

2011-2012



Latin America and the Caribbean
in the World Economy

Continuing crisis in the centre and new opportunities
for developing economies



UNITED NATIONS

E C L A C

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Notes

The following symbols have been used in the tables shown in the Survey:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A full stop (.) is used to indicate decimals.

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Introduction

The 2011-2012 edition of *Latin America and the Caribbean in the World Economy*, which focuses on the theme of continuing crisis in the centre and new opportunities for developing economies, is divided into four chapters.

The first chapter examines the difficult international economic situation and the outlook for the rest of the decade. The global economy is facing difficult conditions again in the second half of 2012, with the epicentre in the euro zone. A number of European economies are mired in deep recession and their governments are having serious difficulties in reconciling the need to regain growth with the urgency of reducing their high levels of deficit and debt. As a result, mounting uncertainty and turmoil are sapping a global recovery that is already the weakest in 40 years. Although the United States is performing somewhat better than the euro zone, its recovery remains fragile. Moreover, its economy could slip back into recession in the first quarter of 2013 if major scheduled tax hikes and spending cuts go ahead.

Over the next few years, the developing countries, particularly China and other emerging Asian economies, will continue to be the main engine of the global economy and trade, while growth in the industrialized countries remains slow and volatile. The industrialized countries still have some way to go in reducing household and public sector debt. During this process, which could take another three to five years, financial constraints seem likely to continue, as do stringent fiscal consolidation and public debt requirements, short and erratic recoveries, high unemployment and further public sector interventions in finance and the economy.

Regarding trade policy in this complex international scenario, restrictive global trade practices remain at moderate levels. However, there are significant risk factors that could increase trade restrictions. In trade negotiations, the protracted stagnation of the Doha Round of the World Trade Organization (WTO) has accentuated an already strong tendency towards negotiating preferential agreements. Much of this activity involves the economies of Asia and the Pacific. Lastly, attention is drawn to a number of recent trade disputes at WTO.

Chapter II takes stock of the boom in commodity prices that began around 2003 and its evolving impact on the value of the region's exports, drawing particular attention to the growing role of developing Asia, especially China, as a destination for commodity exports from Latin America and the Caribbean. It then examines the foreseeable impact of three scenarios (neutral, optimistic and pessimistic) in terms of commodity export prices and demand from the region's major trading partners in 2013-2015, focusing on the 10 main groups of commodities (oil, copper, iron, soybean, coffee, sugar, fisheries products, meat, fruit and gas) and their derivatives, which together account for more than 40% of the region's total export value.

The resulting projections show that, even in the pessimistic scenario, prices for the region's main export commodities will remain above their historical averages, even though they could fall by as much as 9% per year (especially in the case of minerals and metals). The value exported by the region will continue to rise during the next four years at annual rates ranging from 0.7% to 10.5% in the pessimistic and optimistic scenarios, respectively,

and 5% in the neutral scenario. As a result, the countries in the region will have to work harder to increase their export volumes, if they are to maintain export earnings.

Chapter III looks at recent performance and the short-term outlook for trade and economic integration in the region. It analyses foreign trade trends in Latin America and the Caribbean in 2011 and 2012 by main trading partner and category of product for the region overall and for the subregions, finding a sharp slowdown starting in the second half of 2011. In fact, in 2012 exports and imports are likely to edge up by just 4% and 3%, respectively, owing, among other factors, to the crisis in the euro zone, weak growth in the United States and Japan, and modest growth in China and other emerging economies.

This chapter also examines the main developments over the past 12 months with regard to the various integration processes under way in the region. On the one hand, there are no widespread moves to increase trade restrictions. On the other, some of the region's economies are continuing to sign new trade agreements at a rapid pace with partners in the region and beyond. Lastly, a number of shifts have taken place in the region's formal economic integration architecture.

Chapter IV examines the international integration of Latin America and the Caribbean in relation to the trends discussed in the rest of the document. Three dimensions of the region's export performance are analysed: (a) value chains, (b) employment generated by the export sector, and (c) export firms. Briefly:

(a) The examination of the region's participation in value chains looks at the role of the maquila sectors

and duty-free zones, as well as trade in intermediate goods. In light of these indicators, it is concluded that, relative to other regions, particularly Asia, Latin America and the Caribbean is lagging behind in terms of integration into global value chains.

(b) Employment generated directly by the export sector is analysed, as well as jobs linked indirectly to export firms. The study performed for six countries suggests that export-related employment represents a significant and growing percentage (between 12% and 24%) of total employment.

(c) The characteristics of the region's export firms are examined by sector, size and destination. It is concluded that the proportion of firms engaging in export activity is still very small. In most of the region's countries, export activity is concentrated in a few firms, usually large corporations operating in the natural-resource sector.

Two types of policy recommendation are offered by way of conclusion. First, it is important to develop policies for bolstering intraregional trade, which is well placed to drive a process of structural change with equity. This is because it plays an important role in export diversification, industrial development and direct and indirect job creation, and it is less concentrated than other types of trade by firm and involves a larger proportion of small and medium-sized enterprises. Second, initiatives are needed to tap the potential for trade and investment with other emerging regions, especially Asia, and to foster a quality leap in those ties.

Summary

A. The complex reordering of the global economy

All three engines of the global economy, especially the euro zone, slowed in 2012, sapping a recovery that was already the slowest in 40 years. The crisis is deepening in the euro zone, after five quarters of growth close to 0%. This is having a direct impact on the United States and China, for both of which the European Union was the largest export market in 2011. The United States is in a period of slow, vulnerable growth. Despite massive revitalization programmes, the recovery is proving to be the slowest of the entire post-war period. As a result China's exports are faltering too, and its demand for raw materials imports is slackening.

The other emerging economies are also beginning to cool. The main impacts of slower growth and weakening demand in the global economy's three main engines are transmitted through the trade channel. As the volumes of raw materials that emerging economies can export to these cooling markets shrink and their prices fall, the terms of trade downturn begins to erode the fiscal space available to them for potential countercyclical action.

Additional complications are arising. Tensions in the Middle East and the Persian Gulf are endangering oil price stability and a spike in crude oil prices would make an international recession more likely. Another area of concern is global food prices following their 6% jump in July—the largest since 2009. Drought in the United States, production setbacks in the Russian Federation and unseasonal rains in Brazil have all combined to inflate

these prices, especially for cereals (up 17%). These higher prices could create inflationary pressures in the coming months, with the worst impacts being felt by the most vulnerable population. Meanwhile, prices for industrial raw materials, such as minerals and metals, are falling as the global economy slows.

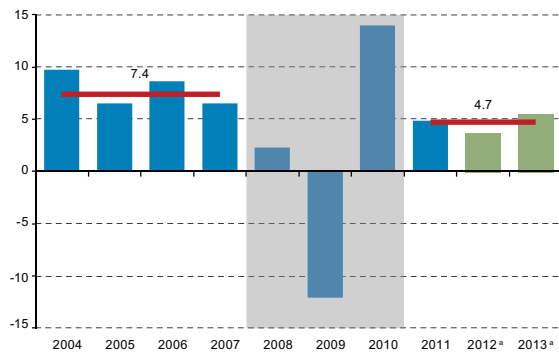
In this complex global context, world trade is slowing for the second year running. The World Trade Organization (WTO) projects growth of 3.7% in global trade volumes in 2012, versus the 5% annual average expansion for the past two decades. The projected world trade growth rate for 2012 also falls short of the rates for 2010 (14%) and 2011 (4.9%) (see figure 1). Latin America and the Caribbean is the region posting the highest growth in export volumes in the last quarter of 2011 and the first four months of 2012. However, the European crisis and

global risk aversion have dampened its export performance in the intervening months. At the same time, the efforts of European banks to secure capital and liquidity at home is beginning to squeeze financing for trade in raw materials, much of which they normally provide. The regulatory framework proposed for the banking sector under the Basel III accord is also onerous for trade financing because it raises the related capital requirements, in a manner not consistent with the low risk involved.

The euro zone moved closer to recession in the second quarter of 2012, amid the looming threat of a W-shaped recovery or double-dip recession. Technically speaking, the euro zone has avoided a recession because economic activity stood still in the first quarter of 2012. In practical terms, though, the euro zone (without Germany) has stagnated since the first quarter of 2008 (see figure 2). Under a broader definition of recession—which takes into account unemployment, industrial output and investment—the euro zone is undoubtedly in recession now. In fact, with the exception of Germany, none of the major European economies have regained the GDP

levels they were posting in early 2008. In an optimistic scenario, it will take two to three years for the euro zone to regain growth of close to 2%.

Figure 1
WORLD TRADE: ANNUAL GROWTH BY VOLUME, 2004-2013
(Percentages)

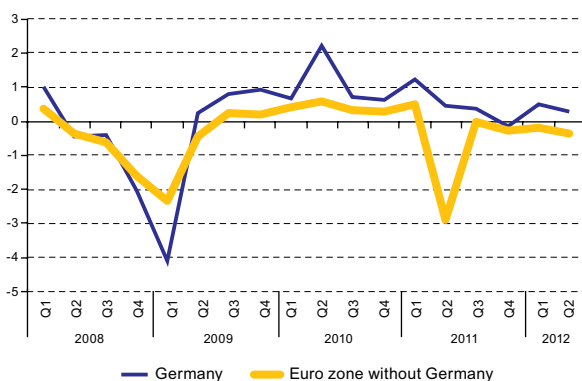


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the World Trade Organization.

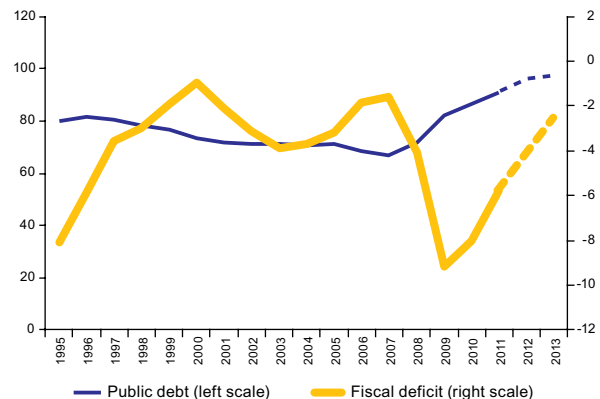
* The data for 2012 and 2013 are projections. The figure for 2013 comes from International Monetary Fund, *World Trade Outlook*, April 2012.

Figure 2
EURO ZONE WITH AND WITHOUT GERMANY: GROWTH, PUBLIC DEBT AND FISCAL DEFICIT

A. Germany and euro zone without Germany: year-on-year quarterly GDP variation, 2008-2012
(percentages)



B. Euro zone (without Germany): public debt and fiscal deficit, 1995-2013
(percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Statistical Office of the European Communities (EUROSTAT), "Harmonised Unemployment Rate by Sex", 2012 [online] <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1>, Organisation for Economic Cooperation and Development (OECD) and International Monetary Fund, *World Economic Outlook*, April 2012.

The measures being applied, particularly the widespread fiscal austerity, are exacerbating the euro zone recession. The key issues of the crisis (public and private overindebtedness, fiscal deficits, unemployment and lack of growth) are being tackled late, timidly and with an apparently inadequate grasp of the situation's gravity. Political differences between Southern and Northern Europe are also hindering substantive agreements to deal with the crisis head on. Especially in the countries of what is becoming known as the European periphery,

the recession, along with high unemployment rates, is the outcome of deep fiscal austerity, a lack of confidence among economic actors and contracting credit. This, combined with inability to remedy the weakness of the financial sector, is increasing the risk of "Japanese syndrome", i.e. a decade of stagnation.

The euro zone may well be entering a lost decade. This may take the form of economic stagnation, falling potential output, loss of investment in human capital and innovation, high unemployment, wage freezes, cuts in

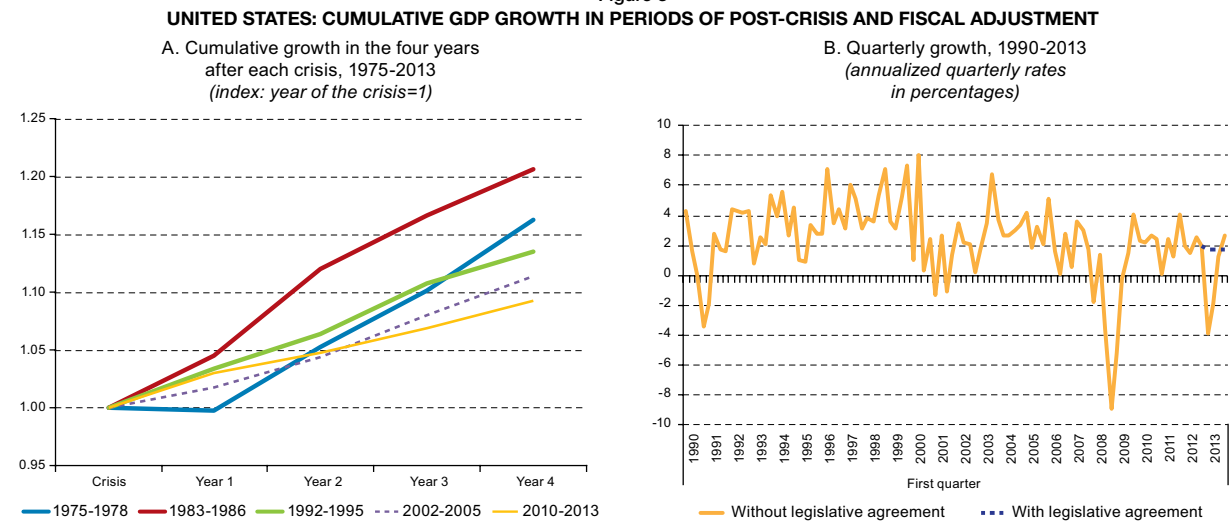
social benefits, social capital erosion and worsening income distribution. Emphasis on fiscal consolidation and public debt reduction will worsen these tendencies. In such a scenario, it will be hard for the bloc to deal with necessary competitiveness challenges. With currency devaluation ruled out, the only way most of the economies can gain competitiveness is by boosting productivity above the levels of Germany's economy—a virtually impossible task amid economic stagnation and fiscal adjustment. Some kind of reformulation of the social covenant that has prevailed in Western Europe since the post-war period therefore seems likely. The actual content of a new covenant remains to be determined, as does the course and the fate of the broadest integration scheme ever attempted.

