Towards an inclusive trade policy for Latin America in the post-pandemic period

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Abstract

This study proposes elements for defining a new inclusive trade policy to promote the development of economies. It is based on current international trade trends, new trade and industrial policy theories, and an evaluation of some of the region's Free Trade Agreements (FTAs). At the same time, it considers recent developments arising from the impact of the Covid-19 pandemic on planning chains and globalization. Some general guidelines and main components are also included, and it is concluded that trade policy and FTAs must be preceded and accompanied by previous and complementary approaches to avoid mediocre results.

Keywords: trade policy; international trade theory; free trade agreements; industrial policy; systemic competitiveness.

1. INTRODUCTION

Since the 1980s, theoretical approaches and applied alternatives to the theory of comparative advantages have been developed, which have served as a basis for reformulating trade policy in Latin America and the Caribbean (LAC). The importance of systemic competitiveness and the fact that trade policy goes hand in hand with industrial policy became apparent.

In addition to this panorama, there are critical evaluations of the various free trade agreements (FTAs) that have entered into force in the region and, more recently, the position of the Economic Commission for Latin America and the Caribbean (ECLAC) since the middle of the last decade, with its proposal for an inclusive trade policy.

Since the 2008-2009 international financial crisis, Brexit and other nationalist tendencies in many parts of the world, not only have the trends of looking inward to one's own economy been predominant, but also the loss of dynamism in international trade with respect to the evolution of global output. The Covid-19 pandemic, which led to a disruption of trade flows and the trends resulting therefrom, had the same impact and the recent war between Russia and Ukraine has made the picture more complex.

In many parts of the world, traditional trade policies based on the signing of FTAs and other policies ascribed to the paradigm of trade liberalization and free trade are being questioned, and LAC is no exception. Recently, the discussion between civil society organizations, environmentalists, workers' representatives and certain business sectors that object to them to a greater or lesser extent with their government authorities has intensified. There are still radical positions that oppose any agreement and others that seek to improve negotiating capacity and specific aspects of such agreements.

LAC cannot stand idly by in light of the new circumstances. International trade is losing strength, but at the same time, it is necessary to take advantage of and create new productive and commercial opportunities to prevent external restrictions (Thirlwall, 2003), which, with their ensuing pressure on the exchange rate, will slow down the growth of the region's economies. There is much to learn from the theoretical and practical developments of recent decades, from international experiences, from the FTAs in force in the region and from new global trends. International trade must start by promoting domestic production and employment chains, taking advantage of and promoting technological innovation while developing a beneficial relationship that addresses the greater inequalities observed in recent decades, among other aspects.

The main objective of this article is to establish the general guidelines of what a new trade policy for LAC should look like post-Covid-19, on the understanding that it should contribute to a more inclusive economy, sustainable development and the well-being of the communities and citizens of such countries. Specifically, to a better functional and personal distribution of income. In this respect, it is conceived that FTAs should not stand alone but should be accompanied by prior and supplementary policies in order to succeed. These guidelines are based on analyzing the recent evolution and prospects of international trade, recent theoretical and applied developments on alternative industrial and trade policies, and critical evaluations of the FTAs of various countries in the region.

The paper is composed of four sections, in addition to an introduction and conclusions. Initially, some international perspectives and recent statistical information are presented, which help show recent changes that would motivate the revision of trade policy. Selected authors' contributions to competitiveness, strategic trade policy, and industrial and trade policy follow this. Then, there is the identification of the challenges of the various evaluations of the region's FTAs. Finally, the guidelines for an inclusive trade policy are presented, highlighting, in particular, the general description of previous and complementary policies to make FTAs more beneficial for the economies of the LAC region.

2. TRENDS IN INTERNATIONAL TRADE

Roubini (2020) outlined a different and less optimistic outlook for the medium and long term. A few months after the onset of the pandemic, he raised the possibility of a whole new lost decade up to 2030, identifying 10 factors that would shape a perfect storm. First, the exit from the crisis would imply fiscal deficits of over 10% of GDP in times of high levels of public and private indebtedness. Demographic trends, the current pandemic and possibly others to come would force an increase in health spending.

Roubini (2020) suggests two additional factors to explain the prolonged stagnation: de-globalization due to the decoupling of the US and Chinese economies, accompanied by more protectionism in the rest of the developed economies and the world in general. At the same time, digital disruption would generate a negative balance in terms of employment levels and greater inequality. Productive activities would tend to relocate relatively to their countries of origin but, at the same time, would promote higher levels of automation with negative impacts on employment and lower average wages. This, in turn, would trigger more nationalism and xenophobia, further isolating economies and establishing greater restrictions on the movement of trade, capital, services and people. The geostrategic confrontation between the United States and China and an expanded Cold War among other economies would contribute to further isolation.

