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COMMUNITY OF LATIN AMERICAN AND CARIBBEAN STATES AS A NEW REGIONAL BLOC IN THE WORLD ECONOMY

В данной статье проведен обзор экономических проблем, с которыми сталкиваются страны Латинской Америки и Карибского бассейна за последние десятилетия, а также анализ причин этих проблем и прогнозы развития экономических показателей стран данного региона. В статье также рассмотрены причины создания организации CELAC, сферы и принципы сотрудничества его участников.

Ключевые слова: интеграция, финансовый коллапс, региональная организация, мировое хозяйство.

У поданій статті зроблено огляд економічних проблем, із якими стикаються країни Латинської Америки та Карибського басейну за останні десятиліття, а також проаналізовано причини цих проблем та прогнози розвитку економічних показників країн зазначеного регіону. У статті також розглянуті причини створення ініціативи CELAC, сфери та принципи співробітництва його учасників.

Ключові слова: інтеграція, фінансовий колапс, регіональна організація, світове господарство.

In the article a lot of economic problems of Latin America and the Caribbean countries over the past ten years have been considered, some reasons of these problems have been analyzed and countries economic activity has been predicted. Also the reasons for CELAC organization creation, the sphere and principles of its participants' cooperation have been studied.

Key words: integration, financial collapse, regional organization, global economy.

The global economy continued to show two-tier growth, with the developed countries expanding more slowly than the emerging economies. Global activity seemed to be staging a slow recovery during the first half of the year led by growth in the emerging countries, while some developed economies managed to sustain a positive, albeit very low, rates of growth [1].

In 2011after a brisk recovery from the economic and financial crisis of 2008-2009 the economic growth of Latin America and the Caribbean slowed. As in the two previous years, however, economic performance has been uneven from one subregion to another: GDP growth is expected to be 4.6% in South America, 4.1% in Central America and 0.7% in the Caribbean. External conditions remained benign for the Latin American and Caribbean economies during the first part of the year. Strong demand for the region's exports pushed up export volumes and rising international commodity prices underpinned a fresh gain in the terms of trade. In addition, abundant global market liquidity, combined with the positive economic and financial expectations prevailing for many of the countries of the region, facilitated relatively advantageous access to external financing. Domestic demand remained buoyant thanks to positive labour market trends, readily available credit and good expectations regarding the economies' performance [1].

In this context, the Latin American and Caribbean countries had to deal with a number of challenges which arose to a greater or lesser degree depending on their structural characteristics. The first of these challenges was entry of large capital inflows in the form of both foreign direct investment (FDI) and portfolio investment, fuelled by interest rate spreads between markets in the region and in developed economies traditionally perceived as low-risk, together with the positive growth outlook and limited risk perception for the Latin American countries. Partly as a result of this, early in the year currencies in the region came under strong upward pressure (although with significant differences from one country to another), which eroded the competitiveness of all tradable activities other than commodity based production [1].

Second, similarly to the pattern in 2008, international prices surged for many commodities, including foods, minerals, metals and hydrocarbons, chiefly owing to strong global demand driven by several Asian economies. Although this was a positive development for the external accounts of the region's commodity-exporting countries, it also helped to drive up consumer prices, especially for these same products or others which use them as inputs. But with domestic demand burgeoning as well, prices for products reflected in core inflation also rose fairly steadily. Lastly, in several countries the economic recovery of 2010 and 2011 was sustained in part by the countercyclical policies implemented to offset the impacts of the economic and financial crisis of 2008-2009. This posed the challenge of rebuilding the countercyclical policy space needed to ride out future downswings, while also dealing with the issues mentioned above without dampening the economic upturn which, in many countries, had been fuelled by expansionary macroeconomic policy. Accordingly, facing mounting inflationary pressures, upward currency pressure and the need for investment and growth, administrations in the region had to deal with certain trade-offs. In this connection, the mix of policies implemented varied from one country to another [1].

Starting mid-year, the markets began to show mounting uncertainty over the course of the world economy, especially the debt crisis in a number of euro area countries and, to a lesser extent, the sluggish growth and macroeconomic management of the United States economy and doubts over the ability of the Asian economies to offset the slower growth in these regions. This fed growing volatility in the international financial markets and dampened growth expectations for Latin America and the Caribbean, generating fresh challenges for the authorities. The prospect of slackening external demand had a negative impact on international commodity prices, which dropped back from the year's high point in the second semester, especially in the cases of metals and some agricultural commodities. The external context became more complex as of September, owing to worsening economic conditions in the euro zone and the difficulties of the governments and authorities concerned in managing the debt crisis. The complex external context began to threaten domestic demand in Latin America and the Caribbean as well, owing to its impact both on gross national disposable income and on business and household expectations in the countries.