The difficult overall context in Europe masks a very mixed pattern among individual countries. Germany is in the best position: while it is being affected by the depressed context in the region, its exports outside the European Union are benefiting from the euro's falling value against the dollar and the yuan. And the crisis is helping Germany's public accounts because the mounting credit risk of a number of euro zone countries boosts demand for German bonds and pushes their real yields into negative territory. This is helping bring down Germany's deficit and makes it more likely to balance out in 2013. Other countries, such as Austria,

Denmark, Finland, the Netherlands and Sweden, are in a similar position. On the other hand, Greece, Ireland, Italy, Portugal and Spain are mired in deep recession exacerbated by stringent fiscal austerity measures. Briefly, the impacts of these measures range from positive financial externalities for Germany and the countries of Northern Europe to a worsening economic scenario in Europe's Southern Tier. This is one of the economic and political divides between Northern Europe and Southern Europe that are making it hard to agree upon an orderly exit from the crisis.

The United States, meanwhile, is in a period of slow, vulnerable growth. The United States regained pre-crisis output levels at the end of 2011, but this took twice as long as previous recoveries. Its current recovery is, in fact, the slowest and most vulnerable of all recoveries since the 1970s (see figure 3). Economic growth slowed to a modest 1.7% in the second quarter of 2012. Job creation has slackened from 218,000 jobs between December 2011 and February 2012 to 99,000 between March and May 2012, and only 64,000 in June 2012.¹ At this pace of job recovery, pre-crisis employment levels will not be regained until 2020. The rise seen in private consumption in the last few quarters is not a reflection of better wages, but of transfers and tax cuts worth US\$ 1.4 billion, which has further added to public debt.

Figure 3



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World dataBank and International Monetary Fund, *World Economic Outlook*, April 2012 and *World Economic Outlook Update*, July 2012, and Congressional Budget Office, "Un Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022" [online] http://www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf [date of reference: 24 August 2012].

Note: The dotted line in figure B corresponds to growth projections of the Congressional Budget Office which assume only partial implementation of the fiscal adjustment.

The United States economy could slip back into recession in the first semester of 2013. Automatic tax hikes and spending cuts worth US\$ 560 billion—equal to 4.7% of GDP—will take effect in January unless Congress reaches an agreement to postpone some of them. There is little likelihood of legislative agreement on the entire

amount, particularly given the approach of the presidential and parliamentary elections in November 2012. Even in the most optimistic of scenarios with a partial legislative

¹ United States Bureau of Labor Statistics, *Current Population Survey*, 2012.

agreement, the most likely outcome would be modest growth for 2013, with a downturn in the first semester (see figure 3B). This also hinges, however, on the effect of adverse external factors (recession in Europe, slacker growth in China and other emerging economies and the risk of higher oil prices), which could dampen United States growth in 2013.

The United States is seeking new sources of growth, given the weakened state of private consumption, which represents 70% of GDP. Over the last eight quarters, private consumption has expanded at an annualized rate of 2.3%, as against 3.6% in the decade before the crisis broke out. Consumption has been dragged down by asset value loss, while debt remains high and savings low. In this context, households are enduring a forced adjustment since much of their limited available income is going to pay debt and rebuild savings. With consumption likely to remain sluggish throughout 2013, a fresh boost to growth would have to come from investment and net exports. But the fragility of the euro zone and the slowdown in China limit that possibility. An export slump would leave the United States economy more vulnerable to another recession. In this scenario, the renewed push by the United States to develop trade ties with Asia reflects the importance of that region's market for driving United States growth.

China's economic growth is a key factor for growth and trade projections for the global economy, as well as for the behaviour of international commodity prices. China's economy is slowing as a result of both external and domestic factors and the government is seeking to ensure 7.5%-8% expansion for 2012. GDP growth was 7.6% in the second semester of 2012, marking the sixth consecutive quarter of deceleration and the lowest growth rate since the first quarter of 2009. Chinese exports show annualized growth of just 1% in July 2012, a 16% drop in exports to Europe and a 0.6% increase in exports to the United States. Industrial output was also slowing. In view of China's increasing linkages with other developing countries, the cooling of its economy affects their exports, too. Nevertheless, the growth track projected for the Chinese economy in the coming years would keep raw materials prices high, albeit below the peaks of 2008.

Inflationary pressures and property bubbles in China seem to be easing. Year-on-year inflation to July was a modest 1.8%. If inflation holds below 3%, the authorities could deploy more expansionary monetary and fiscal policies in the second half of 2012; potential measures include further cuts in interest rates and bank reserve requirements, along with tax cuts to encourage consumption and special programmes to spur lending to small and medium-sized enterprises (SMEs).

The global economy today is not as resilient to potential crisis as it was in 2009. The industrialized

economies in particular have very little scope for addressing a new crisis, for a number of reasons. On the monetary stimulus front, interest rates in the United States and the euro zone are approaching zero and several rounds of quantitative easing have already been deployed with limited results. In addition, public debt and fiscal deficits are at unsustainable levels in most economies of the Organisation for Economic Cooperation and Development (OECD), so there is little possibility for fresh fiscal stimulus. And lastly, private debt reduction will take a few more years; this, in addition to curbing domestic demand, makes monetary policy less effective as a reactivation tool.

The emerging economies also have less financial manoeuvring room to deploy countercyclical measures because of the effects of the recovery and expansion programmes implemented in 2009. In several cases, these set off credit booms and in others, inflationary pressures, declining yields on public investment and even fears of property bubbles and bad loans. Another limitation emerging as 2012 advances is the downturn in terms of trade and export values as a result of falling prices for some raw materials. This is weighing especially on the fiscal balances of economies which export minerals, metals and energy.

A two-speed global economy is expected for the coming decade, with the emerging economies growing at twice the rate of the industrialized economies. Projections to 2017 point to a favourable period for the emerging economies, albeit less dynamic than 2003-2007. Convergence with the developed economies in terms of per capita income should continue for the rest of the decade, although at a slower pace than during the exceptional years of 2003-2010. Trade between developing nations (South-South trade) will also be more buoyant than trade between industrialized countries (North-North trade) and at the current rates, South-South trade could exceed North-North trade by 2020. The commodities "supercycle" which began in 2003 could last until 2020, with price growth below the peaks of mid-2008 but higher than the historical trend. This is good news for South America, but less auspicious for Central America and the Caribbean.

The divergence between monetary cycles, with low interest rates in the industrialized countries and higher rates in the emerging economies, will last for another few years. The gap in interest rates and growth, and therefore in returns, could drive currency appreciation in emerging economies, which would hurt their export performance and hinder export diversification and competitive import substitution. Moreover, capital inflows could, in some cases, generate credit overheating, current account deterioration and real estate or stock market bubbles. Uncertainty and financial volatility will continue to dog the global markets until some sort of real progress is made towards resolving the euro crisis, which could take several years. In the

meantime, risk aversion and flight to quality may cause short but painful bouts of financial stress.

This will be the longest crisis of the post-war period, and with the most lasting effects. The crisis was triggered by public and private overindebtedness and thus left a legacy of high fiscal deficits and public debt which will have to be reduced gradually. During the five years leading up to the 2008 crisis, gross household debt rose by an average of 39 percentage points to reach 138% of income. In a number of European countries it topped 200%. When the 2008 crisis drove home values down, many households saw their home value to debt ratio fall. Moreover, falling income and rising unemployment made it hard to make mortgage payments. Accordingly, it will take a few more years for the industrialized economies to fully recover. The United States has made the most progress with debt reduction but high debt service in Ireland, Spain and the United Kingdom remains a serious constraint on private consumption.

There are noteworthy similarities in the experience of countries such as Finland, Republic of Korea and Sweden, which have successfully recovered from overindebtedness crises such as that currently beleaguering several European countries. These include the following: (i) rapid resolution of bad loans; (ii) robust export performance supported by significant devaluation; (iii) rapid expansion of private investment; (iv) structural reforms to promote productivity and competition;² and (v) stabilization of real estate market prices and resumption of new home sales. Another similarity is that fiscal deleveraging took place only after growth had resumed, driven by exports and private

investment. In other words, fiscal deleveraging came in the final years of private debt reduction. This contrasts with what is occurring in several European economies, where these processes are going on simultaneously.

Medium-term expectations are for slow, volatile economic growth in the industrialized countries while the developing countries continue to drive the economy and global trade. For many industrialized countries the challenge lies in making further strides in household, financial sector and government debt reduction. During this process, which could take at least five years, financial constraints seem likely to continue, as do problems with debt indicators, short and uneven recoveries, high unemployment and substantial government interventions in the financial system and the economy.

This likely scenario calls for a reordering of the global economic and political institutions to reflect the greater weight of the developing countries in the global economy. There are major gaps in the governance of globalization today in such aspects as international financial regulation, reform of the international monetary system, efforts to combat the effects of climate change, international migration and the adjustment of the multilateral trade system in response to the proliferation of preferential trade agreements and global value chains. In order to be effective, a substantive agreement on these matters must afford the emerging economies a larger role in decision-making. However, the current context of slow growth, high unemployment and compulsory fiscal consolidation in the industrialized economies is limiting the political scope for reaching such agreements.

B. The commodity boom: analysis and outlook

Burgeoning demand from China and other emerging economies have largely driven the surge in commodity prices since 2000, especially in mineral and metal prices. Although these conditions have promoted growth in countries in the region which export these products, especially in South America, they have also made them more dependent on the resulting income. By contrast, the Central American economies and most Caribbean countries are net importers of primary goods and have therefore suffered the adverse effects of rising commodity prices.

The current international uncertainty—combined with prospects for weak growth in the developed countries and slacker growth in the emerging economies— makes it necessary to consider how the region’s countries would be affected if their commodity exports were to falter. This is examined in terms of three different demand and price scenarios for 2013-2015 (neutral, optimistic and pessimistic), looking in particular at the 10 main commodity groups exported by the region. By decreasing share of total exports, these are oil, copper, iron, soybean, coffee, sugar, fish, meat, fruit and gas. These 10 groups together accounted for 42% of the region’s total worldwide exports in 2011(see figure 4).

The estimates performed show that, in the neutral scenario, the price index for all 10 product groups will

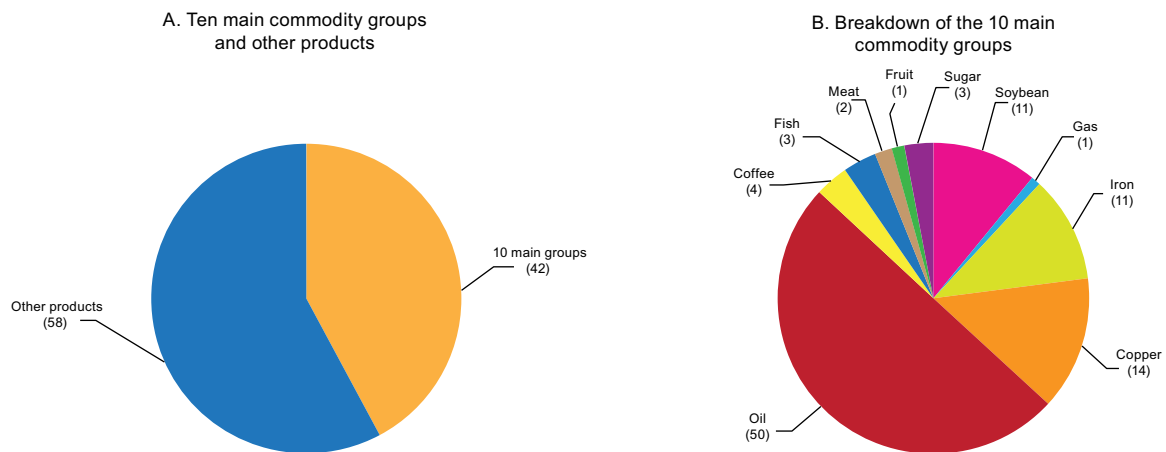
² In the case of the Nordic countries, reforms included entry into the European Union and retail sector deregulation; in the Republic of Korea, restructuring corporate conglomerates and further opening the economy to foreign direct investment.

fall by an annual average of around 2% between 2013 and 2015 (see figure 5). Even in the pessimistic scenario, prices for the main commodities exported by the region will remain above their averages for the 1990s and their troughs of 2005-2011, but will generally fall short of the peaks recorded in mid-2008 and in 2011 (especially in the case of minerals and metals). Food and oil prices could continue to climb, depending on how prevailing circumstances affect supply. The price supercycle that began at the start of the 2000s is therefore likely to continue, although at a slower pace. This means that the countries of the region will have to work harder to boost

their export volumes, if they are to maintain current levels of export income.