The World Economic Forum (2022) recently presented the trends in the global economy identified by leading economists from international organizations, banks and multinational companies. Four trends for the near future were highlighted: 1) higher inflation and cost of living together with lower real wages; 2) greater food insecurity in developing economies; 3) more localization and politicization of supply chains; and 4) less globalization. Of these, it should be noted that global supply chains are increasingly being redesigned in the face of fears of continued disruptions. Both governments and companies are rethinking their approach to exposure, self-sufficiency and security in trade and production relationships. Substantial restructuring of supply chains is expected over the next three years. Realignment of global value chains is also considered likely, as companies are shifting from efficiency to resilience by prioritizing localization over diversification.

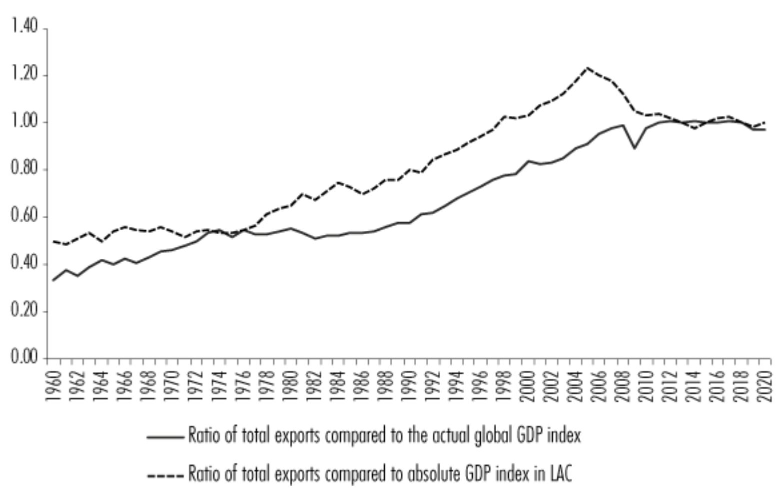
The Ministerial Meeting of the World Trade Organization (WTO, 2022c) issued a declaration committing to facilitate trade and improve the long-term functioning of world markets for food and agricultural products, including grains, fertilizers and other inputs for agricultural production. It also underscored the need for agrifood trade to flow and reaffirmed the importance of not imposing export prohibitions or restrictions inconsistent with the relevant WTO provisions, among other elements.

Carrillo and De los Santos (2022) note that the intention to retake and maintain U.S. leadership and international dynamics in critical sectors, reposition the trade balance while mitigating risk in supply chains, generates a growing trend towards reshoring (return of operations previously relocated abroad), nearshoring (bringing production closer to the place of origin) and rightshoring (bringing production closer to a convenient, efficient and low-cost location).

The recent evolution of international trade in goods at the global and LAC levels helps demonstrate that these are times of disruption that force a rethinking of trade policy. Figure 1 shows that exports have lost relative dynamism with respect to GDP, both globally and in the region since the 2008-2009 international financial crisis. This figure is based on the quotient of the export volume index with respect to the WTO real GDP index, both globally and in LAC, for the period 1960-2020.

In this respect, there is an increasing global trend with relative stagnation in the 1970s before falling between 2008-2009, then stagnating and reducing slightly during the Covid-19 pandemic. In the case of LAC, there was also relative stagnation during the 1960s due to the more inward-looking development model, and then an upward trend with a peak at the beginning of the 21st century, followed by a downward and stagnant trend in recent years.[1]

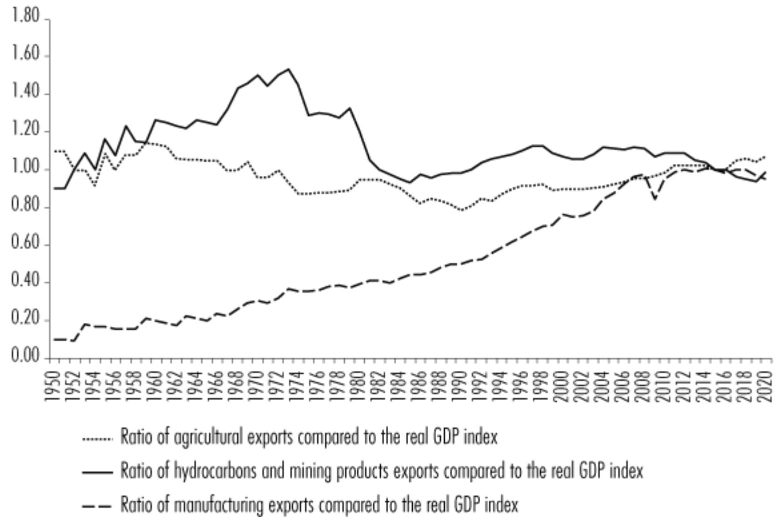
Figure 1. Relative global and LAC export volume dynamism in relation to real GDP 1960-2020



Source: WTO (2022a) and World Bank (2022a).

