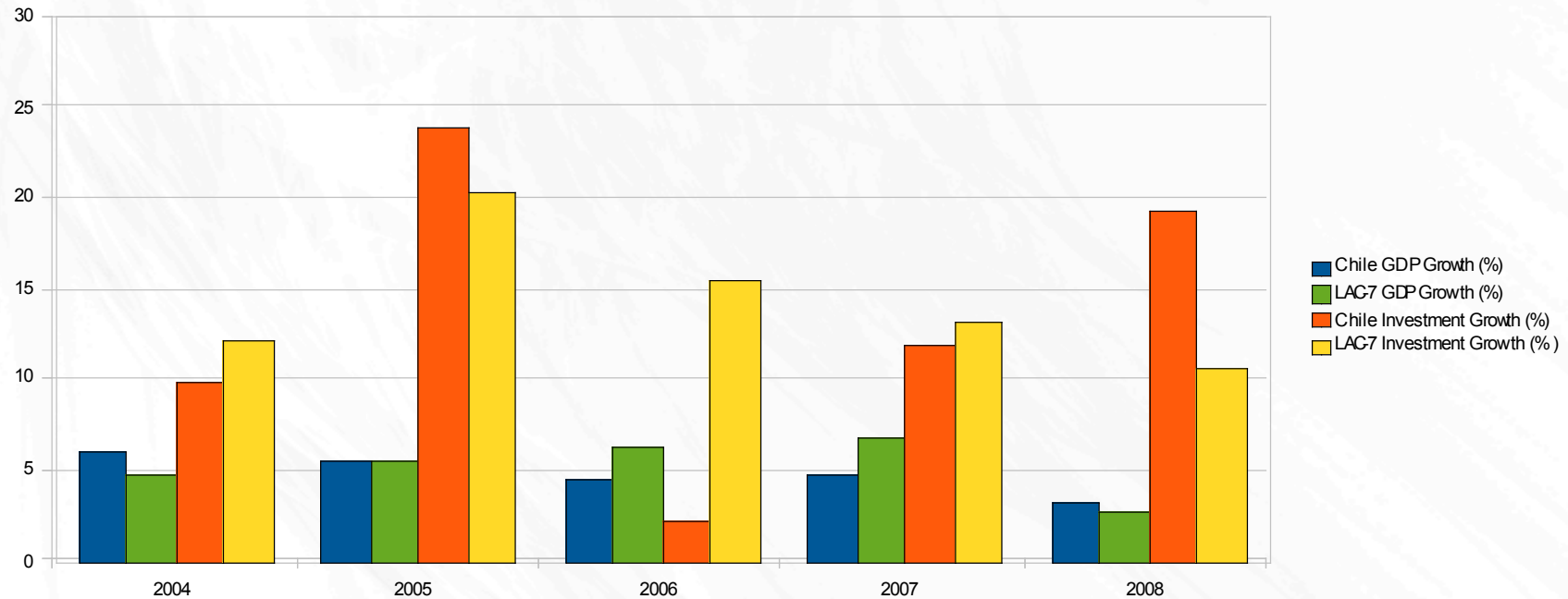
ECLAC – Latin America: the missing financial crisis p.12

Latin America's GDP Growth Deceleration (percentage)