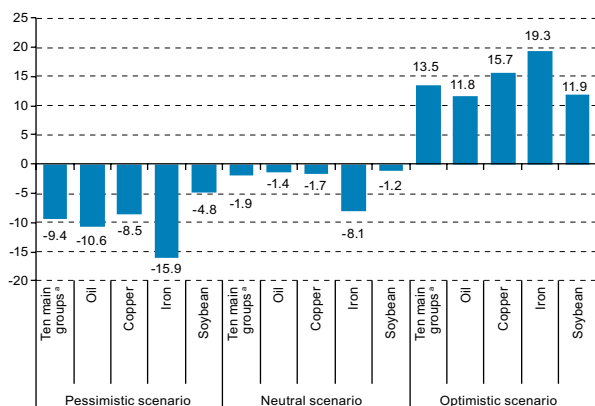
Despite the projected fall in prices, the value of total regional exports will continue to rise over the next three years, although much more slowly than in recent years. The projected annual growth rate in the value of exports between 2013 and 2015 is 5% for the neutral scenario, compared with 0.7% and 10.5%, respectively, for the pessimistic and optimistic scenarios (see figure 6). Overall, the region's export performance will fall far short of upsurge seen in the second half of the past decade, during which annual export growth averaged over 20% in value terms.

Figure 4
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF TOTAL EXPORTS BY MAIN PRODUCT GROUP, 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

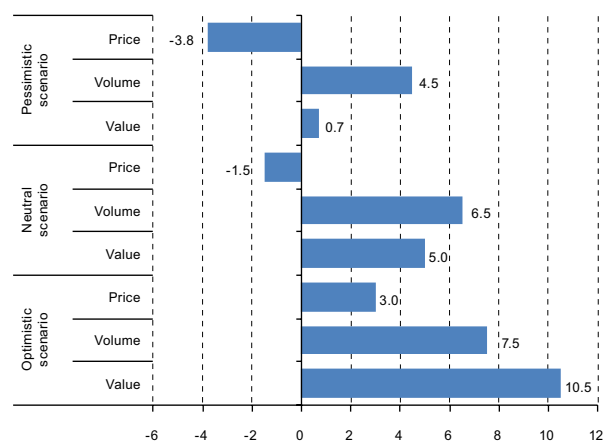
Figure 5
LATIN AMERICA AND THE CARIBBEAN: PROJECTED VARIATION IN PRICES OF MAIN COMMODITY GROUPS EXPORTS IN THREE SCENARIOS, 2013-2015
(Average annual rates of variation in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data and projections from World Bank, Economist Intelligence Unit and Organisation for Economic Cooperation and Development (OECD/Food and Agriculture Organization of the United Nations (FAO), *Agricultural Outlook 2012*.

^a Includes: oil, copper, iron, soybean, coffee, sugar, fish, meat, fruit and gas.

Figure 6
LATIN AMERICA AND THE CARIBBEAN: PROJECTED VARIATION IN INDEXES OF VALUE, VOLUME AND PRICE OF WORLDWIDE EXPORTS, 2013-2015
(Average annual rates of variation in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and official data from the countries.

The large proportion of commodities in Latin American and Caribbean exports to China and the favourable growth forecasts for that country ensure a threshold level of growth for the region's commodity exports in the years ahead. If the Chinese economy grows at rates of 7%-8% (as suggested by projections from various international organizations and the Chinese government's own estimates), the region will be guaranteed annual growth of 16% (by volume) in its exports to that country. In addition, to secure their supplies of raw materials, Chinese buyers commonly sign medium- and long-term contracts, particularly for metals (such as copper, nickel and iron ore, as the main inputs for the steel, construction and machinery industries in China). This means that Chinese buyers could well take advantage of lower commodity prices to stockpile supplies (especially of metals, soybean and other grains), as occurred during the 2008-2009 crisis.

As ECLAC has argued in numerous publications, the bias towards commodities in the region's export basket, especially in the case of the South American countries, presents both challenges and opportunities. If, as expected, prices rise at a slower pace over the next few years, this will ease currency appreciation pressures and pave the way for boosting exports of more complex products (including natural-resource-based products).

Nonetheless, this process is not automatic and poses a number of challenges for public policy. A public policy that aims to build up the component of national value within the commodity chain process must strengthen national networking (both between firms and between and within sectors) so that cooperation and consensus-building can be approached in a coordinated manner in order to tackle outstanding development challenges. These include:

- (i) promoting corporate innovation, competitiveness and internationalization, and a greater presence in broader production chains at the national, regional or international levels;
- (ii) further incorporating SMEs into the export production process;
- (iii) strengthening intraregional trade links, since intraregional trade is more intensive in processed natural-resource-based products and industrial products (such as foods, beverages and tobacco, textile products and chemicals), so that promoting regional value chains is a priority; and
- (iv) forging better quality trade relations with China and the Asia-Pacific region, so as to boost mutual cooperation in innovation through the development of long-term partnerships that will ensure price stability.

C. Trade and economic integration in Latin America and the Caribbean: recent performance and short-term outlook

Total exports by the Latin American and Caribbean region expanded by 23% in 2011 to represent US\$ 1.06 trillion, while imports rose 22% to US\$ 1.01 trillion. This performance widened the region's trade surplus from US\$ 33 billion in 2010 to US\$ 52 billion in 2011. The region continues to run a trade deficit with China and the rest of Asia, offset by the surplus with the United States and new trading partners outside the region. The trade balance with the European Union is virtually in equilibrium. As in 2010, Latin American and Caribbean exports outstripped the world average. They expanded by more than those of the United States, the euro zone and Asia, and were surpassed only by exports from Africa and the Middle East.

As in 2010, the region's mining and oil exports posted the fastest growth, far outstripping total exports. Exports of agricultural products also outpaced the regional average, despite greater price volatility during the second

half of the year. The lowest growth was registered by manufacturing exports.

The region's foreign trade has slowed sharply since the second half of 2011, heavily influenced by the recession in the euro zone, faltering economic growth in the United States and Japan, and slower growth in China and other emerging economies. This is reflected in the figures for January-June 2012, when regional exports and imports were up by 4% and 6%, respectively (see table 1). The slowdown has occurred in trade flows with all of the region's major trading partners, although exports to the European Union showed the steepest decline: by 5% year-on-year in the first semester of 2012.

ECLAC forecasts that the value of the region's goods exports and imports will climb by around 4% and 3%, respectively, in 2012. These figures are some 20 percentage points below the growth rates posted in

2011. By subregion, foreign trade growth will exceed the regional average in Central America and Mexico, but will be slower in South America. Both exports and imports will see a drop in the Caribbean countries, mainly because they have greater trade links with the European Union than the rest of the region (see table 1).

Table 1
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE
GROWTH, 2012
(Percentage variation)

	2012 (January-June) ^a		2012 (full year) ^b	
	Exports	Imports	Exports	Imports
Argentina	-1.1	-5.7	-0.2	-3.7
Bolivia (Plurinational State of)	24.4	15.0	16.2	-1.2
Brazil	-0.9	4.6	-0.5	-0.1
Chile	-2.3	7.3	-2.1	3.5
Colombia	11.3	11.4	7.0	10.3
Costa Rica	10.9	11.0	11.0	5.0
Dominican Republic	4.1	-1.4	6.1	-4.1
Ecuador	9.9	2.9	8.2	4.8
El Salvador	-3.6	1.5	-2.2	-0.1
Guatemala	-0.7	2.3	-0.3	3.5
Honduras	7.0	4.1	12.5	0.0
Mexico	7.6	7.7	7.4	5.3
Nicaragua	10.8	15.6	13.5	12.9
Panama	-2.7	10.6	2.7	3.6
Paraguay	-7.9	-7.6	-3.2	-12.5
Peru	1.4	11.0	-7.9	7.8
Uruguay	10.0	3.7	10.6	6.9
Venezuela (Bolivarian Republic of)	7.8	27.6	6.5	18.8
Caribbean Community (CARICOM)	-3.9	-3.2	-3.8	-0.9
Latin America and the Caribbean	4.1	6.7	4.0	3.0
South America	2.1	6.5	1.1	3.2
Mexico and Central America	7.3	7.4	7.3	5.0
Caribbean countries^c	9.4	-2.0	-0.7	-2.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

^a Preliminary estimates.

^b Projections on the basis of information available for January to July 2012 for Argentina, Brazil, Chile and Mexico, and January to June 2012 for the other countries.

^c Includes CARICOM, Cuba and the Dominican Republic.

The price component will suffer the most from the slowdown in regional exports, as it is expected to plummet from growth of 19% in 2011 to a contraction of 1% in 2012. Export volume, on the other hand, is projected to rise by close to 5%. Virtually all the countries of the region will see export prices fall (most sharply in South America and the Caribbean) and volumes increase. Export volume growth in Mexico and Central America is likely to outpace the regional average, as a result of which these countries will outperform the rest of the region in terms of exports. Import volumes are expected to grow by 4% in the region as a whole, more than offsetting the expected price decline of close to 1%. Mexico and Central America will post the largest increases.

ECLAC expects that the recession in the euro zone will cause a drop of around 5% in exports from Latin America and the Caribbean to the European Union. The sharpest drop will be in exports from the countries of the Caribbean Community (CARICOM) (-19%) and

South American countries (-7%), contrasting with the 16% growth forecast for Mexico and Central America. If the current situation in Europe continues, it could also have an indirect effect on the region's trade with China, as a result of weaker demand for imports in China and the other Asian countries in response to lower European Union demand for Asian exports. This trend is expected to intensify in 2013 as the region's exports to China slacken and the prices for the commodities it exports to that market, such as copper, iron ore and fishmeal, fall.

Thanks in part to changes in the region's foreign trade over the past decade in terms of export destinations, export performance in 2012 is expected to be better than during other recent international economic crises. While the region's exports declined by almost 5% in 2001 (the year of the "dotcom" crisis) and slumped by 22% in 2009, during the global financial crisis, they are forecast to grow by close to 4% in 2012. Major shifts in the region's foreign trade over the past decade in terms of export destination structure have built greater resilience. Between 2000 and 2011, the United States' share dropped by almost 20 percentage points, from 58% to 39%. In contrast, Asia's share rose steeply (from 6% to 18%), with China jumping from 1% to 9%. Exports within Latin America and the Caribbean also increased, from 16% to 20%. In short, developing regions have grown as destinations for Latin American and Caribbean exports; since they are also the world's fastest-growing economies, lower demand for Latin American and Caribbean exports in the industrialized countries has had less of an impact.

As in the rest of the world, trade restrictions have increased in Latin America and the Caribbean, although not across the board. Particularly in Argentina and Brazil, faltering growth in the past few quarters has fuelled demands from certain sectors to protect national industry. This has occurred in the context of a trend, already observed prior to the crisis, towards greater penetration of Asian manufactures (especially from China) which have displaced imports from the rest of the world as well as local production. As a result, in recent months some countries of the region have introduced measures or made announcements that point to further import restrictions, mainly on industrial products. Some of these actions have been called into question, both within and outside the region.

At the same time, a number of countries in the region have continued to sign new trade agreements. In May 2012, the free trade agreement between Colombia and the United States entered into force, while the free trade agreement between Panama and the United States is expected to follow suit during the second half of 2012. In June 2012 the association agreement between the European Union and Central American countries (including Panama)

was signed, as was the free trade agreement between the European Union and Colombia and Peru. Both agreements are expected to enter into force in late 2012 or early 2013. Thus several of the economies of the region already (or will in the coming months) enjoy preferential trade relationships with both the United States and the European Union. The number of trade agreements between countries of the region and Asia-Pacific has also increased considerably over the past 12 months. Free trade agreements entered into force between Costa Rica and China, Chile and Malaysia, Peru and Japan, and between Peru and the Republic of Korea. In addition, Mexico joined the negotiations on the Trans-Pacific Partnership (TPP). This flurry of activity concerns only a small number of countries from the region, however, all on the Pacific coast.

Significant changes have taken place in the region's formal economic integration architecture in recent months. These include the admission of the Bolivarian Republic of Venezuela as a full member of MERCOSUR, the formal establishment of the Pacific Alliance and progress towards the creation of a free trade area between Mexico and the Central American countries. This is therefore a situation in flux, and it is difficult to predict how it will pan out. That said, Meso-America appears to be moving towards ever closer economic integration, while the situation in South America is less clear-cut. As for the Caribbean, the matter of how the costs and benefits of integration should be distributed among the economies of CARICOM is being hotly debated; addressing this issue will pose new challenges for the integration process.

With the admission of the Bolivarian Republic of Venezuela as a full member of MERCOSUR, which was made official in July 2012, the grouping has become a market worth US\$ 3.3 trillion with 275 million inhabitants. The trading bloc has also added a major energy component to its profile as an agricultural powerhouse. It was agreed that the Bolivarian Republic of Venezuela would have until 2016 to gradually adopt the

commitments arising from full MERCOSUR membership. Meanwhile, Paraguay's right to participate in MERCOSUR bodies was temporarily suspended following the events that led to the removal from office of the then President, Fernando Lugo, by Paraguay's Congress in June 2012.

Also in June 2012, the framework agreement was signed formally establishing the Pacific Alliance. Bringing together Chile, Colombia, Mexico and Peru, the Alliance aims to build a closely integrated area and work progressively towards the free circulation of goods, services, capital and people among its members. These four economies constitute a US\$ 1.9 trillion market with a population of 207 million. The Pacific Alliance is also seeking to become a platform for political cooperation and for trade and economic integration whose global reach focuses above all on the Asia-Pacific region.

The single free trade agreement between Mexico and Central America was signed in November 2011 and entered into force on 1 September 2012 replacing the three agreements previously binding this group of countries.³ The main aim is to promote the use of intraregional inputs and reduce the administrative costs incurred by firms to benefit from the tariff preferences and other advantages established in the current agreements. This represents a major step towards the creation of a larger economic space with a gross domestic product of almost US\$ 1.3 trillion, a population of more than 150 million and close production and trade links with the United States.