The relative dynamism of the volume of exports for three main product groups: agricultural, mining and hydrocarbons, and manufactured goods with respect to the evolution of real global GDP is shown in Figure 2. It is possible to determine the most dynamic trade performance over time. Firstly, there is a growing trend in manufactured goods, which has stagnated since the international financial crisis to date. In the case of agricultural products, the trend is more or less constant over time, with a relative decline in the 1980s and relative growth until recently. In the case of mining and hydrocarbon products, they peaked in the seventies and then in the eighties. There was a slight increase from the 1990s until before the international financial crisis, followed by a slow but steady decline. The most dynamic products at present are agriculture, manufactured goods and, in third place, mining and the least developed hydrocarbons. This information is extremely useful in determining the type of products to focus on.

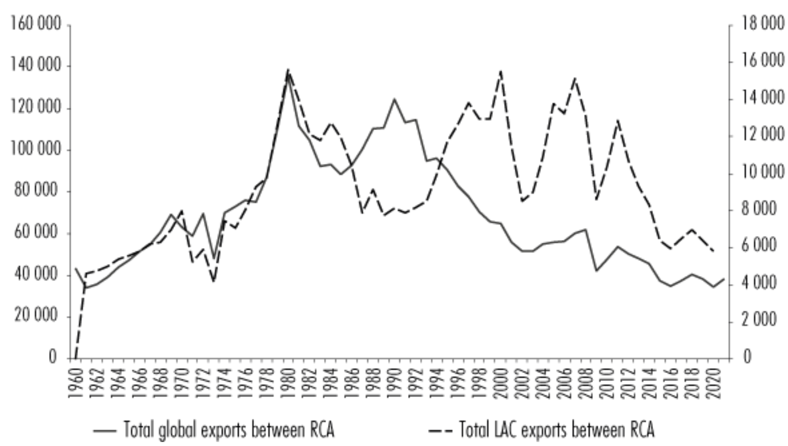
Figure 2. Relative dynamism of the volume of exports by product group in relation to the real world GDP 1950-2020



Source: WTO (2022a).

The positive contribution, although decreasing, of the entry into force of FTAs both on a global level (left side) and in LAC (right side) is shown in Figure 3. The source of information is the WTO and is obtained from the ratio of exports of goods in relation to the cumulative total of regional trade agreements (RTAs) from 1960 to 2020. Globally, the contribution of a new FTA is positive, although it has been decreasing since the early 1990s. Currently, a new FTA only generates additional trade of US$40 billion per year. In the case of LAC, its marginal contribution has fluctuated, with the positive contribution of the North American Free Trade Agreement (NAFTA) in the mid-1990s and subsequent agreements. However, recently, a new trade agreement has only generated US$6 billion in increased international trade. The smaller contribution resulted from the proliferation of these agreements, which indicates that there are limits to signing FTAs everywhere.

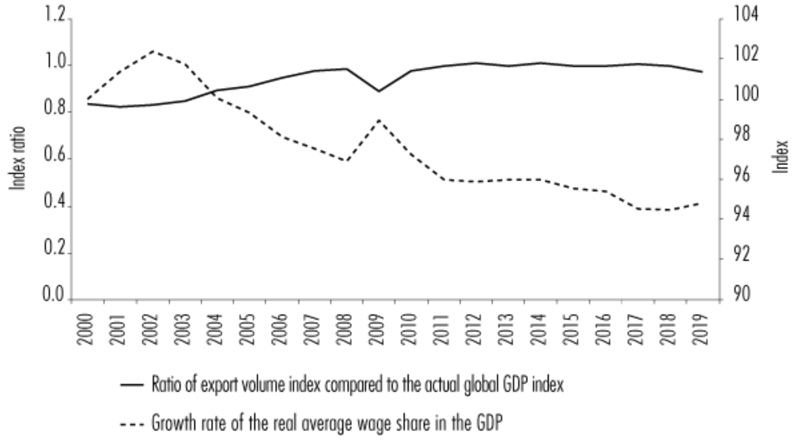
Figure 3. World and LAC export ratio between global and regional RCA 1960-2020 (US$ millions)



Source: WTO (2022a and 2022b).

As can be seen, Figure 4 focuses on the link between the relative dynamism of exports in relation to the evolution of the actual wage share on a global level, using the International Labor Organization (ILO) as a source, as well as this last variable in relation to the contribution of RTAs to international and regional trade in Figure 5. This relationship could be read in such a way that the reduction in the wage share relatively reduces the size of external markets since wage earners are responsible for the largest share of consumption at the same time as the propensity to consume of owners is lower than that of wage earners. Thus, increased international trade is not linked in the medium and long term with a spurious notion of competitiveness based on stagnation or reduction of the wage share. International trade goes hand in hand with the positive global evolution of real wages and salaries.

