



Seeking Opportunities from New Patterns in Global Trade

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Globalization is changing worldwide patterns of economic growth, consumption, commerce, and natural resources extraction. In the next decade, direct commercial ties between Southeast Asia and Latin America and the Caribbean are expected to continue to strengthen, replacing the traditional northern hemisphere markets for Latin American commodity exports. China has become the main destination for most commodity exports from the region.

The emergence of this new South-South axis in commerce provides extraordinary opportunities for poverty alleviation, investment in clean technologies, and strong movement toward sustainable development in both regions. Yet there is also the possibility of major impacts on the environment. How can the challenges be turned into opportunities and the impacts minimized?

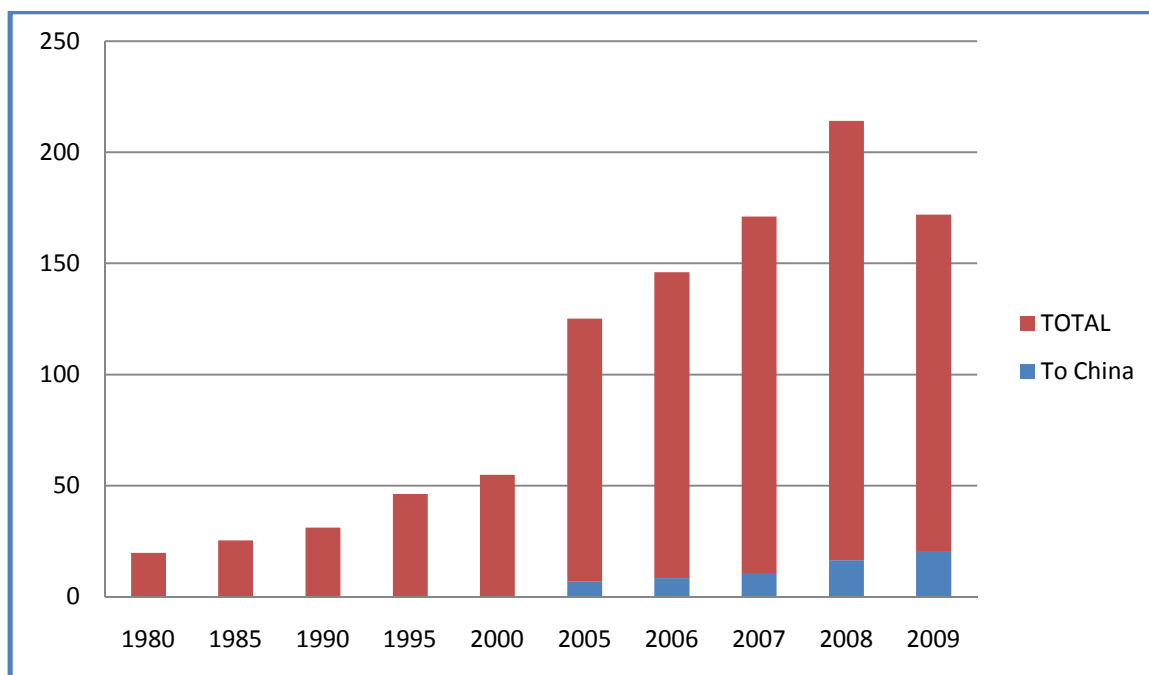
Southeast Asia’s Demand for Commodities from Latin America and the Caribbean

According to IDB President Luis Alberto Moreno a “South-South” transference of economic power is increasingly driving a rebalancing of the center of gravity in politics and culture.ⁱ Trade between China and Latin America and the Caribbean grew at the impressive rate of 31 percent a year between 2000 and 2008.ⁱⁱ In 2009, exports to China from all countries in the region amounted to US\$44.5 billion, most of which were commodities.

Despite the region’s widespread and strong economic progress since the 1990s, the economic performance of countries still depends heavily on commodity exports. Although Latin America and the Caribbean is now a relatively urbanized and industrialized region, commodities still represented 52 percent of its exports in 2009. And 90 percent of the people in the region live in countries that are net exporters of commodities.ⁱⁱⁱ

China’s reliance on Latin American commodities is illustrated by data on the export of these goods from Brazil to China between 1980 and 2009.^{iv} (See Figure.) Strikingly similar patterns are seen in Peru and Chile, the other major commodity exporters to China.

Commodity Exports from Brazil (in US\$ billions)



Source: United Nations Commodity Trade Statistics Database Online

In all three countries, total commodity exports grew moderately until 2000 and then accelerated rapidly. China became the top commodity export destination for Chile in 2007 and number one for Brazil in 2009, and it was the second highest destination for Peru in 2009. Iron-based minerals and copper account for by far the largest segment, followed by oil seeds and grains in the case of Brazil. Even though total commodity exports slowed or even decreased slightly since 2008 due to the international financial crisis, exports to China rose then in absolute numbers.