In the Caribbean subregion, a debate has arisen in recent months in Jamaica over whether the country should remain a member of CARICOM. The main reason is the large trade deficit Jamaica is running with its partners in this grouping, particularly with Trinidad and Tobago, the bloc's largest economy. Underlying the discussion is the issue of how the benefits of economic integration are distributed among the members, especially since these vary considerably in terms of size, level of economic development, population and other variables.

D. The global economic outlook and the challenges it poses for the international integration of Latin America and the Caribbean

Prospects for the global economy for the remainder of the decade point to several years of slow growth in the industrialized countries. Such a scenario reinforces the long-term trend towards a growing contribution by the developing economies to global economic variables. Another trend that is rearranging the international

production and trade map is the geographical fragmentation of production, which is increasingly structured in value chains. These are characterized by substantial flows of

³ The three previous agreements that have now been superseded were between Mexico and Costa Rica; Mexico, El Salvador and Nicaragua; and Mexico and Honduras.

trade in intermediate goods and services and of foreign direct investment. Variables such as physical and services infrastructure, connectivity and logistics are essential for this production mode to work smoothly.

Gauging by the share of intermediate goods in total exports, Latin America and the Caribbean is not entering global value chains as quickly as other regions, particularly Asia. In 2011, the proportion of intermediate goods in the region's worldwide exports (9.5%), though higher than in the early 1990s, was much lower than at the start of the 2000s (see table 2). This reflects a great deal of lost momentum since the 1990s: having grown by 19% per year between 1990 and 2000, the region's exports of intermediate goods rose just 6% annually between 2000 and 2011. The slowdown was sharpest in Mexico, the region's primary exporter of intermediate goods (31% versus 5%), and Central America (29% compared with 7%).

Two thirds of the Latin American and Caribbean region's intermediate goods exports go to the United States. But if Mexico is not included, 54% of the region's exports of intermediate goods go to the regional market itself. This underscores the different subregional dynamics: whereas the intraregional is more important than the extraregional market for the South American economies, the opposite is true for Mexico, Central America and the Caribbean, whose production and export structure is clearly oriented towards the United States market (see the cases of Brazil and Mexico in table 2).

Table 2
**LATIN AMERICA AND THE CARIBBEAN, BRAZIL AND MEXICO:
SHARE OF INTERMEDIATE GOODS IN TOTAL EXPORTS AND
INTRAREGIONAL EXPORTS, 1990-2011**
(Percentages)

	1990	1995	2000	2005	2011
Latin America and the Caribbean					
Total exports	6.5	11.7	16.1	13.0	9.5
Intraregional exports	8.8	11.3	10.8	11.7	9.5
Brazil					
Total exports	10.5	11.1	12.5	11.4	6.4
Intraregional exports	20.1	20.8	22.6	19.8	17.9
Mexico					
Total exports	11.5	21.1	26.0	24.1	21.0
Intraregional exports	7.1	11.2	10.8	17.4	10.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

In 2011 intermediate goods represented 9.5% of intraregional exports in Latin America and the Caribbean, the same proportion as in worldwide exports. This is significant, bearing in mind that the proportion of manufactures is far higher in intraregional than in extraregional exports. In other words, the higher share of manufacturing trade within the region does not increase trade in intermediate goods within the region. This is an indication of the low level of production integration, as it

suggests that most of the manufactured goods traded within the region are wholly made in the country that exports them.

Within the region, Mexico and a number of Central American and Caribbean countries are the economies most integrated into value chains, mainly through maquila activities and production in duty-free export zones. But this value-chain integration seldom coincides with high levels of local value added. What is more, under agreements adopted in the framework of the World Trade Organization, in 2016 many Central American and Caribbean countries will have to severely cut back on the fiscal incentives they extend to firms in duty-free export zones based on their export performance. This will sorely test the ability of these zones to maintain their share in total exports.

From an analysis of input-output tables for six countries⁴ in the region, it was found that employment linked to exports represents a significant and growing percentage (between 11% and 24%) of total employment (see table 3). With the exceptions of Argentina and Chile, indirect export employment (i.e. employment associated with the goods and services used as inputs by the export sectors) was more dynamic than direct export employment and its share of total export employment (direct and indirect) was rising. Whereas in Argentina, Brazil and Uruguay more than one indirect job is created for every direct job in the export sector, in Chile, Colombia and Mexico the ratio is much lower than one.

The six countries examined all had a group of manufacturing sectors with a high density of indirect export employment. These sectors are foods, beverages and tobacco; chemicals and pharmaceuticals; automobiles; machinery and equipment; and wood, pulp and paper. All these activities have in common a high share in intraregional exports. They are also labour-intensive and have greater linkages with other sectors and accordingly generate more export employment, especially indirectly. This is particularly evident in the foods, beverages and tobacco sector in Brazil (5.6 indirect jobs for every direct job) and the chemicals and pharmaceuticals in Mexico (4.3 indirect jobs per direct job).

In 14 countries in Latin America and the Caribbean representing nearly 95% of the region's total exports, there were some 114,000 export firms in 2011. Approximately 32% of these were in Mexico, 19% in Brazil and 11% in Argentina. The total number of export firms in the region increased by 15% between 2002 and 2011, and in several countries the number of export-oriented businesses grew at a faster pace than businesses overall, especially in countries that have followed consistent policies for developing the export

⁴ Argentina, Brazil, Chile, Colombia, Mexico and Uruguay.

sector. However, this trend was interrupted by the crisis that broke out in 2009. In fact, in several of the region's larger economies, including Argentina, Brazil, Chile and Colombia, there were fewer export-oriented businesses in 2011 than in 2008, before the crisis. The region overall has a similar number of export firms to Spain or France.

The percentage of export-oriented firms in Latin America and the Caribbean is still very small. Around 2010, in most countries, the share of exporters as a percentage of the total number of firms remained below 2% and was less than 1% in many of them.⁵ These percentages are very low compared with several developed countries and emerging Asian economies (see table 3).

The export sector in many of the region's countries is highly concentrated in a few firms, usually large corporations associated with natural resources. The top percentile of export firms accounts for over 70% of exports from Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Mexico, Paraguay, Peru and the Plurinational State of Bolivia. Only in Panama and Uruguay is the percentage for this indicator similar to that seen in the developed countries (see table 3).⁶ That concentration levels are so high in the region reflects the increases in commodity prices during much of the last decade: over 80% of the major export companies in Latin America and the Caribbean are linked to natural-resource exploitation and processing.

Table 3
SELECTED COUNTRIES: INDICATORS OF EXPORT PERFORMANCE, EXPORT EMPLOYMENT AND SUPPORT FOR SMEs
(Percentages, dollars and number)

Country	Exports per capita, 2010 (dollars)	Export firms as a proportion of total firms, 2010 (percentages)	Share of first decile of export firms in total exports, 2010 (percentages)	Export employment as a proportion of total employment, around 2005 (percentages)	Jobs per US\$ 1 million exported, around 2005 (number of jobs)	Support for SMEs as a proportion of GDP, around 2009 (percentages)
Latin America and the Caribbean						
Argentina	1 683	...	72.0	15.1	27	...
Brazil	1 194	0.5	59.5	14.5	101	0.085
Colombia	981	0.4	78.6	12.2	97	0.008
Chile	4 813	0.8	81.0	24.1	53	0.03
Mexico	2 766	0.7	73.1	13.4	27	0.015
Uruguay	3 102	1.6	40.8	18.0	56	0.024
Countries outside the region						
Belgium	27 685	5.8	48.0	...	...	...
Republic of Korea	10 875	2.7	...	21.2	17	0.27
Spain	8 019	3.4	...	14.1 ^a	10 ^a	0.41

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), official data from the countries and estimates on the basis of input-output tables.

^a Direct employment.

Export firms in Latin America and the Caribbean are very heterogeneous and show a high turnover (especially the smaller firms). Of all the export firms in the region, those that have been exporting continuously for several years (five to seven) usually account for some 30%. These continuing exporters usually operate in sectors with greater comparative advantages. In a number of countries in the region, these are natural-resource-related firms that are more capital-intensive than the average for the economy. Proportionally speaking, exporters are greater in number among large firms than among SMEs.

The number of firms exporting more than one product to more than one destination has increased slightly, but mono-exporters with a single destination still prevail in all of the countries of the region. Of a universe of about 108,000 exporting firms in 10 countries in the region in 2010, some 39,000 (mostly SMEs) export a single product to a single destination. Only about 3,600 firms export more than 10 products to more than 10 destinations;

most of these are large companies. The pattern is very similar for all of the countries of the region in this respect.

The correlation between export growth and total employment is smaller when exports are highly concentrated, which usually coincides with a relatively less developed manufacturing sector. Therefore, decreasing export and agent concentration should be a key part of the effort to diversify exports and reduce structural heterogeneity.

Not only is the region itself the principal destination for most of its export firms: the number of products exported in intraregional trade is the largest, especially in the high-tech category, and these exports are the least concentrated. Over half of the region's export firms export within the region (between 55% and 69% of them, depending whether Mexico is included), even though it is the destination for just one sixth of total exports by value. For most of the countries, the region accounts for the lowest average per-company export

⁵ Costa Rica, where export firms represent around 4% of all firms, is somewhat of an exception.

⁶ In Panama, which is not shown in table 3, the top percentile of export firms accounts for 46.9% of total export value.

value, the largest average number of products exported per firm and the lowest concentration indices. The opposite occurs with exports to China (see table 4). Exports to the United States share some of the characteristics of

intra-regional exports, such as greater participation of export firms (including SMEs) and higher employment generation (direct and indirect) than exports to other markets, especially Asia.

Table 4
LATIN AMERICA (8 COUNTRIES): EXPORT PERFORMANCE INDICATORS BY DESTINATION, AROUND 2010^a
(Percentages, millions of dollars, numbers of products and indexes)

Destination	Firms exporting to each destination (percentage of total exporters)	Average amount exported by firm (millions of dollars)	Average products exported by firm (number)	Concentration of export firms (Herfindahl-Hirschmann index)	High-tech firms exporting to each destination (percentages of total)
Latin America and the Caribbean	68.9	1.8	4.5	0.02	46.4
United States	27.8	2.2	2.6	0.05	27.1
European Union	28.7	3.1	3.1	0.10	18.7
China	6.9	8.9	1.6	0.14	5.1
Rest of the world	31.0	4.5	3.2	0.07	21.3
Total	163.3 ^b	4.8	3.3	0.04	118.7 ^b

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from customs services in the countries.

^a Includes Argentina, Brazil, Chile, Colombia, Panama, Paraguay, Peru and Uruguay.

^b The total adds up to over 100%, because some firms export to more than one market.

SMEs represent 58% to 88% of the region's export firms, and between 6% and 8% of the value exported. Their contribution to direct export employment is twice their contribution to total exports. Because they are more employment-intensive, SME exporters generate more jobs per dollar exported than large companies. This is in addition to their indirect contribution to export employment. For example, SMEs participate indirectly in foreign trade as suppliers of goods and services to large export companies or by selling their output to traders for subsequent commercialization in international markets.

SME internationalization is still relatively low in Latin America and the Caribbean. SMEs face substantial human capital constraints, strategic management issues and relatively higher fixed costs for entering external markets. Moreover, they are less able than larger firms to meet destination market requirements (such as quality, sanitary, phytosanitary and environmental sustainability standards). These hurdles, on top of the export structure of the countries of the region (markedly skewed towards capital-intensive and natural-resource-intensive sectors), keep the direct share of SMEs in total export value quite low.

The analysis of intermediate goods trade, export employment and exporting firms highlights the need for Latin America and the Caribbean to step up efforts to strengthen the regional market. A production transformation that helps to reduce inequality calls for more and better productive employment and a larger presence of SMEs, manufactures and services in exports. These are features that are better represented in intra-regional trade than in any other type. The regional market is an important one for high value-added and knowledge- and employment-intensive exports. It also tends to be the most important market for export-oriented manufacturing firms

and SMEs. The regional market is made more attractive by the burgeoning middle class in Latin America and the Caribbean over the past two decades. Moreover, in an international environment marked by poor prospects for growth in the industrialized countries, over the next few years the regional market should be able to cushion drops in demand for the region's exports in those markets.

Another argument for strengthening the regional market is that the global economy is increasingly structured around macro-regions, there being only a few national markets large enough to be attractive on their own, separate from their regional context. In today's globalized economy, competitiveness depends more and more on regional factors such as adequate infrastructure, efficient transport systems, telecommunications connectivity and simple and streamlined customs procedures. In all these areas, coordinated action among governments would be more fruitful than isolated national efforts. Deep integration can provide regional public goods that neither national markets nor national governments alone can provide successfully.

The region continues to exhibit low levels of intraregional trade and production integration. While more than 50% of the exports of intermediate goods from Latin America and the Caribbean (excluding Mexico) go to the region itself, they make up just 10% of total intraregional exports. For most of the countries of the region, the most immediate opportunities for entering value chains lie in the regional market itself because of its higher trade density in manufactured goods. Progress therefore needs to be made in creating an environment that is conducive to greater production integration among the economies of the region. This calls for action on a number of fronts, such as further progress on trade facilitation

and cumulation of origin, and gradual convergence of regulatory frameworks in areas such as the treatment of foreign investment, services and technical rules. Headway must also be made in closing the physical infrastructure gaps that limit regional connectivity (and with it the possibility of balanced territorial development).

Latin America and the Caribbean should continue to forge closer ties with other developing regions, particularly Asia-Pacific as the main hub of global economic growth. Economic growth in Asia (and especially China) has given the region the opportunity to build up its resilience and growth capacity. This process brings major issues of its own by, for example, favouring the entrenchment of an export pattern based on unprocessed natural resources (in the case of South America) and the displacement of Mexican and Central American manufacturing exports in the United States market. The region should therefore seek integration in the world economy in a way that optimizes the benefits of its growing links with Asia and other developing regions while reducing the cost.