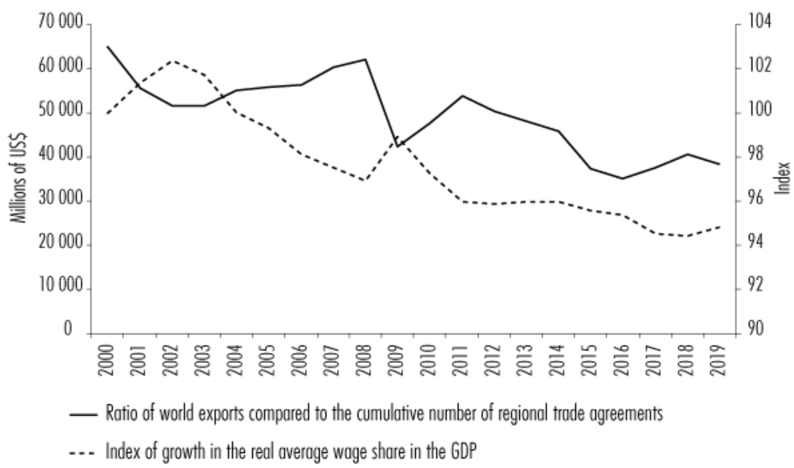
Figure 4. Relative dynamism of world trade and the global wage share 2000-2019



Source: International Monetary Fund (2022), WTO (2022a) and ILO (2020).

Figure 5 reflects the evolution of the overall wage share with respect to the marginal contribution of RTAs. In both cases, the ratio decreases, perhaps reflecting a bidirectional relationship where the lower wage share contributes to a lower relative contribution of FTAs and, simultaneously, the lower contribution of RTAs contributes to a lower wage share. FTAs have a decreasing contribution to trade as a dynamic (and policy) that reduces the wage share and are unsuitable for international trade. Economic growth regimes based on profits and exports are limited in the medium and long term by the reduced dynamism of domestic markets where wages and salaries are their primary driver.[2]

Figure 5. Evolution of the wage share in GDP growth and the ratio of world exports between accumulated RCA 2000-2019



Source: International Monetary Fund (2022), WTO (2022b) and ILO (2020).

3. RECENT THEORETICAL DEVELOPMENTS REGARDING TRADE POLICY

The theory of comparative advantage in international trade has already been overtaken by reality. It should be remembered that it states that a person or company has an advantage in a particular activity when it can perform it at a lower opportunity cost than any other (Parkin, 2018). There are different subsequent perspectives concerning strategic trade policy, different notions of competitiveness and, in particular systemic competitiveness, the creation of dynamic competitive advantages and the combination of industrial and trade policy, which can help redefine a new trade strategy. Trade opportunities are not only seized but also created, driven and developed.

According to Krugman (1986), there is a change in the nature of trade, which bears little resemblance to the type of trade envisaged in classical theory. Traditional theories of international trade consider that it is essentially a way for countries to benefit from their differences, i.e., their comparative advantage in producing goods for which their particular nature suits them. According to the author, trade consisted of exchanges that could not be attributed to traditional characteristics after World War II. Instead, trade reflects arbitrary or temporary advantages from economies of scale or leadership changes in technological races.

Thus, the new theory of trade results from four research studies by Krugman (1979, 1980, 1986 and 1991). The author incorporates the concept of the local market (1979 and 1980), which consists of companies deciding to locate depending on the relationship between the use of economies of scale and savings in transportation costs. He introduces imperfect competition and economies of scale (1986) and integrates the concepts of economies of scale, transport costs and demand (1991) in the center-periphery model. According to Krugman (1986), economies of scale imply an increasingly lower unit cost for producing goods and services in large volumes, i.e., production in large volumes on a global scale would be more efficient. It also clearly illustrates how interactions between increasing returns on a business level, transportation costs and factor mobility can cause the emergence of spatial agglomerations. Only then will firms producing similar products in different countries compete against each other.

One of the most important components in a market is competitiveness, as it drives the economy to function not only efficiently but also to constantly improve. On this basis, a country can generate its wealth. According to Porter (1990), a nation's competitiveness depends on its industry's ability to innovate and improve. Thus, contrary to the theory of classical economics, he considers that national prosperity is created and does not arise from a country's natural resources, its labor pool, its interest rates or the value of its currency. Its main contribution is that nations succeed in particular sectors because the national environment is the most progressive, dynamic and stimulating. This conclusion is contrary to conventional theory, where the determinants of competitiveness are labor costs, interest rates, exchange rates and economies of scale.

According to Porter (1990), companies achieve competitive advantage through innovation. Without innovation, creating a competitive advantage in a market economy is impossible. This includes new technologies such as new methods or processes of production. The success of a business is achieved through four determining factors: 1) the availability of the resources and skills needed for competitive advantage in an industry; 2) the information that shapes the opportunities that businesses perceive and the directions in which they deploy their resources and skills; 3) the objectives of business owners, managers and staff; 4) and the pressures on businesses to invest and innovate.

In addition, Esser *et al.* (1996) argue that competitiveness is the product of a national system's complex and dynamic interaction between four economic and social levels. The first is the micro level of companies, which simultaneously seek efficiency, quality, flexibility and quick reaction. The second is the meso level, which corresponds to the State and social agents, who develop specific support policies, promote the formation of structures and articulate learning processes at a societal level. The third level is macro. Here, pressure is exerted on companies through performance requirements. Finally, there is the meta-level, which is structured with solid basic patterns of legal, political and economic organization, with sufficient social capacity for organization and integration and the capacity of the participants for strategic integration.