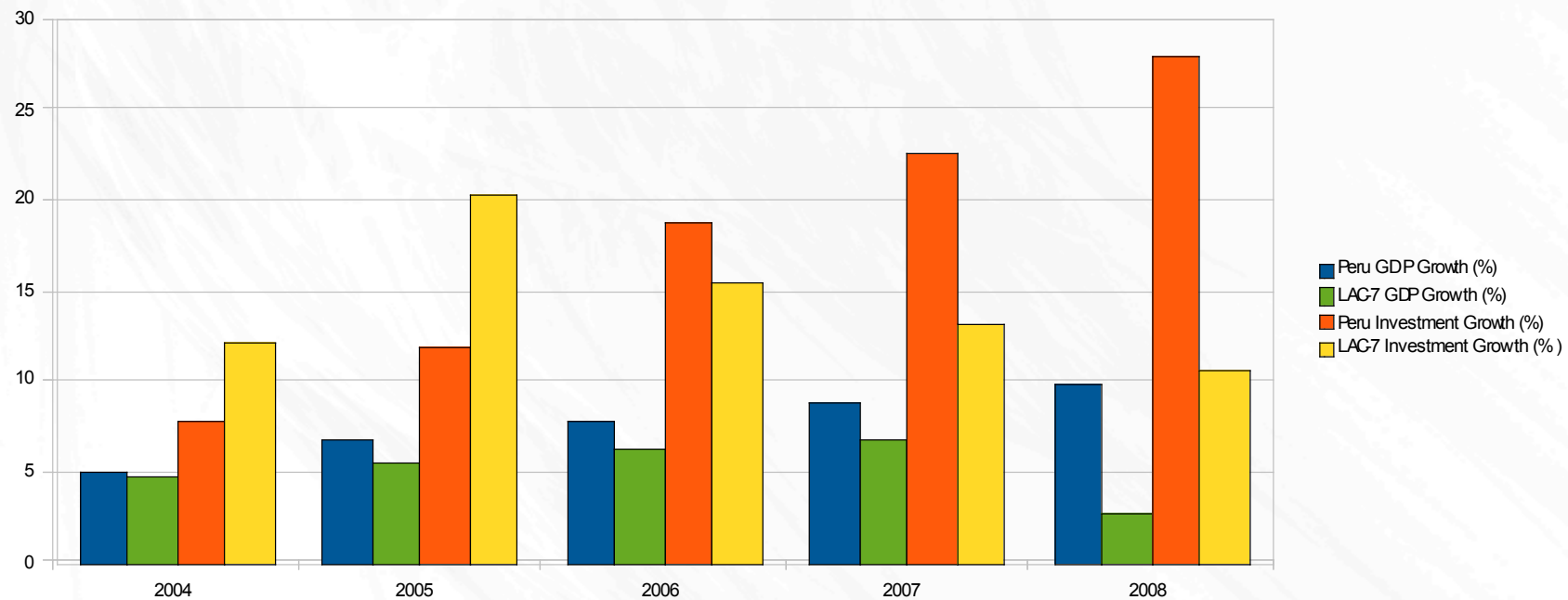
ECLAC – Latin America: the missing financial crisis p.17

Chile vs LAC-7 GDP Growth and Investment Growth



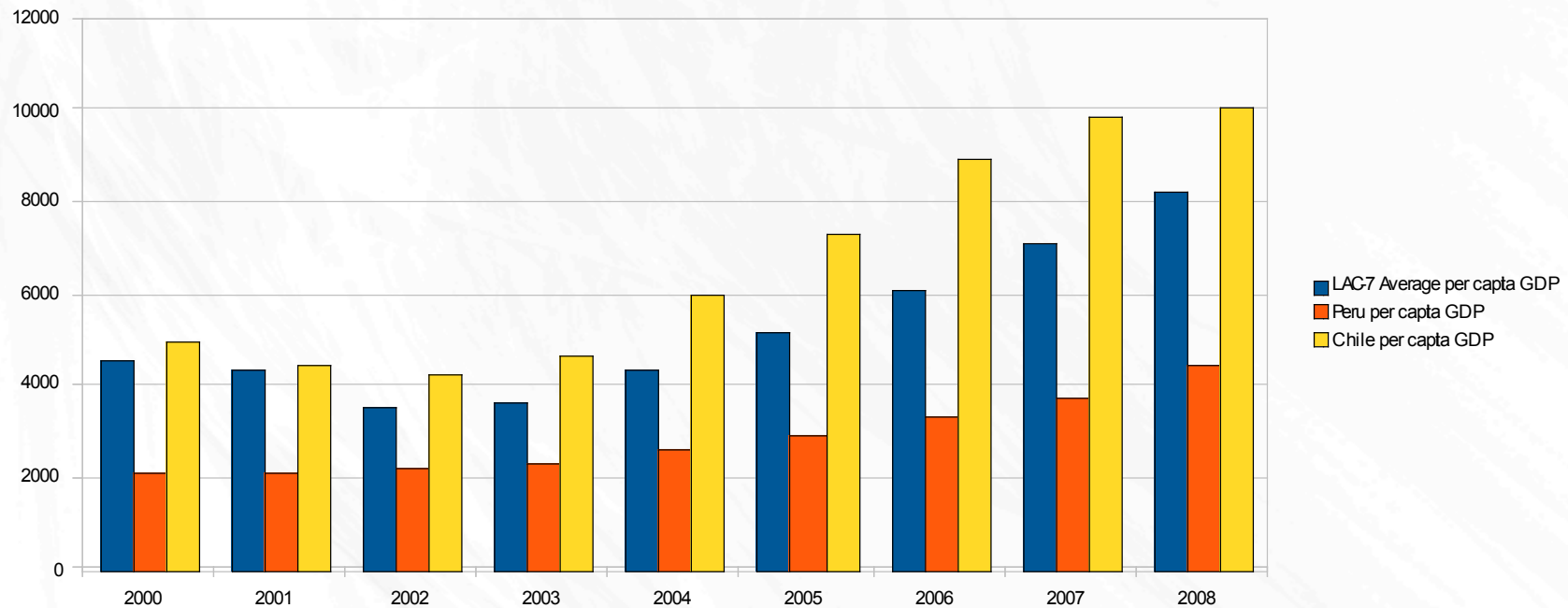
IADB - Latin American and Caribbean Macro Watch Country Table