Although extrapolation of these figures is an uncertain exercise, if China's economy and imports continue to grow at the same rate as the last 10 years and if Brazil, Peru, and Chile are able to provide such commodities, total Chinese imports of commodities from these three countries could reach US\$150 billion in 2020 and US\$300 billion in 2025. Indeed, these numbers may underestimate the true potential.

Intrinsic Economic Growth in Latin America and the Caribbean

Growth within the region itself is also very strong and is a major force driving natural resource extraction. A new political consensus has emerged that centers on free markets, stability, the need for responsible fiscal and monetary policies, and sound financial systems. New political and

social institutions have improved governments' capacity to support human capital development and to offer social safety nets for low-income families.^v Many countries in the region are also enjoying large and sustained growth rates, allowing decreases in absolute and relative poverty and in extreme poverty as well as the emergence of a new middle class that is better educated and eager to consume.

One implication of this growth is that for the most part the region no longer relies on foreign investment for major infrastructure development. For example, the Brazilian Development Bank (BNDES) disbursed US\$69 billion in 2009, twice as much as in 2007 and far more than the combined funds from the World Bank and the IDB. Another consequence of the intrinsic growth is the emergence of global players among large corporations. The Companhia Vale do Rio Doce (VALE today) is the second largest mining company in the world, for instance. With revenues close to US\$180 billion in 2009, the company is thirsty for energy, consuming 5 percent of all electricity in Brazil. As a result, it invests in power generation to ensure that its needs are met. Most analysts expect that large natural resource companies generating their own energy will become the norm in the region.

Environmental Challenges

The combination of commodity demand from China and intrinsic economic growth in Latin America and the Caribbean provides a new challenge for the region. It increases the pressure on natural habitats on a scale never seen before. As economies in both Asia and Latin America grow, the middle class quickly becomes the main economic actor. This is excellent news for poverty reduction, governance, democracy, equality, and quality of life. Yet the middle class is exercising consumer preferences that in turn put pressures on resources. For example, the increased meat consumption of the expanding middle class translates into pressure on land resources, since producing one unit of meat requires 3–10 units of the same inputs as grains. The middle class also buys refrigerators, cars, electronics, and apartments, with the consequent push for more commodities and pressure on natural ecosystems. In addition, informal sectors in peri-urban areas also drive consumption, as Haroldo da Gama Torres points out in his article. Land use change at huge scales is justified on economic terms, as the environment, for the most part, remains an externality in the economic process.

The Amazon and the Cerrado, two globally important ecosystems, will have to supply most of these natural resources. Increased commodities production leads to changes in land use that result in deforestation and habitat loss. The comprehensive work of B. S. Soares-Filho and colleagues predicts the loss of habitat due to the expansion of the cattle and soy industries in the Amazon Basin to supply export markets.^{vi} They predicted that current trends in agricultural expansion will eliminate 40 percent of Amazonian forests by 2050, including at least two-thirds of the forest cover of six major watersheds and 12 ecoregions, and would release some 32 billion tons of carbon dioxide to the atmosphere. One-quarter of the 382 mammalian species examined will lose more than 40 percent of the forest within their Amazon ranges. Peru could lose 56–91 percent of its forest by 2021 to make way for US\$80 billion of planned energy, hydrocarbon, mining, and land-use-change projects.^{vii}

If left unchecked, the consequences of these land use changes are not difficult to predict: loss of biodiversity and loss and degradation of globally important ecosystems; loss of ecosystem services, with the resulting run-away consequences related to desertification, water shortages, and soil erosion; increased greenhouse gas emissions; changes in local weather patterns; and potential conflict and localized social unrest as a result of the loss of the ecosystems' capacity to sustain human life.

The loss of ecosystem services and increased GHG emissions are of particular concern. Precise impacts on ecosystem services are hard to measure, but the implications for the region's economies can be severe in terms of the loss of agricultural productivity, soil and water degradation, extended droughts, and so on. Changes in land use (including forestry) already account for 18 percent of all GHG emissions in Latin America. An accelerated assault on natural habitats to make way for new crops, mines, and infrastructure no doubt would have a major effect on global carbon emissions. Furthermore, the negative effects of climate change related to increased GHG emissions and the loss of ecosystem services are synergistic.

One sign of hope in this picture is that growing economies provide better opportunities for societies to address environmental challenges. These opportunities can arise from increased public awareness, more-effective governments, and better opportunities for the private sector to participate in environmental management and to lower environmental footprints through increased efficiencies.

Opportunities and Policy Responses

Isolated efforts to protect the environment will fail unless the broader picture is fully incorporated in long-term action. Commodity richness is not necessarily a curse. In fact, A. de la Torre, E. Sinnott, and J. Nash note that “recent evidence suggests that overall, natural resources may indeed have a positive impact on growth.”^{viii} But high rents during a period of major commodity exports tend to cause the real exchange rate to appreciate and to attract resources from other activities, discouraging diversification of non-commodity exports. The fact that the growth in trade involves primarily exports of commodities represents a major challenge to the region’s manufacturing prospects and its long-term development path.^{ix}

The growth in trade in another part of the world—between China and Africa—is instructive. Although at times these enormous investments can accelerate ecological degradation and support undemocratic regimes in order to obtain access to resources, they have been a crucial source of funding for infrastructure and job creation in Africa.^x As is often the case, the real question is, How to do it right?