Meanwhile, Rodrik (2000) focuses on the need for far-reaching institutional reform to influence trade policy. From an economic point of view, he considers that institutional reform would change not only political parameters but also behavioral relations. Furthermore, he argues that the consistency of trade reform with the institutional needs of the economy generates business dynamism and promotes economic growth. According to this author, a quality institutional framework generates more significant economic benefits than a liberal trade regime or adherence and compliance with WTO rules.

Rodrik (2001) emphasizes that the term development strategy is synonymous with global integration. In his view, trade openness is not only about changing tariff rates and eliminating barriers to foreign investment. Likewise, for Rodrik (2004), market forces and private entrepreneurship would be the guiding force of this agenda, but governments also have to play a strategic and articulating role in the productive sphere, over and above guaranteeing ownership rights, contract compliance and macroeconomic stability. In that respect, the strength of the market and the role of government in the economy are complementary components in the development and sustained economic growth over time of a nation's market economy, operating through industrial policy.

Industrial policy requires obtaining information from the private sector regarding significant external factors and their remedies to implement appropriate policies in the specific economic activity. In addition, the proper implementation of industrial policy is the joint work of the government and the private sector to identify the main problems of restructuring and define what measures are most effective in response thereto. Therefore, when applying industrial policy, the focus is not on results but on the policy process. More emphasis is placed on policy design, where both public and private parties must work hand in hand, recognizing their limitations. Thus, industrial policy is best understood as a discovery process, where businesses and government understand the underlying cost and opportunities and participate in a coordinated manner in strategic planning (Rodrik, 2004). Likewise, this author points out that diversification of production is a necessary element for social welfare.

Rodrik (2004) also delves into industrial policy's institutional architecture and design principles. The three principles include the following: first, political leadership at the top; second, a coordination and deliberation council where diverse types of information and social learning can be exchanged, in which public-private organizations should include their representatives; third, a mechanism for transparency and accountability. Moreover, for an effective industrial policy whose main objective is to diversify the economy and create new comparative advantages, it is essential for an institution to have principles to supervise economic activities and promote diversification policies. In this respect, Rodrik (2004) presents ten principles, which are later adjusted and complemented for a medium-sized economy in the region (Alarco, 2014).

4. CRITICISMS OF TRADE LIBERALIZATION AND FREE TRADE AGREEMENTS

The aim is not to delve into the traditional criticisms of trade liberalization policies and FTAs. It should only be recalled that the promoters of recent decades have forgotten that now-developed countries had significant chapters of protectionist trade policies (e.g., Germany, Japan, and South Korea, among others) and that they promoted free trade when they had the capacity to do so. More recently, Rodrik (2011) points out that much of LAC's current export successes were initiated through industrial policy under the import substitution strategy of the 1960s. Examples include Mexico's automotive industry, Brazil's steel industry and aircraft production, among others.

On the positive side, Greenspon and Rodrik (2021) note that trade liberalization contributed to the economic growth of many low-income exporting countries, with China, in particular, benefitting from the opening of markets in Europe and the United States. Export-oriented industrialization has been a powerful engine of growth in many countries, contributing to reducing global inequality, thanks mainly to China's economic performance. However, they point out that successful industrializers relied on a wide range of policies that violated the traditional rules of deep integration. Amsden (1989) argues that South Korea's accelerated expansion was based on "mispricing" strategies. China promoted industrialization by protecting its state-owned enterprises from import competition through subsidies, forced technology transfer, domestic content requirements, currency manipulation (with a high real exchange rate), and patent and copyright leniency.

There are different levels of criticism of FTAs. Among the most radical is a recent book compiled by Ghiotto and Laterra (2020) on the 25th anniversary of FTAs in LAC. It is a collective work of the Latin America Better Off Without FTAs Platform member organizations to show the harmful effects of trade and investment protection treaties. The balance for these authors and for those who collaborated on the book is negative. FTAs increased the power of transnational corporations in the region, restricted the trade policy of the countries, shielded the privatization of public services, made medicines more expensive by establishing monopolies and restricted the manufacture of generic drugs, undermined the sovereignty of the nations and granted extraordinary legal privileges to foreign investors, among other elements.[3]

In a more balanced vein, authors such as Stiglitz (2013) and Rodrik (2018) provide interesting critiques of traditional trade policy and FTAs. Trade liberalization can promote development, but the outcomes of different trade policies have varied across different countries. For Stiglitz and Charlton (2006), evidence suggests that the benefits of liberalization depend on many factors, and thus the process of setting new directions in trade needs to be more perceptive of countries' specific conditions. According to Stiglitz (2013), the most general principle of FTAs is that trade agreements generally place trade interests above other values: the right to a healthy life and environmental protection, to name but two.