Peru vs LAC-7 GDP Growth and Investment Growth



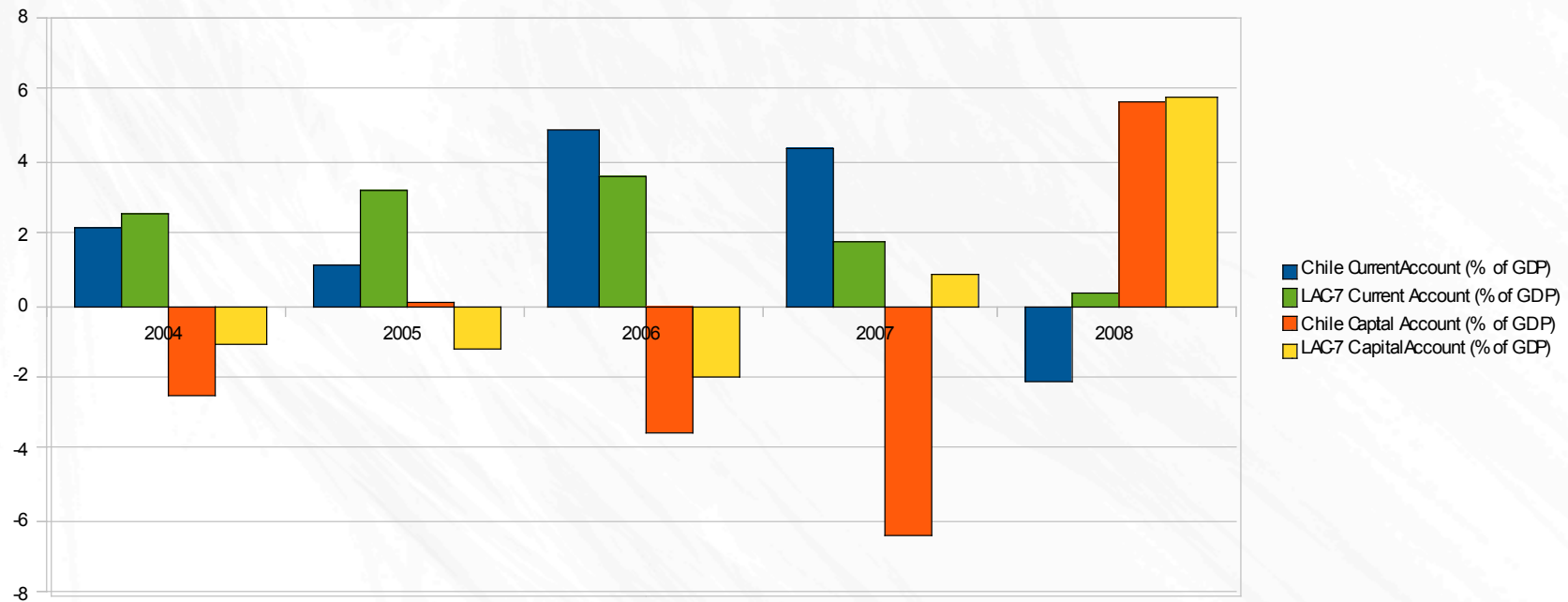
IADB - Latin American and Caribbean Macro Watch Country Table