Amid growing uncertainty in international financial markets over the outcome of the debt crisis in several euro zone countries, capital flows into the region dropped off and risk premiums rose reflecting a flight to quality. The pressure on the currencies also shifted from upward to downward. These developments show that United States Treasury bonds continue to be perceived as a lower-risk investment and suggest that the region would not be immune to a rapid cooling of the global economy. In these circumstances, all the components of demand lost momentum with respect to 2010 and many of the region's countries achieved lower economic growth rates than the previous year [1].

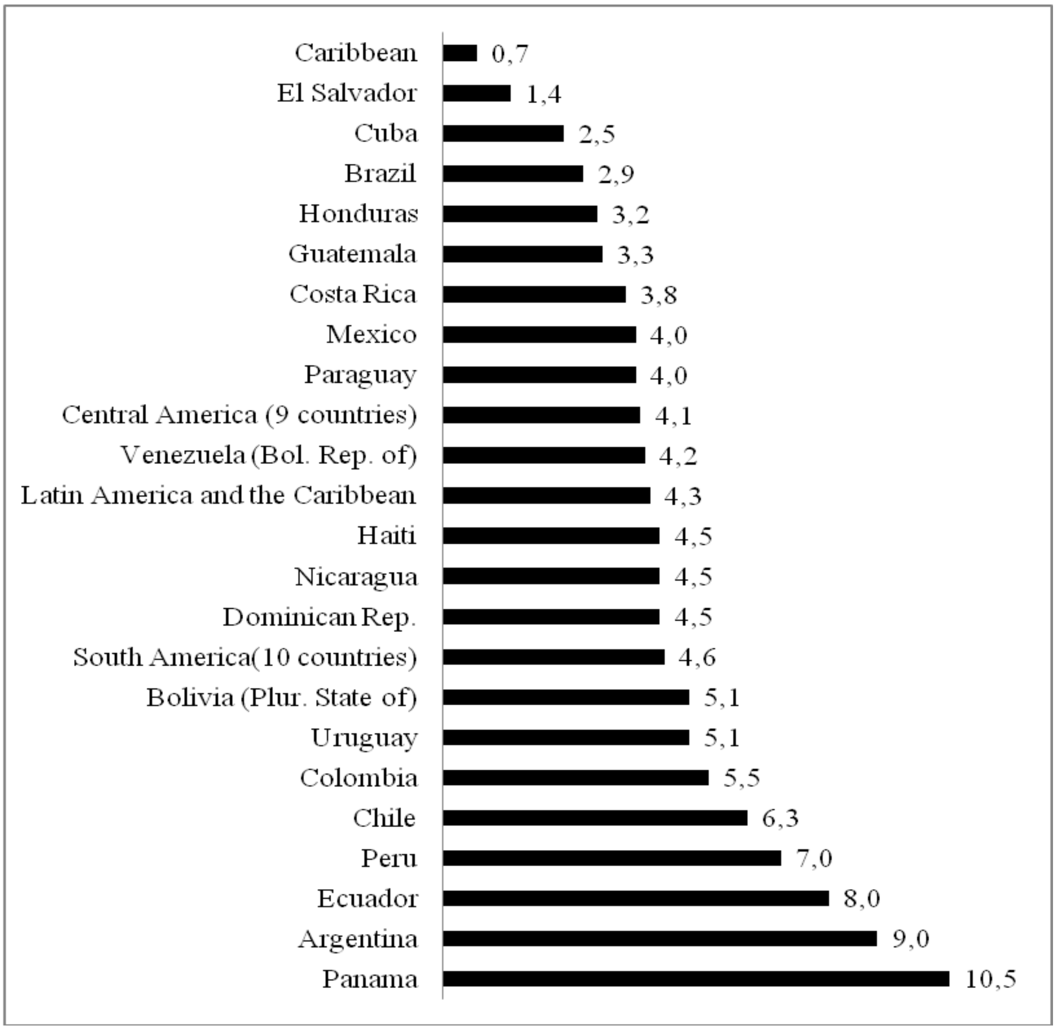

Fig. 1. Latin America and the Caribbean, growth rates in percentage (2011), [1]

Inflation climbed throughout the year, mainly as a result of rising international prices for food and petroleum, but eased in the second semester. Towards the end of 2011 the year-on-year inflation rate was 7%, slightly higher than the figure for 2010. However, the various factors accounting for the pattern of growth at the regional level affected the performance of the countries and subregions in rather different ways. Specifically, the terms of trade which benefited the South American countries and – to a lesser extent – Mexico, worsened for the Central American countries and probably also for some

Caribbean countries which are not large exporters of commodities. Much of the fall in the regional rate of expansion is also explained by the cooling of economic growth in Brazil, which was largely desired and deliberately instigated by policymakers to avoid overheating after the growth surge in 2010. Expectations for 2012 are for slacker growth of the global economy and a heavy dose of uncertainty and volatility in financial markets. In this context, ECLAC forecasts that the region will see its growth slow again – to 3,7% – but will be spared a fresh economic crisis. Nevertheless, the Latin American and Caribbean countries should be prepared for a deterioration in external conditions, especially in view of the risks associated with the euro zone [1].

