

# *brevíssimos cindes* 01

## **Trade and development: the rising importance of sustainable development in the Latin American trade agenda**

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In developed countries, there are clear trends indicating the growing link between the socio-environmental sphere and both the unilateral trade policies of these countries as well as other policies and standards applicable to the goods market. Such trends have gained strong internal legitimacy in these countries, so much that their consolidation and diffusion is expected over the upcoming years. This phenomenon can be observed not only in relation to the environmental and labour agendas, but also more recently in the climate change agenda.

In the trade forums, Latin American countries have historically adopted a defensive stance when it comes to topics related to sustainable development, primarily in terms of the ties between trade and environmental and labour issues. Generally speaking, countries from the region see protectionist intentions behind the efforts to link these topics to trade negotiations.

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However, the situation of such countries has changed significantly over recent years. On the one hand, several countries in the region accepted the inclusion of chapters dedicated to environmental and labour topics in the free-trade agreements (FTAs) they signed with the United States and Canada. The level of demand defined by such agreements has increased gradually, as it can be confirmed through a comparison between some of the older agreements (NAFTA, for example) and the more recent ones (the agreement between the United States and Peru).

The four countries covered in this work have experienced, in different rhythms and intensities, the liberalization of their trade and investment regimes over the past decades. In Argentina and Chile, such processes began in the 1970s, gaining ground in both cases in the 1990s. In Brazil and Peru, the liberalization of the trade and investment regimes peaked in the 1990s. The trade liberalization was more intense in Chile and Peru than in the other two countries and the liberalization of the investment regime was particularly intense in Peru and Argentina in the 1990s.

But it was not only the rhythm and intensity of the liberal reforms that varied by country. The economic integration strategies of the four countries were also different.

Chile combined growing unilateral trade liberalization with the negotiation of ambitious free trade and investment agreements with its main trading partners. The negotiations of these agreements with developed countries included sustainable development topics (environment and labour standards). Furthermore, the country signed bilateral investment protection agreements with several different countries.

Peru did not participate in preferential agreements - with the exception of its participation in

the Andean Community - while it experienced unilateral trade liberalization and the reform of the international investment regime in the 1990s. During this period, several bilateral investment protection agreements were signed by the country. It was only during the current decade that Peru began to negotiate preferential free trade agreements with developed and developing countries, further implementing (through the preferential path) the liberalization initiated unilaterally in the 1990s. Similarly to what happened in Chile, the negotiation of free trade agreements with developed countries required Peru to address the links between trade on the one hand, and the environment and work standards on the other.

Brazil and Argentina implemented unilateral trade openings at the start of the 1990s, and after this period, they became the main partners on a sub-regional integration project—MERCOSUR—but did not sign any relevant preferential agreements with countries that are not members of the block. Argentina signed dozens of bilateral investment protection agreements, while Brazil signed but did not ratify some fifteen of the same. The sustainable development topics were not included in the trade agenda of these two countries and were only addressed on a marginal level within the sphere of MERCOSUR.

During the period in which liberal reforms were implemented into their trade and investment regimes, the four countries experienced strong growth in terms of their exchange with other countries. This exchange was also marked by differences in rhythm and intensity. In Brazil, for example, exports only grew after 2002, following a decade of mediocre growth of its international sales. In the other countries there was also quite a significant expansion in the trade flows primarily in Peru and Argentina over recent years.

All of the region's countries saw their exports benefit from the increased growth of China over recent years. This factor helps explain not only the dynamic nature of the aggregate exports of the four countries, but also the especially positive international sales performance of the agricultural (Brazil and Argentina) and mineral (Chile, Peru and Brazil) commodities.

There are certain characteristics of the countries mentioned here that tend to "push" sustainable development topics into their trade and investment agendas, even when the government's official position refuses to accept such a link.

One of these characteristics is the concentration of exports in those sectors requiring the intensive use of energy and natural resources, joining the environmental and climate change agenda with that of trade and investment. The simple fact that the countries of the region are internationally specialized in sectors with intensive natural resource use makes them vulnerable to the establishment of voluntary or compulsory unilateral rules in the importing countries.

On the other hand, the continued practice of archaic work relations and the weight of informal work in these economies make them vulnerable to the establishment of labour standards, primarily if those forms of work and jobs occur in the exporting sectors (or in the chains in which these participate). Among the countries considered here, this risk mainly affects Brazil and Peru—the first through the agricultural chains (ethanol and orange juice) and the mining-metallurgical sectors that use plant-based raw materials (coal).

Combined with the acknowledged deficit in the implementation of environmental and labour policies in the region, these characteristics served as the basis for a defensive posture by the region's governments and business sectors when it came to introduc-

ing sustainable development topics into the trade and investment agendas.

In the case of Chile and Peru, the government evaluation favorable to a trade off between guaranteed preferential access to the major Northern market (the United States) and the adoption of obligations in these areas reduced the level of public and private sector resistance to the inclusion of such topics in trade negotiations. In Brazil and Argentina, which did not close any trade agreement with developed countries, the government posture did not budge.

As a result of these changes, the main force behind the link between the sustainable development and trade agendas in Chile and Peru were the trade agreements these countries signed with the United States. The link is driven through a government initiative that redefines positions and coalitions in the private sector.

In Brazil, the measures and criteria unilaterally applied by importers for the products exported by the country played a similar role and, over recent years, international investments (including Brazil's investments abroad) have served a similar function. In the case of this country, however, the topic is essentially private due to the government's refusal to admit the link between the two agendas.

Another of Brazil's distinctive traits appears to be the increased number of national policies in the areas related to sustainable development over recent years, regardless of any immediate external constraint or "demand". In Chile and Peru, this process was closely related to the dynamics of the trade negotiations, while in Argentina the main force behind the association between the two agendas did little to mobilize society and consumers, remaining a topic whose discussion was restricted to only a few major players within the national sphere.

***Two final comments:***

- regardless of their positions in relation to the link between environmental and trade topics, the governments of the region are already dealing, in fact or potentially, with the issues raised by them. Multilateral environmental agreements have explicitly trade-centred provisions and the WTO norm addresses this link whether through GATT Article XX or through the provisions of different specific agreements, such as GATS and Agreement on Sanitary and Phytosanitary Measures, among others. With the expansion of the climate change agenda, this interaction will likely become more intense over the years to come.
- three of the four countries considered here are part of sub-regional integration systems. The sub-regional standards in the environmental and labour areas had no importance for any of them as a force behind the link between the sustainable development and trade agendas.