On the other hand, Rodrik (2018) recently raised an interesting perspective on who FTAs serve. The author differentiates between the free trade of FTAs. In the initial stage, protectionists were the villain of the free trade story. Trade agreements counter their influence and bring optimal welfare closer by reducing protectionism (or harmful regulations). However, as trade agreements evolved and moved beyond import tariffs and quotas into regulatory rules and harmonization (intellectual property, health and safety standards, labor standards, investment measures, investor-state dispute settlement procedures, and others), it has become increasingly difficult to define who benefits from FTAs.

In Rodrik's (2018) view, instead of neutralizing protectionists, FTAs may empower different profit-seeking interests that benefit politically well-connected businesses: international banks, pharmaceutical companies, and multinational corporations. Trade agreements could still result in freer and mutually beneficial trade through the exchange of market access. They could also result in the global updating of regulations and standards for workers or the environment. Unfortunately, they could also produce purely redistributive results under the guise of freer trade.

Greenspon and Rodrik (2021) argue that international trade, particularly the elimination of trade barriers, generates temporary and maybe permanent distributional imbalances. The authors review several studies showing negative impacts in the United States in the face of trade with China and Mexico, generating significant income losses in the long term. The usual response of economists to these distributional problems caused by trade policy, which in the United States affects the poorest workers, is that they need to be accompanied by compensation for the losing side. In that country, it is called trade adjustment assistance, while in Europe, they are more generous with social security and other labor market programs. However, it must be recognized that compensation is incomplete and imperfect and its solution is a complex problem that starts with its proper identification.

In most of the LAC region, the signing of FTAs with other economies and economic blocs has intensified. This practice began with Mexico under NAFTA in the mid-1990s and has now been replaced by the T-MEC and extended to other intermediate economies in the region in the 21st century. There is a lot of ideology and persistence in pursuing these without a rigorous evaluation of their benefits and costs, let alone actions to mitigate their problems. Unfortunately, the official vision of the government, business groups, the media and a large part of academia is that everything is wonderful regarding FTAs.

The contribution of these agreements in terms of increased exports and employment is unquestionable in the case of the most successful experience, such as that of Mexico (not exempt from numerous criticisms) and others. However, this result is not so promising for the other economies, which effectively export more but the same traditional products (or raw materials) with reduced processing and technological content. Their trade balances have deteriorated due to higher imports since exchange rate policy is generally accompanied by a real appreciation of the national currency for anti-inflationary reasons and to curb capital outflows. Even in Mexico, there is no correspondence between high export growth and reduced economic growth due to low production and employment chains.

FTAs did not result, except in Mexico, in greater flows of foreign investment, nor did they increase the general productivity of the economy, nor did they lead to the proliferation of new technologies and innovations. FTAs are not the panacea. Alarco (2017) notes that the FTAs of Chile, Mexico and Peru with the United States did not modify the GDP growth trajectory of the three economies. Likewise, with various statistical tests of structural breakdowns, it is concluded that there are only breakdowns in the case of exports in Mexico and a few other variables in Chile. Using the Thirlwall model, it was determined that export capacity increased, but potential output did not increase due to the increase in import-output elasticity since a significant expansion of imports of complementary goods and substitutes for domestic production accompanied it.

The majority opinion is that NAFTA was not as encouraging as expected. The absence of policies to promote innovation and industrial development, competition from China, the appreciation of the real exchange rate, low investment and the lack of bank financing are the main explanations given by Ros (2008). These factors are compounded by fiscal restraint, monetary policy, the real deterioration of wages and the share of wages in output (Caballero and López, 2013).

Likewise, except for the propagation and promotion of trade agreements, in general, no policies were designed or implemented before or in addition to their entry into force: no industrial policy, promotion of MyPymes, special credits, specific technological or technical assistance, explicit development of joint ventures, support for the integration of clusters, improvement of infrastructure or logistics chains, among others. Regarding their aggregate impact, there is no evidence that they have contributed to developing special production and employment chains. With respect to the FTA between Peru, Colombia and Ecuador and the European Union, according to BKP Economic Advisors (2022), there are some encouraging and optimistic results, but only in some sectors.

According to this study, there was a slight increase in GDP in the member countries of the agreement, especially in favor of the European Union. In absolute terms, the GDP of the European Union is US$1.3 billion higher than it would have been without the agreement, while the gains for Colombia and Peru are US$42 million and US$49 million, respectively. Ecuador's GDP is US$128 million higher, while the overall GDP effect of the agreement is positive, estimated at US$728 million. On the other hand, the impact on employment in the European Union was negligible. Regarding labor conditions, BKP Economic Advisors (2022) reported that despite the government measures taken with the support of the European Union, they were insufficient to strengthen labor regulation and the functioning of unions and to avoid harmful labor regimes.