The time has come for a quality leap in the relationship with China, for which it is urgent to combine national efforts and agree on a regional agenda of priorities. This means giving preference to plurinational approaches over unilateral initiatives. So far, however, it has been China that has taken the initiative in bolstering relations with Latin America and the Caribbean. This was apparent in the set of proposals made by China's Premier, Wen Jiabao, during his June 2012 visit to the region. The time seems to have come for the region to pull together and work as one in responding appropriately to the many substantial initiatives that China has brought to the table. Here, there should be a pivotal role for the newly created Community of Latin American and Caribbean States (CELAC), on the strength of its inclusive nature.

India and the Association of Southeast Asian Nations (ASEAN) are also key actors in the region's strategy for building closer ties with Asia-Pacific. Combined, these 11 economies represent a highly dynamic market of over 1.8 billion people. India's rapid growth and urbanization and its shortage of many natural resources (especially food, mining and energy products) make it a market of great interest to the region. ASEAN is important because of its economic and demographic weight and because it lies at the hub of Asian industrial production networks and of the new architecture of economic integration now emerging in East and South-East Asia.

All in all, the main challenge lying ahead for Latin America and the Caribbean is internal: how to link the regional innovation and competitiveness agenda to the current economic relationship with the Asia-Pacific region? For example, avoiding excessive reprimarization of exports requires boosting their innovation and knowledge content. Doing so calls for vigorous production development policies geared towards improving productivity, innovation, infrastructure, transport, logistics and workforce skills. In each of these spheres there is space for building a regional cooperation agenda with China and other key actors in Asia-Pacific.

More and better regional cooperation and integration would be very useful in this regard. Regional and subregional joint initiatives for innovation, competitiveness, infrastructure and sustainability, including adaptation to climate change, would complement national public policies. Active use of these spaces by the countries of Latin America and the Caribbean would generate attractive trade and investment opportunities with China and Asia-Pacific as a whole. There are substantial synergies between the two strategic guidelines put forth herein: enhancing regional integration and strengthening ties with other developing regions.

Chapter I

The complex reordering of the global economy

A. The three engines of the global economy lose momentum

Global economic turmoil and uncertainty heightened in mid-2012, particularly in the euro zone, sapping a recovery that was already the slowest in 40 years. The global economy faltered in the last quarter of 2011 following the delay by the industrialized countries in taking a tougher fiscal policy stance amid further global financial market troubles. The opening months of 2012 brought an uptick in industrial output and capital goods sales and imports as the result of new monetary and structural measures in the euro zone and less restrictive monetary policy in the emerging countries. Starting in May, however, difficulties in the euro zone reversed much of the progress made in preceding months.

The euro zone economy slipped into recession, and the governments have not managed to reach agreements leading the way out of the grave economic and financial situation. The recession, along with high unemployment rates in several euro zone countries, is the outcome of fiscal austerity, a lack of confidence among economic actors and contracting credit. These problems are hampering bank deleveraging, leading banks to further curtail lending. Borrowing rates for Italy and Spain continue to be intolerable despite 19 European summits. It is clear that the core components of the crisis are being addressed

reluctantly and late, with not enough signs of understanding how serious the situation is.

The difficult overall context in Europe masks substantial heterogeneity among individual countries. Germany is in the best position: while it is being affected by the depressed context in the region, its exports outside the European Union are benefiting from the euro's falling value against the dollar and the yuan. And the crisis is helping Germany's public accounts because the mounting credit risk of a number of euro zone countries boosts demand for German bonds and pushes their real yields into

negative territory. This is helping to bring down Germany's deficit and makes it more likely to balance out in 2013.¹ Other countries, such as Austria, Denmark, Finland, the Netherlands and Sweden, are in a similar position. On the other hand, Greece, Ireland, Italy, Portugal and Spain are in a deep recession exacerbated by stringent fiscal austerity measures and soaring interest rates on their sovereign debt. This is one of the economic and political divides between Northern Europe and Southern Europe that make it hard to reach agreements.

The United States is in a period of slow, vulnerable growth five years after the outbreak of the subprime crisis. Despite substantive reactivation programmes, the recovery is proving to be the slowest since the 1970s. In mid-2012 job creation was losing momentum and the unemployment rate remained above 8%. There is a real threat of another recession in 2013 because of the US\$ 560 billion in automatic tax hikes and spending cuts—equal to 4.7% of GDP—that will take effect in January 2013 if Congress does not reach an agreement for postponing some of these measures. A withdrawal of fiscal stimulus measures, plus new taxes, would be a substantial drag on the economy, with growth projected at just 0.5% for 2013 and the economy expected to contract during the first half of the year (Congressional Budget Office, 2012).

As a result, growth is slowing in China while the authorities seek to ensure 7.5%-8% expansion for 2012. Exports, imports and industrial output are cooling, owing in part to the recession in the European Union, China's main destination market. Because of China's growing links with the other emerging and developing economies, its slowdown impacts their exports as well. On the domestic front, inflationary pressures and property bubbles seem to be easing. Year-on-year inflation to June was only 2.2%. If it holds below 3%, the authorities could deploy more expansionary monetary and fiscal policies in the second half of 2012; potential measures include expected further cuts in interest rates and bank reserve requirements, along with tax cuts to encourage consumption and special programmes to spur lending to small and medium-sized enterprises (SMEs). Recent projections put Chinese growth for 2012 within the 7.5%-8% range forecast by the government, which would help to keep commodity prices above the historical trend.

In this complex global context, world trade has been slowing in 2012 and is expected to grow by some 3.7% in volume terms (WTO, 2012a) versus the 5% expansion posted in 2011. World trade stabilized in the first half of 2012 after an especially weak showing in the

second half of 2011. This slight recovery could continue into the second half of 2012, but the carry-over effect of slow growth in the second half of 2011 is likely to hold back growth for 2012 as a whole below the prior-year figure.

The trade policies of the world's principal economies support an exit from the crisis but are also making it worse. On the one hand, the need to increase exports and the stalemate at the World Trade Organization (WTO) Doha Round have led the main actors to step up efforts to finalize new trade agreements, especially in the fast-growing Asia-Pacific region. On the other hand, the Group of Twenty (G20) have continued to resort to a variety of trade barriers, which have broadened since October 2011 as the crisis deepened and now apply to 3% of global trade. The number of disputes brought before WTO in the first half of 2012 already topped the total for all of 2011. These disputes increasingly involve sensitive policy areas that go beyond strictly trade issues, such as environmental and public health policies.

The global economic outlook is subject to several downside risks having to do, above all, with difficulties in the euro zone and their impact on demand. A 1-percentage-point drop in income in the industrialized countries would trigger a drop of 2.2 percentage points in exports and shrink developing countries' GDP by 0.8 percentage points (World Bank, 2012). There are other threats on the horizon. Tensions in the Middle East and the Islamic Republic of Iran, along with the European Union embargo on Iranian oil, are endangering oil price stability. In this fragile global economic scenario, sharply spiking crude oil prices would make an international recession more likely. Some credit constraints are beginning to be felt in the developing economies and, as usual, are weighing disproportionately on SMEs. And cooling commodity prices are starting to narrow the fiscal space for commodity-exporting countries and slow their pace of economic growth.

The global economy today is not as resilient in the face of a new crisis as it was in 2009. The industrialized economies in particular have less scope for action. Leading interest rates are approaching 0% in the United States and the European Union, which translates into negative real interest rates. Both of these economies have applied repeated rounds of quantitative easing, with limited results. Because fiscal deficits and public debt are at unsustainable levels in most of the industrialized countries, there is little scope for new fiscal stimulus measures. The private deleveraging now under way is a significant drag on economic growth, cutting into domestic demand in these countries. The emerging economies also have less financial room for manoeuvre because of the effects of the recovery and expansion programmes implemented in 2009, which set off a substantial increase in credit in a number of countries that led to fears of property bubbles and bad loans and left a legacy of unprofitable investments.

¹ See Spiegel Online, "Eurocrisis Will Help Germany Balance its Budget" [online] <http://www.spiegel.de/international/europe/euro-crisis-helps-germany-by-lowering-borrowing-costs-a-838880.html> [date of reference: 21 July 2012].

Expectations over the medium run are for slow, volatile economic growth in the industrialized countries while the developing countries continue to drive the global economy and world trade. For many industrialized countries the challenge lies in making further strides in household, financial sector and

government debt reduction. During this process, which could take at least five years (Reinhart and Rogoff, 2009), financial constraints would continue, as would problems with debt behaviour, short and uneven recoveries, high unemployment and substantial government interventions in the financial system and the economy.

B. The economy and global trade in a context of uncertainty and volatility

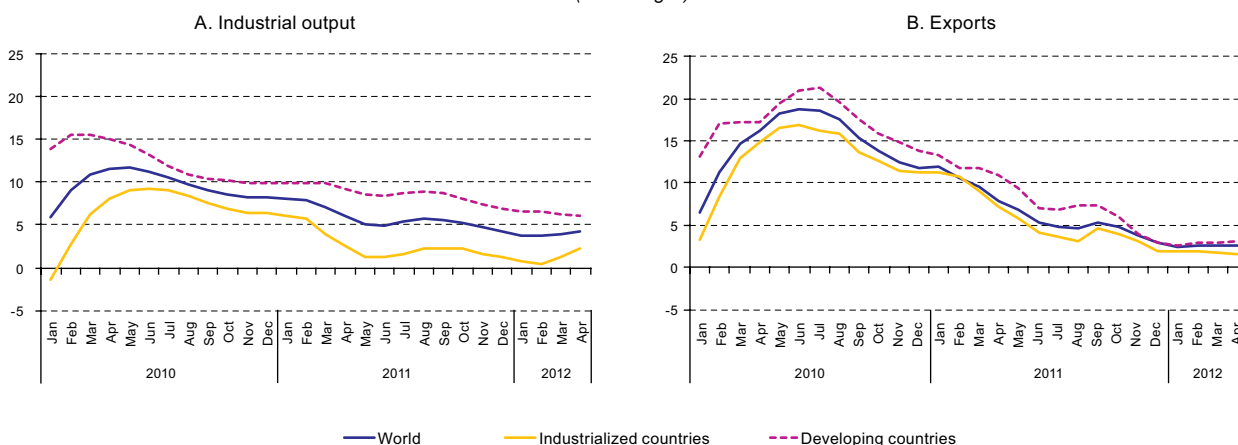
1. World economic overview

The global economic slowdown is worsening in 2012, against a backdrop of uncertainty and volatility. The greatest volatility stemmed from deteriorating investor sentiment in the financial markets, influenced by the complex situation in the euro zone where concerns over unsustainable sovereign and private debt levels in a number of periphery countries bred panic, followed by interventions (stabilization programme agreements for Ireland, Portugal and Spain, and debt reduction in Greece) that calmed the markets over the short run. In this unfavourable environment, industrial output growth in the developed countries fluctuated between 1%

and 2% during much of 2011 while their exports continued to decline (see figure I.1). In the developing countries, the pace of output and export expansion eased off as well but remained higher than in the developed countries, especially in terms of GDP growth.

The developing countries are still the main engine of the global economy. The world economy grew 2.7% in 2011 and is expected to slow slightly to 2.5% in 2012 (United Nations, 2012).² Just one fourth of this growth is from the industrialized economies, which expanded by 1.4% in 2011 and are projected to grow 1.2% in 2012.

Figure I.1
WORLD AND PRINCIPAL REGIONS: ANNUAL GROWTH IN INDUSTRIAL OUTPUT AND EXPORT VOLUME, JANUARY 2010 TO APRIL 2012
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CPB Netherlands Bureau of Economic Policy Analysis, *World Trade Monitor*.

² The United Nations calculates global growth as a weighted average of individual country GDP growth rates, using as weights the countries' GDP at nominal exchange rates.

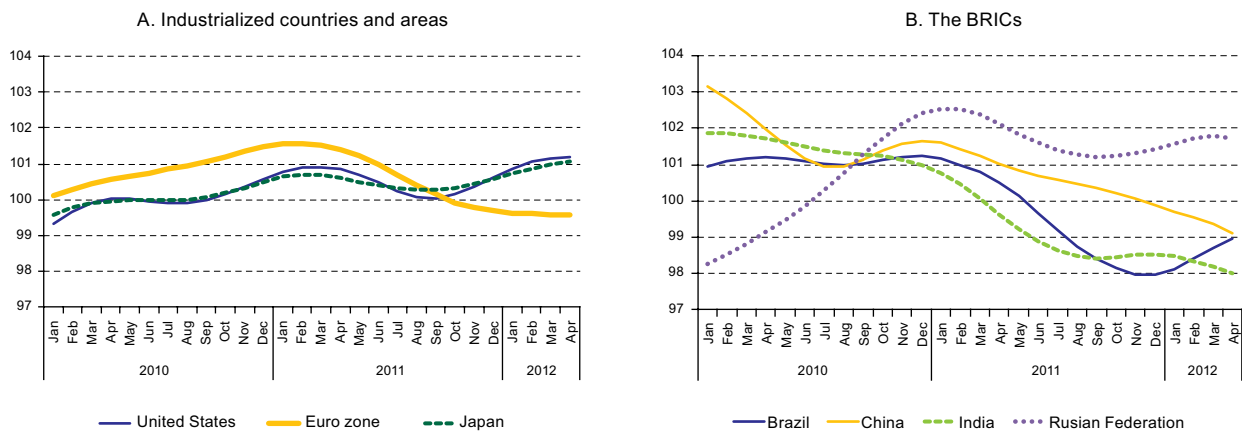
This rate masks a high degree of heterogeneity: most euro zone economies are in recession, and the United States and Japan are seeing growth approaching 2%. By contrast, the developing countries are relatively buoyant and account for most of the growth posted by the global economy in 2011 and 2012. But slower growth in the industrialized countries is impacting the developing regions as well, through trade and financial channels, and pulling expansion down from 5.9% in 2011 to 5.3% in 2012. The largest contribution is from the developing countries of Asia, headed by China.