LAC-7, Peru, Chile: GDP per capita



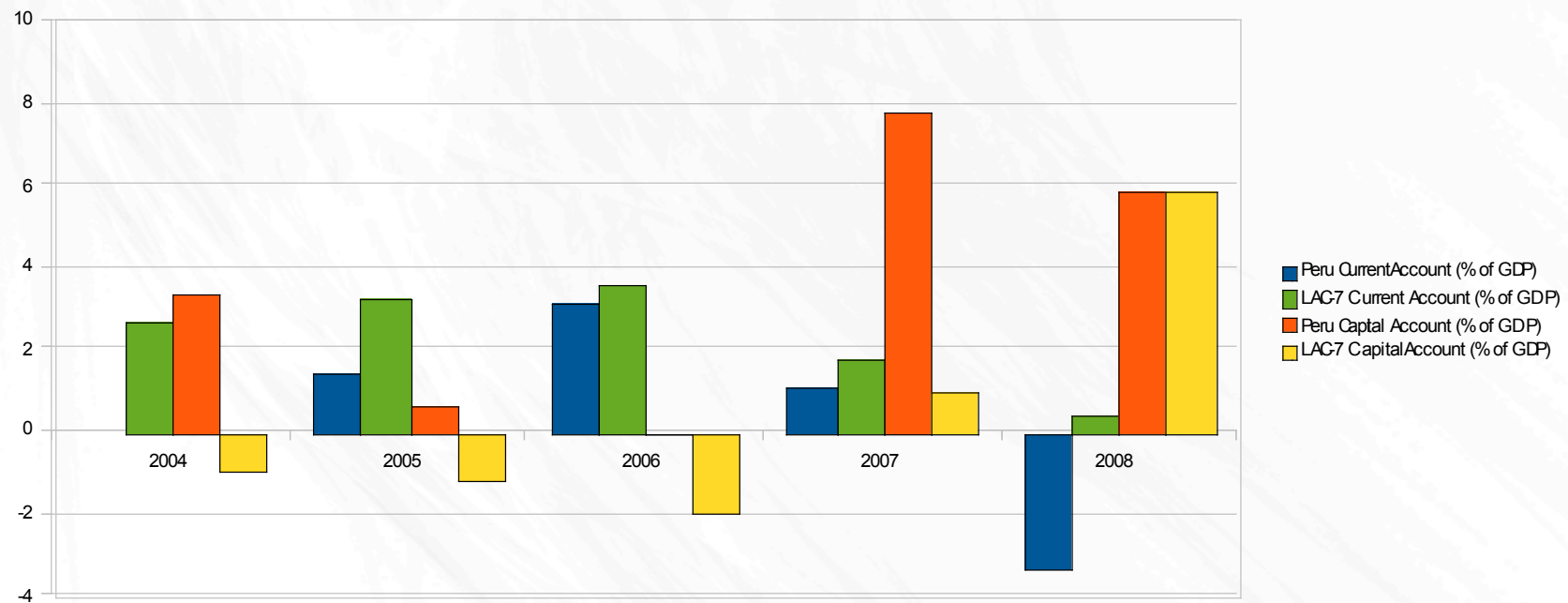
IMF - World Economic Outlook Database

Chile vs LAC-7 External Accounts