Throughout the past decade social, political and economic transformations have been taking place through democratic processes in countries such as Venezuela, Bolivia, Ecuador, Nicaragua, Uruguay, Argentina and Brazil. It led to a massive reduction in poverty and income disparity in the region, and a substantial increase in social services, quality of life and direct participation in political process [2].

For promoting integration, cooperation and solidarity amongst neighboring nations at a historic summit in Caracas in December last year a new regional bloc of Latin American and Caribbean states, while excluding the United States and Canada was founded. Community of Latin American and Caribbean States (CELAC) consists 33 sovereign countries in the Americas, and totals roughly 600 million people, speaking five different languages. Eighteen Spanish-speaking countries (56% of the area, 63% of the population): Argentina, Bolivia, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela. One Portuguese-speaking country (42% of the area, 34% of the population) – Brazil. Twelve English-speaking countries (1,3% of the area, 1,1% of the population) – Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago. One French-speaking country (0,1% of the area, 1,6% of the population) – Haiti. One Dutch-speaking country (0,8% of the area, 0,1% of the population) – Suriname. Twelve countries are in South America, which accounts for 87% of the area and 68% of the population [3].

The 33 member nations of CELAC all agree on the unquestionable necessity to build a regional organization that represents their interests, and that excludes the overbearing presence of the US and Canada. The importance of this new institution in world politics cannot be overstated. The combined gross domestic product of the countries within CELAC make it the third-largest economic powerhouse in the world [2].

It is also home to the world’s largest oil reserves and the first and third largest global producers of food and energy, respectively. These include the Union of South American Nations (UNASUR), UNASUR’s Defense Council, the Bank of the South (which only awaits the approval of the Uruguayan parliament in order to bring to life a bank that will count on $ 20 billion for development projects), and the establishment of trade mechanisms between some countries that replaces the US dollar with local and new regional currencies [2].

Cuba and Venezuela began this process in 2004 with the founding of the Bolivarian Alliance for the People of Our America (ALBA), that now includes Bolivia, Ecuador, Nicaragua, Dominica, St. Vincent's and the Grenadines and Antigua and Barbuda. Today ALBA is a thriving multilateral organization with member nations that share similar political visions for their countries and for the region, and includes numerous cooperation agreements in economic, social and cultural areas.

The fundamental basis of trade amongst ALBA nations is solidarity and mutual benefit. There is no competition, exploitation or attempt to dominate amongst ALBA states. ALBA even counts on its own currency, the SUCRE, which allows for trade between member nations without dependence on the US dollar [2].

In 2008, the Union of South American Nations (UNASUR) was formally established as a regional body representing South American states. While ALBA is much more consolidated as a unified political voice, UNASUR represents a diversity of political positions, economic models and visions for the region. But UNASUR members share the common goal of working towards regional unity and guaranteeing the resolution of conflicts through peaceful and diplomatic means.

Another important integration initiative is the Bolivarian Alliance of the Peoples of Our America (ALBA), a nine-nation anti-imperialist bloc initially formed in 2004 by socialist governments of Cuba and Venezuela [2].

There are the five key areas for building the new regional organization: energy, science and technology, infrastructure, finance and social development. Venezuela will be responsible for developing proposals in the area of social development, while Chile will work on the other four areas. Despite advantages of population, talent, and natural resources, Latin American still has the world's most unequal distribution of wealth [2].

The Caracas Declaration also commits member countries to advancing the «political, economic, social and cultural integration» of the region. With this objective, CELAC members are called on to develop «programs, projects and initiatives on integration, cooperation, complementarity and development» within the region, and develop mechanisms for coordination with «sub-regional integration mechanisms», which include the Southern Cone trade bloc Mercosur and the South American intergovernmental union UNASUR. Rodrigo Baena, a spokesperson for the Brazilian presidency characterized CELAC as a «third ring» of Latin American integration with Mercosur and UNASUR being the first and second rings. The current framework for CELAC involves no permanent institutions; only a rotating pro tempore presidency, national representatives, working groups and regular meetings of foreign ministers and heads of state.

There are a lot of areas of collaboration that have been developed between Latin American and Caribbeans governments in ministerial meetings over the last two years. These include energy cooperation, addressing hunger and illiteracy, boosting intra-regional trade, and cooperation around humanitarian and environmental challenges. At the top of the agenda are plans for addressing the impact of the international financial crisis and designing a «new international financial architecture».

Most of Latin America – in particular South America – has managed to maintain fairly strong economic growth in the midst of the global financial and economic crisis, but there are clearly concerns about the possible fallout from a full-blown financial collapse in the Euro zone. Such kind of cooperation is based on the principles of justice, solidarity and transparency and to working to «redesign international financial institutions» such as the International Monetary Fund, World Bank and Inter-American Development Bank. Process of decision-making within these institutions should be democratized and conditionalities attached to loans should be eliminated and/or rendered more flexible [2].

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