One of the biggest challenges at present is job recovery, above all in the industrialized countries. The economic recovery of 2010 brought improved employment rates in many countries, but the 2011 slowdown halted progress. In all of the large economies, employment remains below 2007 levels except in Brazil, China and Germany. This situation is also reflected in persistently high unemployment rates, especially in the advanced countries. At least through June 2012 unemployment in the United States remained above 8%, topping pre-crisis levels. In May 2012 unemployment in the euro zone was the highest in its history (11.1% of the workforce, or approximately 48 million people).³ Euro zone unemployment is expected to continue to rise and might not stabilize until sometime in 2013. Overall, the

Organisation for Economic Cooperation and Development (OECD) countries would need to create 14 million jobs in order to return to pre-crisis levels of employment (OECD, 2012c). Other worrisome trends are the increase in long-term unemployment (35% of total euro zone unemployment) and the percentage of unemployed young persons (United Nations, 2012). The developing regions posted the strongest upturns in employment, but in some countries the economic slowdown of late 2011 and early 2012 is hampering the return to pre-crisis levels. This is not the case in most of the countries of Latin America, where the first quarter of 2012 saw higher employment rates and lower unemployment than in the first quarter of 2008 (ECLAC, 2012).

The economic outlook for 2012 varies within each group of industrialized and developing countries. This can be seen in the composite index of leading indicators, which predicts business cycle changes (see figure I.2). In the first group of countries, the index points to a certain uptick in activity in Japan and the United States in 2012 while the situation grows more complicated in the euro zone. In the second group, the pace of economic expansion is easing in China and India. In contrast, Brazil's economy resumed growth in the second half of 2012 after a sharp slowdown. Growth in the Russian Federation is approaching a turning point.

Figure I.2
SELECTED COUNTRIES AND AREAS: COMPOSITE INDEX OF LEADING INDICATORS, JANUARY 2010 TO APRIL 2012
(Long-term average=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CPB Netherlands Bureau of Economic Policy Analysis, *World Trade Monitor* and Organisation for Economic Cooperation and Development (OECD), "OECDStat" [online] <http://stats.oecd.org/Index.aspx> [date of reference: 6 July 2012].

Note: The purpose of the composite index of leading indicators is to predict movements and, in particular, turning points in the business cycle of individual economies. It includes both quantitative and qualitative indicators, notably the stock-exchange index, foreign trade, manufacturers' orders, the monetary base, interest rates and consumer confidence.

³ In nearly all the euro zone countries (except Germany), job loss figures at year-end 2011 were higher than in 2007. Unemployment rose the most and was highest in the most heavily indebted countries,

owing in part to drastic fiscal cuts: Spain (24.6% in May 2012); Greece (21.9% in March 2012); Ireland (14.6% in May 2012); and Portugal (15.2% in May 2012) (Eurostat, 2012).

2. Trade and foreign direct investment: recent trends and projections

After recovering in 2010, the pace of world trade growth is cooling. The 2009 crisis, which drove international trade down sharply, was followed by a strong recovery in 2010 as global trade volume expanded by almost 14% only to fall back to 5% in 2011 (WTO, 2012a). This slowdown is due in part to decelerating demand (GDP) worldwide—from 4.1% growth in 2010 to a projected 2.5% in 2012 (United Nations, 2012)—most markedly in the industrialized countries, principally the euro zone. Other negative impacts in 2011 were from the earthquake in Japan in the first quarter (causing the stagnation of Japanese exports) and tensions in North Africa that affected its oil exports.

Global trade rallied somewhat in the early months of 2012, but several factors seem to be working against growth for the remainder of the year. Projections for 2012 overall point to an expansion of 3.7% in terms of volume, which is below the 5.1% annual average growth for the past two decades (WTO, 2012a). Trade grew in the first quarter of 2012 owing to increasing domestic demand in the United States, more expansionary monetary policies in some of the larger middle-income countries, and an easing of financial market tension. Starting in May, however, fresh turmoil in the euro zone spilled over into global trade as final consumer demand and investment receded amid heightened uncertainty.

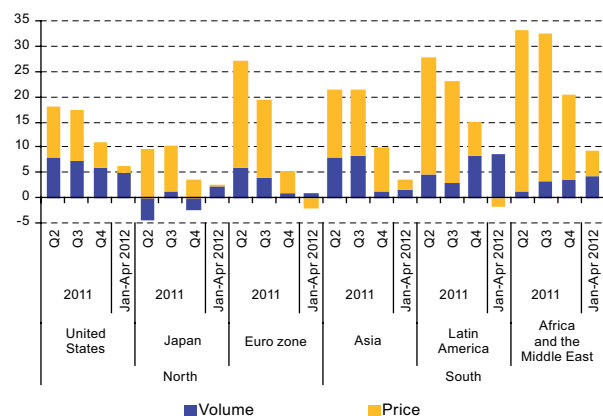
The trade performance of industrialized countries has varied widely. The deepening European sovereign debt crisis (which brought a sharp fiscal contraction, high unemployment and a credit crunch) dampened the demand for imports. The recession in Europe hit global trade hard because intra-European trade makes up one fifth of the total worldwide. Nonetheless, European export value continued to grow briskly in the second and third quarters of 2011, mainly because appreciation of the euro drove dollar prices up. There was, however, not much of an increase in export volume. Demand for imports in the United States has been relatively strong. Export volume grew by more than 5% between the second quarter of 2011 and April 2012. Japanese trade was hurt by the earthquake in eastern Japan, flooding in Thailand (which has strong production links with Japan) and the global economic cooldown. Japanese exports actually declined in the second and fourth quarters of 2011.

The developing regions are still driving global trade despite slower expansion of their own trade. China has led the developing countries: in the last quarter of 2011 its imports grew at an annualized rate of more

than 30% in value terms, but since then, its exports and imports have slowed. The other developing countries saw the pace of expansion ease off during the same period, although there was a fresh uptick in the first quarter of 2012. Developing countries with strong trade ties to Europe have been hard hit, especially those in Eastern Europe, Africa and East Asia. In East Asia, supply chains in the electronics and automobile sectors were impacted by other factors as well, including the Japanese earthquake and flooding in Thailand in the closing quarter of 2011. As these two countries recovered from natural disasters and demand in Asia and the United States strengthened, their exports picked up slightly in early 2012. The 2009-2012 recovery differs not only between advanced countries and developing ones but also in comparison with previous recoveries (see box I.1)

Against the backdrop of a slowdown in global trade, Latin America and the Caribbean saw faster export growth than any other region in the world in the fourth quarter of 2011 and first four months of 2012. This performance is explained in part by the fact that the region is less dependent than others on the European Union as a destination market. Moreover, demand in the United States and China (its two main trading partners) maintained positive growth; other this benefited Mexico and Central America the most in the first case and South America in the second (see figure I.3).

Figure I.3
COUNTRIES AND REGIONS OF THE WORLD: ANNUAL EXPORT GROWTH, APRIL 2011 TO APRIL 2012
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), *World Trade Monitor*.

Box I.1

THE CURRENT POST-CRISIS PERIOD DIFFERS FROM PREVIOUS RECOVERIES

The current post-crisis period is different, not only because the pace of recovery varies between advanced countries and developing ones but also because it stands in contrast to recoveries from earlier crises such as those that broke out in 1982 and 1991. According to Kose, Loungani and Terrones (2012),

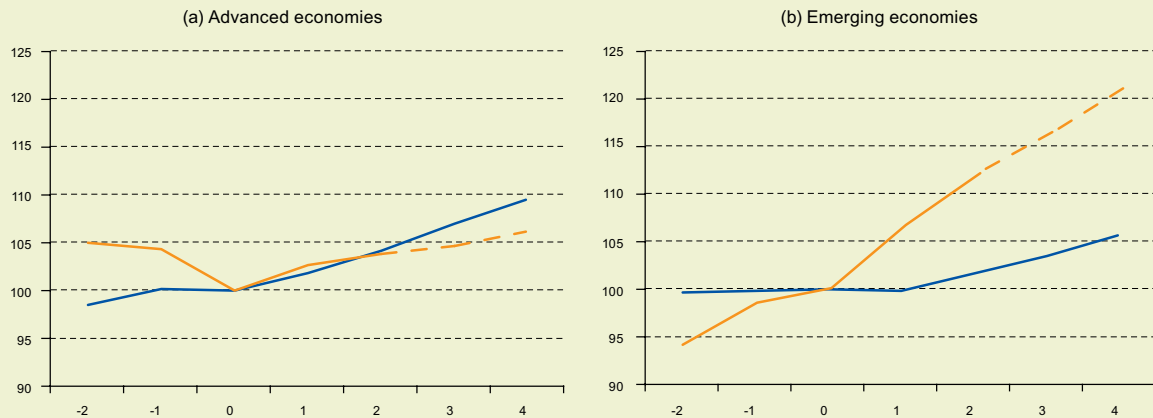
since 2010 the global economy has been recovering from the worst, most synchronized crisis since the Second World War, and the pace has been similar to the two preceding recoveries. But the pattern in industrialized countries has differed sharply from the one seen in developing countries. The recovery

in the advanced economies is expected to be one of the weakest since the Second World War. The developing economies are growing faster, in terms of both GDP and exports (see the figure below). The developing countries have thus become the engine of growth and trade worldwide.

ADVANCED AND EMERGING ECONOMIES: RECOVERY AFTER THE 2009 CRISIS COMPARED WITH THE CRISES OF 1982 AND 1991

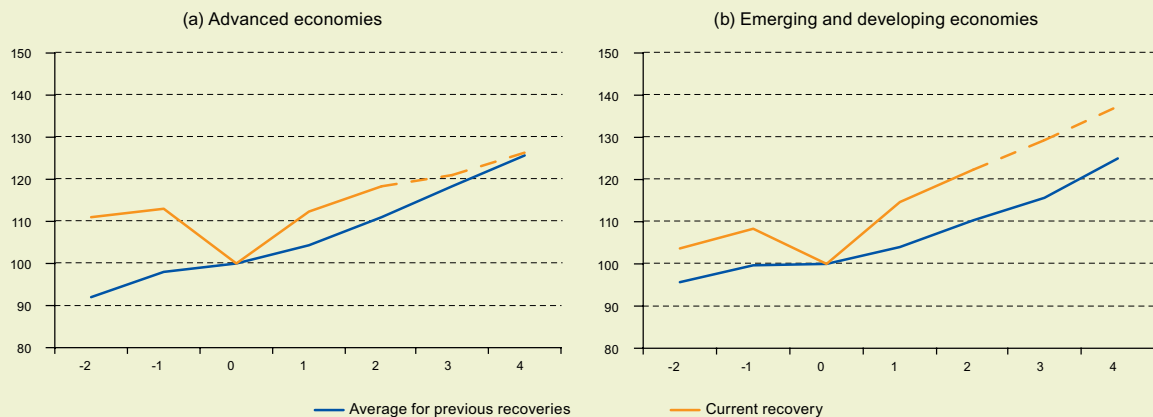
A. CONSTANT GDP IN 2005 DOLLARS AND PURCHASING POWER PARITY

(index: crisis year=100)



B. GOODS AND SERVICES EXPORT VOLUME

(index: crisis year=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *World dataBank* and International Monetary Fund (IMF), *World Economic Outlook*.

Note: 0 is the crisis year; the scale shows years before and after the crisis. The average for earlier recoveries includes the 1982 crises and the 1991 crisis. The dash line represents projections.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. Ayhan Kose, Prakash Loungani and Marco E. Terrones, "Tras la pista de la recuperación mundial", *Finanzas y desarrollo*, June 2012, p. 10-13.

The contribution of commodity price rises to the increase in export value fell sharply between the second quarter of 2011 and the first few months of 2012. Commodity prices declined in the second half of 2011 and were somewhat volatile thereafter. This drop was triggered by negative prospects for growth worldwide because of the debt crisis in Europe, concerns as to the sustainability of economic growth in the United States and fears of a potential cooldown in the emerging economies. These downtrends reversed in early 2012 and even earlier in the case of oil as the prospects for global growth improved and specific events affected the supply of oil products. Prices, except those of foodstuffs, saw another downturn towards mid-2012 owing to tensions in the euro zone and slowing growth in Asia. Despite this less bright scenario, commodity prices are expected to remain above their historical averages in the coming years (see chapter II).

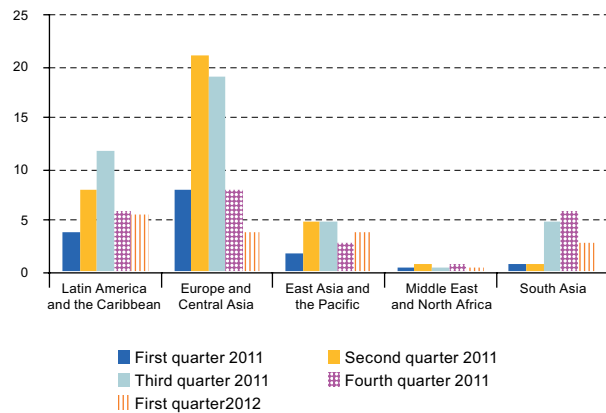
Trade finance flows ebbed in the second half of 2011 but posted a partial rally in the first quarter of 2012 (see figure I.4). The decline in 2011 was due in part to deleveraging by European banks, which are the main source of this kind of financing. Banks from other regions (especially Asia) are accounting for a growing share and helping fill the void left by European banks. Data for East Asia point to a slight recovery that is likely due to the entry of regional banks into the finance field. However, trade contracted more sharply in South Asia, largely because of the lack of financing. While the pace of deleveraging is expected to ease, the adverse credit environment is likely to continue as heightened risk and stricter legislation under the Basel III accord drive interest rates up.