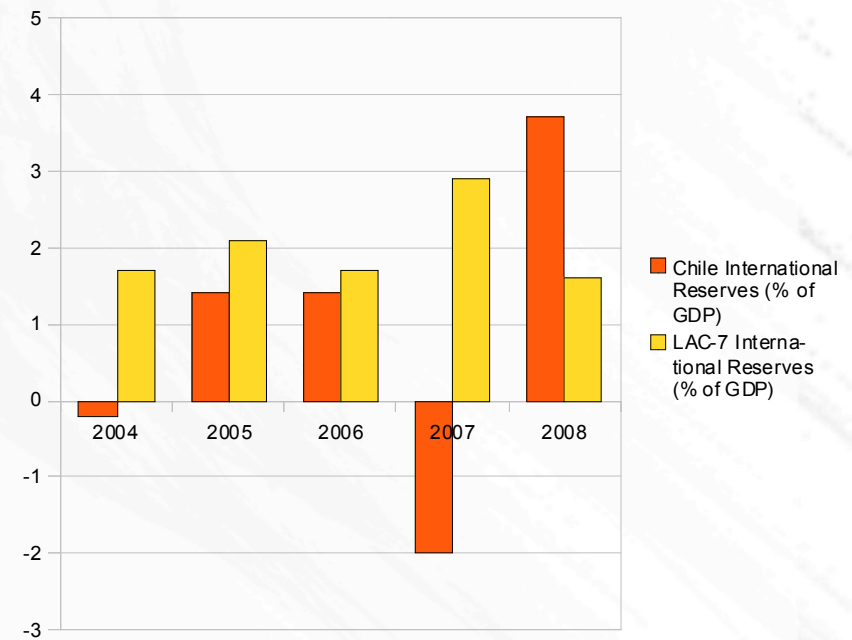
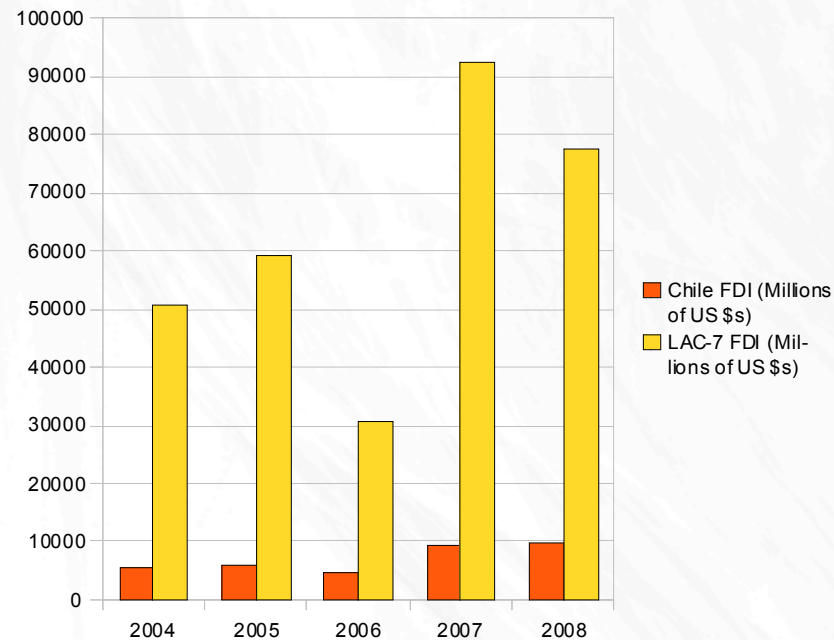
IADB - Latin American and Caribbean Macro Watch Country Table