The potential consequences of the trends described are not at all inevitable. Understanding the trends as well as the cause-and-effect relationships that result in environmental degradation can provide the basis for delineating appropriate policy responses from governments as well as the potential role for institutions such as the IDB. The following nine broad recommendations provide a way forward and can be fine-tuned and adapted, based on specific circumstances.

- ***Efficiency and Technology.*** The relationship between increased agricultural output, land use change, and deforestation does not need to be rigid. Leading research by EMBRAPA in Brazil over the last three decades has greatly increased soybean production (by 150 percent) while requiring an increase of only 20 percent in new lands (mostly in the Cerrado). This shows that great opportunities to enhance production through increasing yields exist within already deforested lands and degraded habitats.
- ***Economic Instruments.*** Human behavior cannot be changed by decree. People respond to incentives, so policies need to reward behavior that maintains functioning natural habitats. One powerful economic incentive is the “pull” force of markets that demand green products such as certified timber, ecologically friendly agricultural products, products that comply with standards set by commodity roundtables, socially just

production systems, and so on. In 2009 China passed the United States and other members of the G20 as the leader in clean energy investments. Environmental awareness in China and East Asia is in the early stages, but its growth is fast and inevitable—a trend that needs to be nurtured and rewarded by policy makers on both sides of the Pacific.

- ***Reducing Emissions from Deforestation and Forest Degradation.*** Of all economic incentives, REDD offers the most promise. Widespread deforestation is caused by a myriad of disconnected decisions by individuals who choose to change forests to other land uses for economic gain. REDD represents the first tangible market mechanism to reward forest conservation and to fight deforestation one hectare at a time, on purely economic competitive terms—thus unleashing the efficiency of market forces. REDD can draw on the forces of global carbon markets to allow land owners to maintain forest cover (and with it, ecosystem services) instead of changing land use. Conservation in private lands is an essential element of a larger, long-term sustainability strategy.^{xi}
- ***Appropriate Policy Responses.*** A key challenge is to be able to develop and implement the necessary policy tools that can link stated environmental objectives with the responses to these challenges. Several countries in the Amazon Basin, including Brazil and Peru, are making extraordinary efforts to reduce deforestation and to some extent are succeeding. But these gains could be reversed without appropriate policy responses that directly address the challenges described here.
- ***Protected Areas.*** Strengthening Protected Areas systems in the region is a proven way to protect habitats and ecosystem services. The region is a world leader in Protected Area Management, with numerous examples of successful private-public partnerships, community participation in management, and the development and implementation of long-term economic instruments for sustainability. Institutions such as FUNBIO in Brazil and Profonampe in Peru are at the cutting edge of sustainable financing for Protected Areas globally; their work needs to be multiplied and replicated.
- ***Governance and Transparency.*** Societies in Latin America and the Caribbean should not be afraid of discussing their visions for the future openly. Democracy, the rule of law, the introduction of high social standards, and safeguards for indigenous and vulnerable groups still remain challenges for a region that struggles with how to maintain its economic growth while maximizing environmental sustainability.

- ***Institutional Strengthening.*** The institutional capacity of countries in the region for sound environmental management continues to be below the standards needed. In many cases environmental issues are still relegated to the box of “development hindrances.” Increased environmental awareness leads people to demand clean water, clean air, and nature conservation. Brazil leads the way here by having developed a broad-based societal understanding of environmental sustainability. These societal pressures need to be translated into stronger environmental institutions at all levels.
- ***South-South Collaboration.*** The discussion of these issues cannot be restricted to Latin America and the Caribbean alone. They need to be discussed in the context of the new South-South axis. Countries in the region need to include the environmental sustainability agenda in trade discussions with their South Asian counterparts.
- ***Multilateral Institutions.*** Helping countries on both sides of the Pacific to make the best use of the opportunities from increased commercial ties is an excellent role for multilateral institutions, given their convening power, financial resources, and technical capacity. The IDB and the Asian Development Bank can actively collaborate to promote discussion and help delineate and implement appropriate policy responses. The organization of technical round tables to better understand these trends and make policy recommendations in Asia and Latin America could be a tangible and cost-effective way to start.

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ⁱⁱⁱ De la Torre, A., E. Sinnott, and J. Nash. 2010. *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts?* Washington, DC: World Bank.

^{iv} Data from the United Nations Commodity Trade Statistics Database Online.

^v De la Torre, A., E. Sinnott, and J. Nash. 2010. *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts?* Washington, DC: World Bank.

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