A recent International Chamber of Commerce survey suggests real improvement in the prospects for financing in developing regions in 2012. Preliminary figures for April and May indicate that global trade finance lending has surged in Europe and Central Asia (World Bank, 2012).

Foreign direct investment (FDI) flows continued to recover in 2011; slight growth is expected in 2012 (UNCTAD, 2012). Developing countries received half of inward FDI flows in 2011 and are expected to maintain this share through 2014 (see figure I.5). The two developing regions topping the list of FDI recipients are Asia and Oceania (led by China and Hong Kong Special

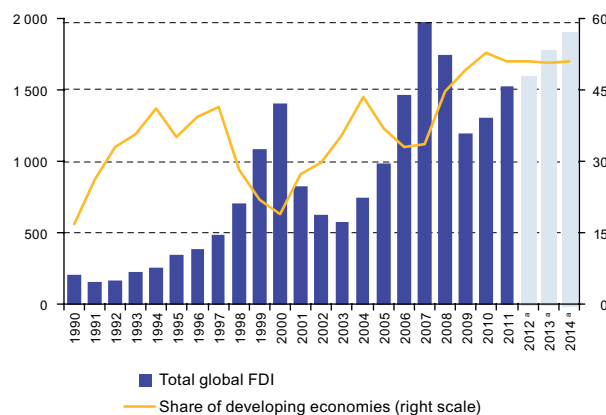
Administrative Region of China) and Latin America and the Caribbean (where Brazil is the main recipient, as well as the fifth worldwide). The developing countries' share of outward FDI, which surged during the past decade, dropped to 23% in 2011 after reaching an all-time high of 28% in 2010.

Figure I.4
DEVELOPING REGIONS AND SUBREGIONS: TRADE FINANCE FLOWS, 2011-2012
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Dealogic and the World Bank.

Figure I.5
WORLD: FOREIGN DIRECT INVESTMENT INFLOWS AND THE SHARE OF DEVELOPING ECONOMIES, 1990-2014
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), UNCTADSTAT database and *World Investment Report 2012* (UNCTAD/WIR/2012), New York, United Nations publication, Sales No. E.12.II, D.3.

^a Projections.

C. The difficult context in the North and growth in the South could speed up changes in the global economy

1. North and South on diverging paths over the next few years

For 2012–2020, many analysts forecast continued slow growth for the industrialized countries (the “North”) and a mild cooldown for the developing countries (the “South”). The United Nations (2012) projects annual average growth of 2.5% for the countries of the North and 5.6% for the countries of the South between 2013 and 2020. The International Monetary Fund (IMF, 2012) and the Organisation for Economic Cooperation and Development (OECD, 2012a) project even faster growth for the South.⁴ According to these three organizations, the United States is likely to perform the best among countries of the North, followed by the euro zone, with Japan recording the slowest growth. In the South, China is expected to continue to post the fastest expansion between 2013 and 2020, at a projected annual rate of nearly 8%. Africa and Latin America and the Caribbean should grow by 4% to 5%, below the rate forecast for developing Asia (see table I.1).

Faster growth in the economies of the South is likely to lead to greater demand for imports than in the countries of the North (see figure I.6). Import growth in the South has outpaced the North since the 1990s and reached more than twice the rate in the 2000s. For 2013–2017, the International Monetary Fund projects higher growth for the South, although the difference with the North will likely narrow. In this context, as Latin America and the Caribbean shifts its export focus to the other countries of the South, especially those in Asia, the region should benefit from growing demand in those economies. While this is already the case with the countries of South America, it is not for those of the Caribbean, Central America and Mexico, where developing markets still account for a minor share of exports.

Table I.1
NORTH AND SOUTH: PROJECTED GROSS DOMESTIC PRODUCT GROWTH, 2013–2020
(Percentages)

	United Nations	Organisation for Economic Cooperation and Development	International Monetary Fund ^a
North	2.5	2.3	2.5
United States	3.0	2.3	3.1
Japan	0.6	1.1	1.4
Euro zone	...	1.8	1.2
European Union	2.4	...	1.6
South	5.6	6.7	6.2
Latin America and the Caribbean	4.6	...	4.0
Mexico	...	...	3.5
Brazil	...	4.5	4.1
Africa	4.0	...	4.8
Developing Asia	6.5	...	7.9
China	7.8	8.3	8.7
India	6.5	7.2	7.7
World (at purchasing power parity) ^b	...	...	4.5
World (at exchange rate) ^c	3.4	3.6	...

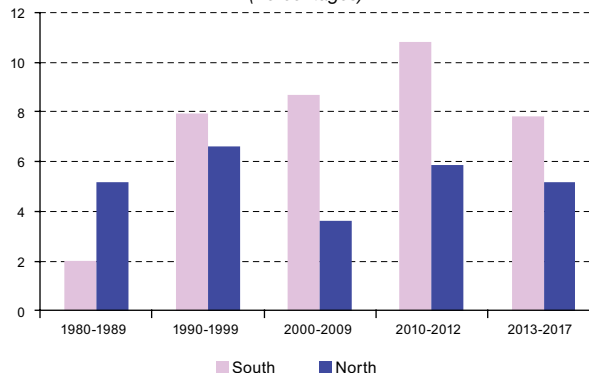
Source: GDP projections: United Nations, “United Nations Global Policy Model”, Department of Economic and Social Affairs, 2012 [online] http://www.un.org/en/development/desa/policy/publications/un_gpm.shtml; International Monetary Fund (IMF), *World Economic Outlook*, Washington, D.C., April 2012; and Organisation for Economic Cooperation and Development (OECD), *OECD Economic Outlook*, May 2012.

^a International Monetary Fund figures are only up to 2017.

^b Growth rates for individual countries were weighted on the basis of national currency GDP converted into international dollars at purchasing power parity (PPP).

^c Growth rates for individual countries were weighted on the basis of national currency GDP converted into United States dollars at the nominal exchange rate.

Figure I.6
NORTH AND SOUTH: AVERAGE ANNUAL IMPORT VOLUME GROWTH, 1980–2017
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *World Economic Outlook*, Washington, D.C., April 2012.

Note: The data for 2012 to 2017 are projections.

⁴ Weighted average for the countries, where weights are based on GDP at purchasing power parity.

2. The complex economic future of countries in the North

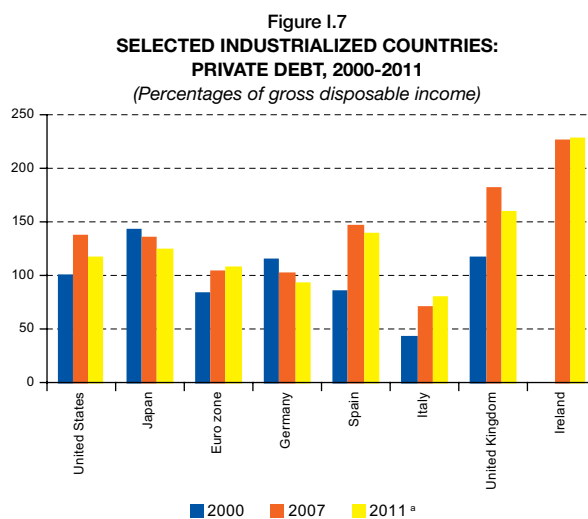
The complex economic position of the industrialized countries is the expected outcome of a crisis whose primary causes included an unsustainable increase in gross household debt. During the five years leading up to the 2008 crisis, that debt rose by an average of 39 percentage points to reach 138% of income. In some European countries, it topped 200% (IMF, 2012). When the 2008 crisis drove home values down, many households saw their home value to debt ratio fall.

Recessions triggered by private overindebtedness tend to set off sharper drops in GDP, private consumption and employment than those caused by other factors, and they depress economic activity for at least five years.

In a number of countries that went through similar crises, history has shown that subsequent recovery is slow and painful (Reinhart and Rogoff, 2009; McKinsey Global Institute, 2012).⁵ To exit the current crisis, families in many countries need to go through forced debt settlement or bankruptcy.⁶ Debt reduction is concentrated in poorer households that spend a high percentage of their income; this has a substantial negative macroeconomic impact. In order to reduce their debt burden, households have to cut back on consumption and increase savings as they discover that their homes were overvalued, access to credit is constrained and future income expectations are dim. Consumption is also impacted by heightened economic uncertainty, which encourages preventive saving (IMF, 2012).

Household debt reduction, along with a similar process at non-financial enterprises and financial sector deleveraging, is a substantial drag on the economy. In the United States, total private debt as a percentage of GDP fell from 296% in 2008 to 250% in 2012 after a long uptrend that began in 1976 when it was just 112%. After a long period when the private sector as a whole (households, businesses and the financial sector) overspent income, the opposite has been the case since 2009. The private sector financial balance went from a deficit equal to 2.4% of GDP in the third quarter of 2007 to a surplus of 8.2% in the third quarter of 2009 (Wolf, 2012). Several European countries (Ireland, Spain and

the United Kingdom, among others) have made much less progress in debt reduction, and high debt service is a serious constraint on private consumption (see figure I.7). The International Monetary Fund projects that almost all of the industrialized countries will see a financial account surplus or equilibrium in 2012. This shift would have set off a deep recession in many industrialized countries were it not for fiscal-policy rescue packages (until just recently) and low interest rates.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Cooperation and Development (OECD), *OECD Economic Outlook*, May 2012.

^a Third quarter of 2011.

Household debt reduction also has a negative impact on business profitability. Private returns are a key factor in the decisions that businesses make on how much to produce, invest, export and import and how many jobs to create. Box I.2 examines the relationship between business profitability and the economic situation in greater detail.

The governments of many industrialized countries have staged massive interventions in the economy to contain the depression. Falling consumption could have driven the economy into a deep depression, but this has not happened because governments compensated for the decline in private demand by stepping up public spending and cushioning the impact of debt with low interest rates. In other words, the depression was being contained by sweeping government intervention.

⁵ Recoveries from crises triggered by overindebtedness are also long because of subsequent government interventions, with their legacy of high fiscal deficits and public debt, which take several years to bring down (Reinhart and Rogoff, 2009).

⁶ In the United States household bankruptcies accounted for two thirds of private debt reduction between 2008 and 2011 (McKinsey Global Institute, 2012).

Box I.2

(REINVESTED) PROFITS ARE KEY TO ECONOMIC GROWTH**Economic growth is largely grounded in the business sector and its ability to generate profits.**

Business decisions on how much to invest and produce and how many jobs to create hinge to a large degree on corporate earnings. Reinvested earnings determine the accumulation of wealth and assets (both new and appreciated), along with the growth of liabilities to finance those assets. A robust private sector therefore depends on expanding business balance sheets by adding assets and the corresponding liabilities. Private-sector expansion can be sustained if the income generated by assets is enough to service the debt taken on to finance them. Likewise, balanced growth needs for asset values to reflect asset income. It is hard to set a limit for the pace of an economic expansion, because lower interest rates or

less stringent financial standards can speed up the pace for the short term.

The 2008-2009 financial crisis marked the end of a decades-long process in many industrialized countries when private-sector balance sheets (and corresponding assets and liabilities) expanded faster than revenue. Balance sheets started to grow in the mid-1980s, and the economy became a “balance-sheet economy” with massive asset creation largely fuelled by asset appreciation and spiralling debt. Indebtedness climbed in all sectors (households, non-financial businesses and banks) while the value of assets (corporate equities, commercial real estate, housing and patents) increased faster than the income they generated. This process was unsustainable and ultimately collapsed. As private-sector

assets shrank and consumption dropped, businesses took losses that led them to cut back on production, investment and hiring, sending the economy into recession.

Between 2008 and until recently, expansionary fiscal policies offset part of the decline in private demand and held off a serious crisis in many industrialized countries. The government can contain a recession by intervening in the financial sector and running a fiscal deficit that, in part, counterbalances the drop in private demand. The current “contained” recession could last several years, during which the private and public sectors would go through a debt reduction process to repair their balance sheets. This would have a significant impact on demand and on corporate profits and act as a drag on economic growth overall.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of David Levy, Martin Farnham and Samira Rajan, *Where Profits Come From*, The Jerome Levy Forecasting Center, 2008 and *The Contained Depression: 2008-(2018?): What It Is, Why It Happened, How It Will Play Out, and What Will Follow*, The Jerome Levy Forecasting Center, 2012.

Substantial fiscal stimulus measures implemented in many industrialized countries between 2009 and 2011 resulted in a steep rise in public debt; the countries have recently begun to withdraw these measures. The debt-to-GDP ratio rose in most industrialized countries, largely because of increased spending on unemployment benefits and fiscal stimulus packages coupled with lower tax receipts owing to the recession and falling stock values (see figure I.8). Average debt among OECD countries (that is, most of the industrialized countries) reached 100% of GDP in 2011 (OECD, 2012b).⁷ In 2012, a number of euro zone countries began to scale back their fiscal stimulus measures in order to avoid increasing their debt further.