Peru vs LAC-7 External Accounts



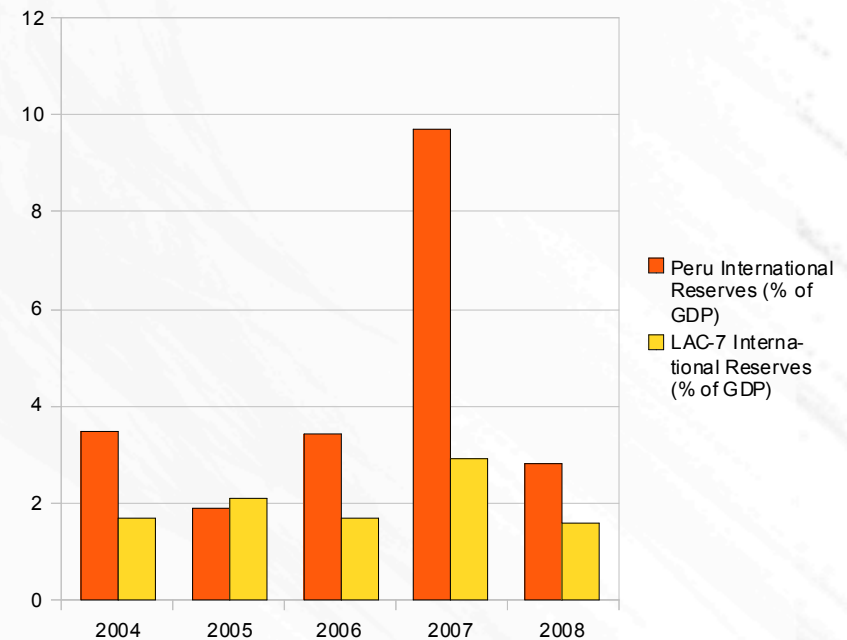
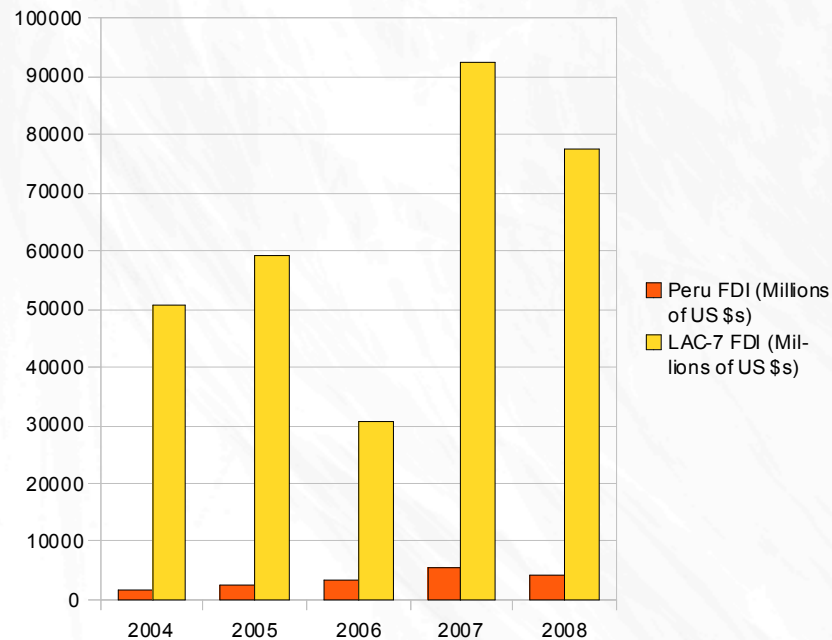
IADB - Latin American and Caribbean Macro Watch Country Table

Chile vs LAC-7 FDI and International Reserves

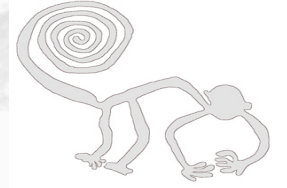


IADB - Latin American and Caribbean Macro Watch Country Table

Peru vs LAC-7 FDI and International Reserves

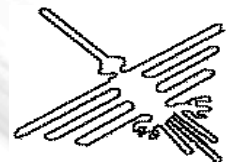
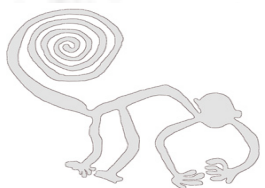


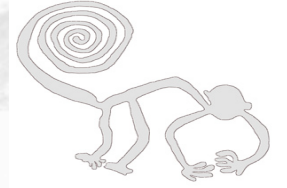
IADB - Latin American and Caribbean Macro Watch Country Table



Coping Strategies with FTAs

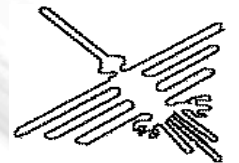
- Pragmatically negotiating over “old” & “new” trade agenda within these agreements
- Prime example: each had negotiated separate bilateral FTAs with the two largest markets in the world---the U.S. and China
- In each case, the FTA with the U.S. focuses on the new trade agenda (investment, services, intellectual property)
- While each country's China FTA is primarily about the old trade agenda (market access for primary goods)