5. TOWARD A NEW INCLUSIVE TRADE POLICY FOR DEVELOPMENT

The following are the main elements for formulating a new inclusive trade policy aimed at sustainable development and the progress of communities and individuals. The elements are proposed for any economy in general but obviously include the lessons learned from the experiences of the region in question. Here we incorporate what was shown in previous sections and articulate a more comprehensive proposal that takes advantage of the contributions to international trade and inclusive development of the ECLAC (2013), diversification of production and some strategic recommendations of the trade policy of some LAC economies and the European Union (Alarco and Castillo, 2019).

The starting point for integrating these elements is the ECLAC (2013) document, which points out that the notable expansion of international trade in LAC in the last decade does not guarantee balanced development from an economic, social and territorial point of view but presents opportunities that should be taken advantage of. ECLAC (2013) points out that the possibility of growth and reducing inequalities is linked to situations that improve the international insertion of products and companies and are accompanied by active policies for innovation, competitiveness, development of production, employment and training. In addition, it is essential to have a macroeconomic and institutional context conducive to growth and more significant equity.

The inclusive international trade defined by the organization facilitates growth with reduced structural heterogeneity and increased equity. They conclude that increased international trade may increase growth, but ensuring inclusive effects requires policies to achieve this objective and a better relationship between the different levels of macro and microeconomic policies, including other areas such as gender equality policies and infrastructure development.

The ECLAC (2013) makes several recommendations. First, the inclusive potential of the export sector can be developed by increasing internal and external chains and increasing the number of companies and jobs associated with this sector. Second, it is proposed that value chains inside and outside the economies should be strengthened and expanded to enhance the inclusive effects of trade. Third, it is suggested that SMEs can be integrated into chains through various channels and that public policies should be in place to facilitate such integration. Fourth, trade within the Latin American region is clearly the factor with the greatest inclusive effects and should therefore be encouraged.

The construction of a new alternative trade policy requires the consideration of a series of elements. In the first instance, the evolution and role of international trade in the different phases of capitalism must be understood without forgetting its main practices and asymmetries. Secondly, the positive contributions of standard trade theory and policy based on absolute and comparative advantages should be considered. Thirdly, it is essential to take advantage of the experiences of the trade practices of other countries and build on the identification of the challenges of the FTAs of the region's economies and beyond. Fourthly, we need to know how to combine the analysis of trends and possible scenarios of the international environment, economy and trade with the opportunities offered by new theories and approaches to international trade.

The elements that a new inclusive trade policy must contain are diverse and numerous, differing from the traditional perspective where it is conceived that, on its own, it will contribute to increased economic efficiency, productivity, technological progress, greater investment, employment, income and economic growth, among other virtues. Throughout this text, it has been argued that the positive effects of standard trade policy are not guaranteed; nor is there empirical evidence to show that these beneficial effects are always present.

The first two elements to be highlighted are that trade policy must be guaranteed to contribute to sustainable development and the progress of communities and individuals. To achieve this contribution to sustainable development, trade policy must be understood as responding to the production and diversification strategy, considering historical trends and probable (and possible) future scenarios of the international economy. Unfortunately, in many countries, trade policy has taken precedence over production policy when it should be the other way around.

Meanwhile, an inclusive trade policy should imply that exporting companies and, in general, all companies should be socially responsible, have good corporate governance (GCG) and create shared value (Porter and Kramer, 2011). This involves good practices in relation to all shareholders, modifying products and services according to the needs of the population, improving their environmental contribution and promoting industrial agglomerations (or clusters) around a main activity. In the language of growth theories, this means creating production and employment linkages rather than exports concentrating their benefits in enclaves. Likewise, it would not only be a matter of diversifying to reduce vulnerabilities; exports should be oriented towards goods with higher processing and technological content and, as far as possible, be part of global value chains.

More inclusive trade would require increased participation of MyPymes, cooperatives and associations of small producers; more effectively decentralized exporting companies, particularly in areas of poverty and extreme poverty, and with some emphasis on gender to take advantage of the possibilities of fair-trade practices. Likewise, all companies and their suppliers must respect labor rights, human rights and the traditions and identity of communities. Pursuing a more equitable globalization requires improving the negotiating capacity, transparency and articulation of the efforts of civil society, NGOs and governments from different countries to negotiate the best conditions for lower-income countries to overcome historical disparities. A relevant issue is that increased exports should not jeopardize national citizens' food and nutritional quality.

In the more instrumental sphere, taking up what was raised by Rodrik (2018) and other authors, it is essential to evaluate in detail the costs and benefits of all the other components that have been added in recent years to the FTAs, without forgetting in the first place the impacts on the national production of substitute products. Meanwhile, the distributive implications of the agreements should be analyzed and, if necessary, compensatory policies should be proposed; the mobility of resources, especially human resources, should be facilitated. Finally, an adequate transition must be established and technical and financial assistance must be provided, among others, to facilitate the trade adjustment of the different sectors of the economy.