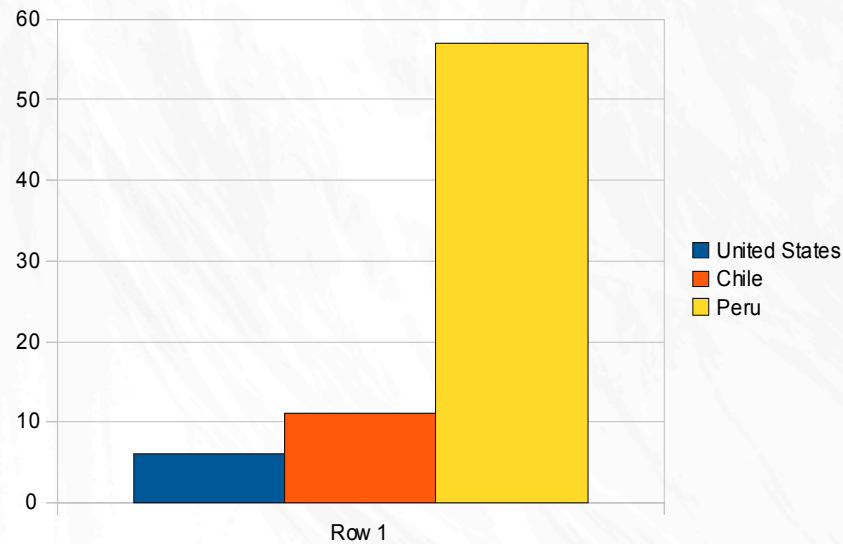


What accounts for this dual approach?

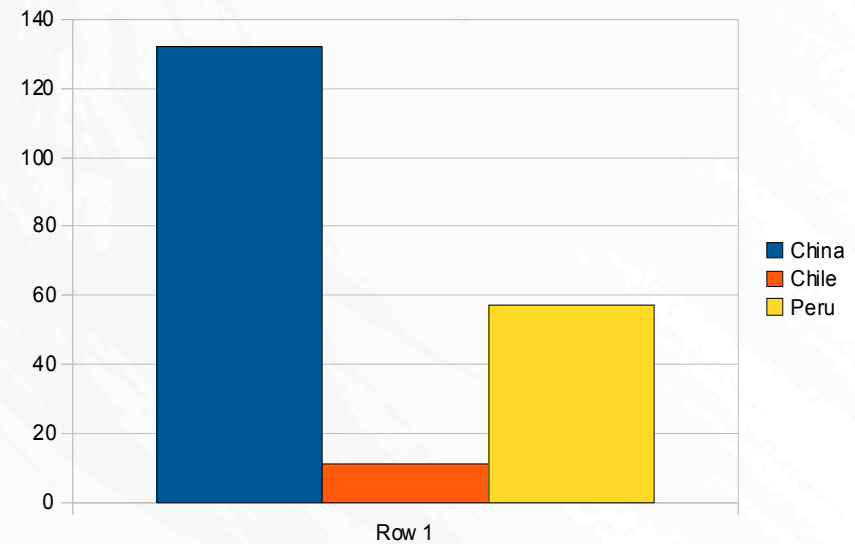
- In China, complementary endowment factors and the very simplicity of these agreements
- With the U.S., ability and willingness of these countries to negotiate the new trade agenda
- In both countries, policy makers are looking to reap gains from previous liberalization and reforms in areas that top the new trade agenda