As noted above, the ECLAC (2013) points out that inclusive international trade requires complementary policies. FTAs cannot stand alone as isolated policies, as this would only guarantee mediocre results. They must be accompanied by an exchange rate policy that avoids appreciation of the national currency and by strategic planning aligned with market signals to set the direction, strategies and incentives. Complementary policies are required to be successful. Timing is critical, with industrial and technological development policy preceding trade policy.

Therefore, there is no single formula for trade policy for all developing economies, as many unique features are at play. It is never too late to reconsider strategies and policies in light of new global challenges. Several elements are incorporated into previous policies. First, an institutional structure that highlights the issue and subordinates trade policy to production policy. Secondly, it is essential to have food (including fertilizers) and energy security policies to prevent an active real exchange rate policy from generating food and energy cost inflation. Thirdly, it is essential to have a State with the capacity for strategic planning, tenders and negotiation with different national and international economic participants. There is no way a new trade policy can be developed when significant macroeconomic gaps and imbalances exist. Other policies include investment in human resources, infrastructure and a financial system contributing to the productive sector. Finally, and perhaps most importantly, having an innovative business sector that seizes and creates new opportunities and takes risks with the support of the State.

The list of complementary policies presented is short. According to Rodrik (2005), the best and most powerful instrument of industrial policy is the exchange rate policy. Exchange rate appreciation can invalidate all efforts to diversify a country's productive and export platform. Furthermore, an adequate exchange rate policy can help address industrial liberalization, avoid unfair competition, and promote sectoral productive development. The crux of the matter is to have a high and stable real exchange rate without fueling inflationary pressures. The second complementary policy is industrial policy. A trade policy not accompanied by an industrial policy is of little use. Rodrik (2011) added several special features to the industrial policy noted in the previous section of this article.

The list of arguments for promoting productive diversification with high-value-added products is long and includes the following: it would make it possible to deal with external vulnerability, both due to the deterioration of the terms of trade and the fall in external demand; it helps deal with an economy that is progressively slowing down, addressing the middle-income trap; it makes it possible for the economy to jump to other income levels, generating higher-quality jobs. According to Hausmann et al. (2011), a more diversified and higher value-added and, therefore, more complex productive structure is associated with higher per capita income levels.

6. CONCLUSIONS

Since the 2008-2009 international financial crisis, Brexit, the proliferation of populist governments and the Covid-19 pandemic, the economic landscape and international trade have changed rapidly. The world and international trade, particularly now and in the near future, will no longer be the same. The war between Russia and Ukraine has made it more complex. Moreover, if FTAs were under question before these events, there is an urgent need to redefine trade policy by remembering that the theory of trade policy dominated by neoclassical theory is one thing, and its application with less orthodox elements, including geostrategic features, is another.

The theory of comparative advantage in international trade has already been surpassed. Although still with dispersed and non-integrated approaches, there are different subsequent perspectives regarding strategic trade policy, other notions of competitiveness and, in particular, systemic competitiveness, the creation of dynamic competitive advantages and the combination between industrial and trade policy that are useful for redefining a new trade strategy. Trade opportunities are seized but also created, driven and developed.

This paper established that constructing a new alternative trade policy requires taking advantage of a whole series of elements and preconditions, without forgetting in the first instance that it should contribute to sustainable development, to the progress of communities and people. Furthermore, it should be clear that productive policy and its diversification should be defined before trade policy. Likewise, the former should be designed considering historical trends and probable (or possible) future scenarios of the international economy.

The list of policies prior to and complementary to FTAs is only preliminary, and what may be a previous policy for one country may be a complementary one for another. There is, therefore, no single formula for the trade policy of all developing economies, particularly in LAC, since many specific features are at play. It is never too late to reconsider strategies and policies in light of new challenges. Several elements are incorporated into previous policies. First, an ad hoc institutional structure. Second, it is essential to have food (including fertilizer) and energy security policies in place to prevent an active real exchange rate policy from generating food and energy cost inflation. Thirdly, it is essential to have a State with the capacity for strategic planning, tenders and negotiation with the different national and international economic participants.

Developing a new trade policy is impossible when there are significant macroeconomic gaps and imbalances. Other policies include investment in human resources, infrastructure, science, technology and innovation, promoting productive and employment chains, and having a financial system that contributes to the productive sector. Finally, but perhaps most importantly, it is important to have an innovative business sector that takes advantage of and creates new opportunities and accepts risks hand together with the State. A trade policy not accompanied by intermediate policies, such as industrial policy and policies at the meta, macro and microeconomic levels, is of little use.

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[1] The LAC series was constructed using WTO information between 1980 and 2020 but extended into 1960 with real LAC exports of goods and services and GDP sourced from the World Bank (2022b).

[2] It is difficult to see how the greater share of profits in the product and consumption of the owners of the means of production can be a component promoting private investment at the macroeconomic level in the medium and long term.

[3] In a more extensive paper, Alarco and Sanchium (2022) elaborate on the observations of these authors and others who have analyzed in detail various FTAs in the region since the 1990s.