Economic Freedom Ranking



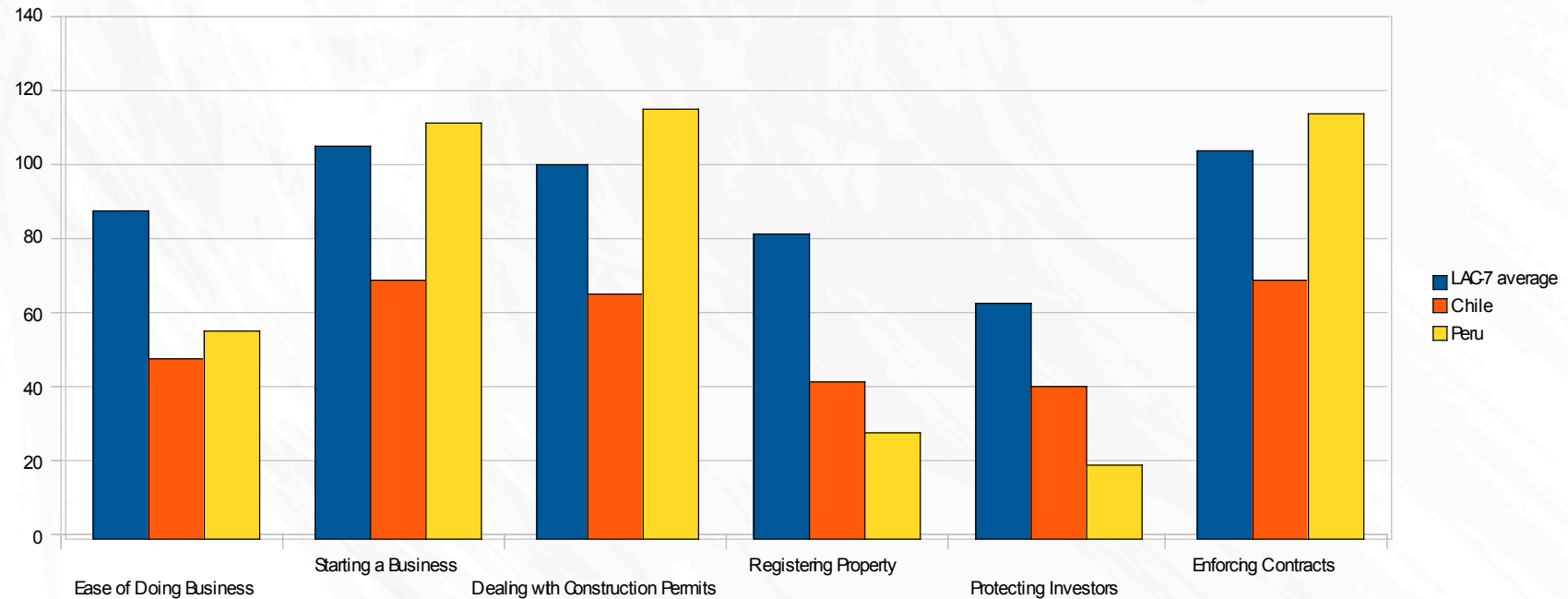
- United States: 6
- Peru: 57



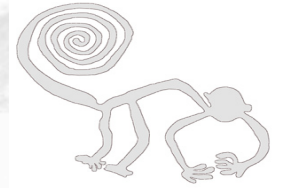
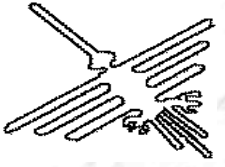
- Chile: 11
- China: 132

Heritage Foundation – 2009 Index of Economic Freedom

Doing Business

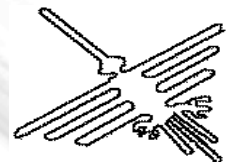
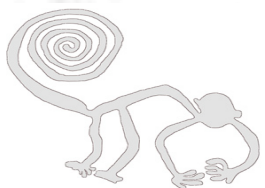


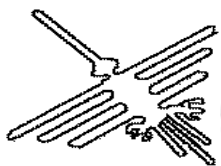
The World Bank Group – Doing Business Economy Rankings



What lies beneath these indicators?

- “Chile's financial system is among the region's and the world's most stable and developed. Banking is efficient, with strict limits on lending to a single debtor or group of related companies. Reforms that include capitalization requirements and shareholder obligations have increased competition and widened the range of operations for banks and other financial services.”

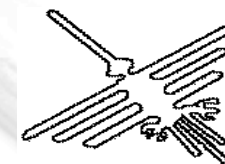


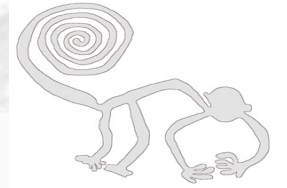


What lies beneath the indicators?



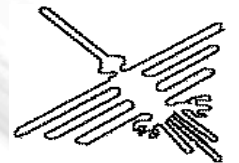
- “Peru's financial sector continues to grow, becoming more competitive in providing a wide range of financial services for domestic business activity. The banking sector has undergone a transformation through consolidation. Credit to the private sector has increased steadily, and non-performing loans have declined to less than 5 percent of total loans. The government has strengthened prudential standards and disclosure requirements. Credit is allocated on market terms, and foreign investors can obtain credit in the domestic market.”

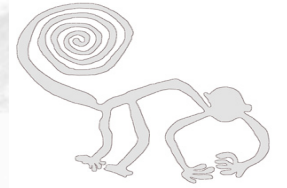




Conclusions, Coping Strategies

- Countries in the region are reaping the gains from prior liberalization, deregulation, reform
- In the case of Chile and Peru, we see a proactive approach toward advancing on both the old and the new trade agenda
- Bilateral FTAs with China and the U.S. have proved to be effective coping tools vis-a-vis the recent crisis





In the medium run.....

- This is the most effective way for these states to counter the stagnation in trade negotiations at the multilateral level
- Could this be a possible path forward for other small open growing economies on the move?