High public debt, along with population ageing, will be a drag on growth in the industrialized economies over the coming decade. The economic literature has confirmed a negative correlation between the level of public debt and growth.⁸ Countries whose debt-to-GDP ratio is 70% or higher see worse economic performance because their long-term interest rates and the taxes for funding payments can spiral up while trend GDP falls

and businesses and individuals save more because they perceive they will have to pay higher taxes in the future in order to pay for stimulus measures (OECD, 2012b).

Nearly all of the industrialized countries need substantial fiscal adjustments to bring gross debt down to more sustainable levels in the area of 50% of GDP.⁹ Lowering the burden by means of inflation does not seem advisable, above all because high inflation works against economic growth by increasing price volatility and heightening the distortions associated with the interaction between inflation and tax and benefits regimes. Besides, for inflation to reduce the debt burden some sort of financial repression would be needed (like forcing banks to invest in government bonds) and would have other negative impacts for the economy. In sum, the best way to reduce debt is to promote growth and generate primary fiscal surpluses.

The size of the fiscal adjustment needed to bring debt down to 50% of GDP by 2050 varies widely, ranging from nearly zero in Sweden to more than 12% of GDP in Japan (see figure I.9).¹⁰ Fiscal adjustment is the savings (as a percentage of GDP) that the public sector must achieve each year between 2013 and 2050 to keep public debt from exceeding 50% of GDP in 2050. The higher the bar in figure I.9, the greater the savings (through tax hikes or spending cuts) needed; this can have a negative impact on import demand and GDP growth.

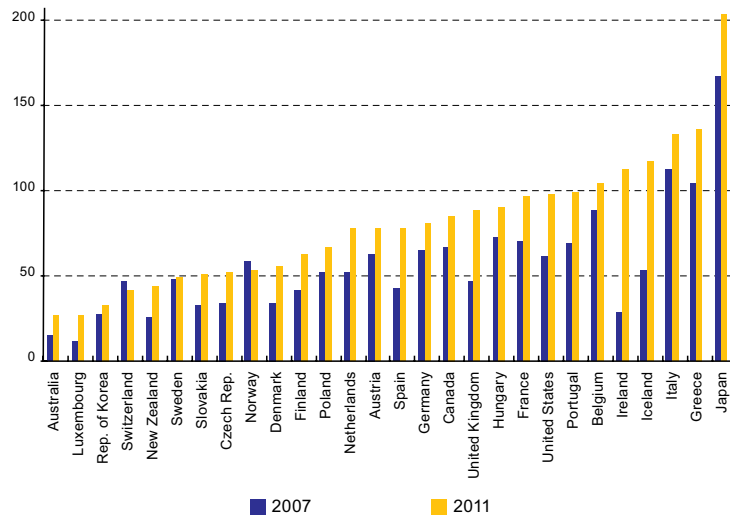
⁷ Most industrialized countries did not make enough of an effort to lower the debt burden during the pre-crisis economic expansion. In fact, low interest rates in some countries led governments to cut taxes or increase spending, thereby helping increase the size of the debt even further.

⁸ Nevertheless, this correlation does not imply causation. Unlike other authors, Panizza and Presbitero (2012) did not manage to reject the hypothesis that public debt does not affect growth in an econometric analysis. This finding does not mean that debt does not affect economic performance, because there is always a level of debt that becomes unsustainable and will force governments to make substantial fiscal cutbacks that are bound to affect growth.

⁹ According to OECD (2012b), this percentage is the highest level that, in normal times, does not work against (trend) economic growth and leaves room for dealing with a crisis, avoiding critical levels.

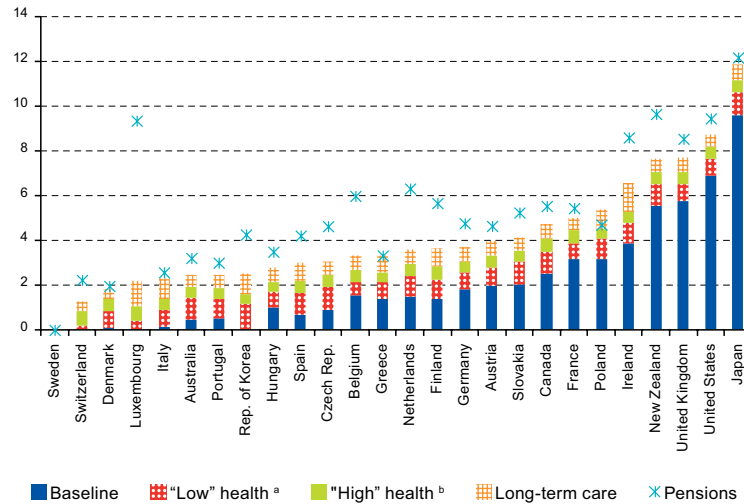
¹⁰ Including government assets improves the net debt position of some countries, such as Japan and Norway.

Figure I.8
COUNTRIES OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD):
GROSS PUBLIC DEBT, BY COUNTRY, 2007 AND 2011
(Percentages of GDP)



Source: Organisation for Economic Cooperation and Development (OECD), *OECD Economic Outlook*, No. 89, Paris, 2012 and "Fiscal consolidation: How much, how fast and by what means?", *OECD Economic Policy Paper*, No. 1, Paris, 2012.

Figure I.9
ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD): ANNUAL INCREASE IN THE PRIMARY
FISCAL BALANCE NEEDED FOR REDUCING GROSS PUBLIC DEBT TO 50% OF GDP BY 2050
(Percentages of GDP)



Source: Organisation for Economic Cooperation and Development (OECD), *OECD Economic Outlook*, No. 89, Paris, 2012 and "Fiscal consolidation: How much, how fast and by what means?", *OECD Economic Policy Paper*, No. 1, Paris, 2012.

^a Refers to a scenario with policies that cut health spending.
^b Refers to a scenario without policies that cut health spending.

The future costs associated with population ageing in terms of higher spending on public health and on pensions pose another challenge for the fiscal adjustment required. Higher spending on health might be desirable, but funding it could be difficult. OECD (2012b) anticipates two scenarios: one where health spending

would rise by just 3.5% of GDP by 2050 and another where the increase would be 6% of GDP. Along with the higher spending associated with long-term care for older persons, the annual fiscal adjustment would increase by 1.5% of GDP in a number of countries. The third kind of additional spending is on pensions and would require a

significant fiscal adjustment, particularly in Belgium and the Netherlands. OECD (2012b) recommends prudence on the part of its member countries regarding the speed at which they implement the required fiscal adjustment, bearing in mind the fragile macroeconomic context and the potential for using monetary policy to offset the negative demand impact of restrictive fiscal measures.

All of the euro zone countries are implementing fiscal adjustments, although the depth of the adjustments varies widely from country to country. Several countries are facing high fiscal deficits and unsustainable rates for refinancing their public debt. The stabilization programmes implemented in Ireland and Portugal in 2011 helped reduce their country risk; Greek debt negotiation in the first quarter of 2012 had a similar effect. Uncertainty and fiscal contraction further complicated bank deleveraging and triggered a credit crunch, setting off a vicious circle of recession. The result was a steady increase in risk premiums for other compromised countries, such as Italy and Spain. So far, the funding to cover the widening public deficit has been provided by a private financial sector that is increasingly reluctant to lend. This picture was further compounded

by subsequent issues concerning the sustainability of the Greek stabilization programme and bank solvency in Spain. In short, the situation in Europe is the primary source of external risks for the global economy (ECLAC, 2012). In this context, several organizations project that euro zone growth will average less than 2% annually until 2020.

In late June 2012, euro zone political leaders agreed on a new package of measures for defusing the crisis. The first is to create a single banking supervisor governed by the European Central Bank, thereby promoting financial integration. It could take a long time to put this supervision in place, in part because of the need to define how to mesh the European regulation with national regulations. Second, with centralized supervision European rescue funds could be used directly to save floundering banks. Third, the Government of Spain would receive 100 billion euros for restructuring its banking system. This measure would increase Spain's public-sector debt, but only temporarily because once the single supervisor is up and running these loans would go directly to troubled banks. Last, a package of measures for stimulating growth and job creation was approved (see box I.3).

Box I.3

OUTCOME OF THE NINETEENTH EURO ZONE EMERGENCY MEETING, IN JUNE 2012

The nineteenth round of euro zone talks since the crisis began three years ago was held in Brussels on June 28 and 29. At this summit, authorities agreed on a new set of measures. First, the countries agreed that the rescue funds of the European Stability Mechanism (ESM), which will replace the European Financial Stabilisation Mechanism and the European Financial Stability Facility in the near future, could be used to recapitalize euro zone banks directly without going through governments, once the single banking supervisor under the European Central Bank is in place. ESM funds can be used to buy

debt on the secondary market and will not be senior to other private creditors.

It was also agreed to provide Spain with 100 billion euros for restructuring its banking sector, with a first tranche of 30 billion euros in late July 2012. Spanish banks will have to submit restructuring plans quickly and put their toxic assets in a "bad bank" soon. In exchange for European assistance, three weeks later the Government of Spain adopted a new package of budget cuts totalling 65 billion euros through 2014. The package includes raising the VAT from 18% to 21%.

At same summit, under pressure from a coalition comprising France, Italy and Spain, a 120-billion-euro Compact for Growth and Jobs was adopted, in line with Europe 2020 strategy priorities. The compact includes recommendations for repairing public budgets by promoting growth, restoring bank lending to the economy, promoting competition in online industries and green growth, addressing unemployment and its social consequences and modernizing public administration. But the amounts involved are still too small for such a broad agenda with such ambitious objectives.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of European Council, "Conclusions of the European Council (28 and 29 June 2012)" (EUCO 76/2/12 REV 2) [online] www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/es/ec/131399.pdf [date of reference: 22 July 2012].

These measures seem insufficient for resolving the European crisis. After 19 European summits (with the latest held in June 2012), Italian and Spanish bond yields remain above sustainable levels. In other words, the likelihood of an even larger euro zone crisis continues to grow. Political disagreement among euro zone States as to debt mutualization, rescue fund eligibility and the timing of and conditions for direct capitalization of Spanish

banks continues to cloud the horizon and cancel out the good news from the most recent summit. Moreover, the appearance of other weak points in the Spanish economy also darkened investor perceptions. The European Commission seems to be following the markets instead of conducting them, reacting late and on a scale that does not match the magnitude of the crisis. These actions fuel speculation and do little to calm the markets.

There are still key measures missing for tackling the crisis. The markets need guidance in the form of sweeping solutions that leave no doubt as to the commitment to European integration. But such measures are yet to be seen. First, the necessary fiscal and banking unions are far away because there are still no firm commitments in this regard. There is a need for credible medium-term fiscal consolidation programmes and aggressive short-term fiscal policies geared towards spurring growth. As for banking union, there is still no consolidated supervision nor has a deposit guarantee mechanism been defined for Europe, at least in certain ranges, to avoid bank runs. Second, restoring competitiveness requires profound, costly reforms that are not found in the recent Compact for Growth and Jobs (which represents just 1% of the euro zone's GDP and whose implementation seems slow). The Compact should be immediate, substantive and credible. Third, the debts of Italy and Spain, subject to high refinancing rates, might not be sustainable over time. In the face of a panic, available European rescue resources (from the European Financial Stability Facility and the European Financial Stabilisation Mechanism, which are to be combined into the European Stability Mechanism) would be far from enough for a financial rescue. Fourth, at the June 2012 summit there was no reference to the creation of euro bonds, an instrument that would be necessary to bring down the cost of financing the debt of the countries currently most at risk.

In the United States, the recovery is still fragile and could be hit by a major fiscal adjustment starting in 2013. As with other OECD countries, the United States' fiscal deficit ballooned after the crisis, to 10.1% of GDP in 2009. The weak recovery led the authorities to deploy new fiscal measures that slowed deficit reduction in 2010 and 2011. Despite its short-term benefits, the large deficit pushed the debt up sharply. Current legislation provides for a fiscal adjustment equal to 4.7% of GDP, ending certain tax exemptions and triggering automatic spending cuts in 2013 (Congressional Budget Office, 2012). These measures would strongly curb GDP growth and could send the economy back into recession. For this reason it would be advisable to put off some of the adjustment measures until 2014, which would require special approval by Congress. The United Nations (2012) and International Monetary Fund (2012) project 3% growth over the next few years; OECD (2012a) forecasts put growth at just 2.2%.

In Japan, the large sovereign debt (above 200% of GDP) requires profound fiscal reform that, along with other factors, reduces growth potential to 1% for the remainder of the decade (OECD, 2012a). The high fiscal deficit, which will top 10% of GDP in 2012 and

2013 and is being exacerbated by the cost of rebuilding the eastern part of the country in the wake of the earthquake, is pushing the public debt even higher. The government therefore needs a detailed, credible fiscal adjustment plan for tackling the situation. Among other initiatives, the government will double the consumption tax from the current 5%, to 10% by 2015. In view of the situation, the United Nations (2012) is projecting average annual growth at just 0.6% through 2020, below the 1.1% to 1.4% projected by other organizations.

There are noteworthy similarities in the experience of countries (Finland, Republic of Korea and Sweden, among others) that successfully recovered from similar crises (McKinsey Global Institute, 2012). First, the financial system must be restructured. Here, United States banks have made more progress in deleveraging than their European peers. The latter also face serious difficulties in increasing their funding. This, along with the need for deleveraging and the requirements of Basel III, is forcing them to cut back their lending volume and could in turn make it harder to exit the recession in Europe. Second, structural reforms are needed to stimulate economic growth and productivity. Each country has different priorities in this regard, such as facilitating foreign investment and business start-ups or reforming the labour market. Third, exports need to be promoted as a source of growth. To do so, the countries need to steer clear of protectionist trade and foreign investment measures. Fourth comes the need to promote private investment, particularly by addressing the main infrastructure deficits in many countries. With a regulatory framework that ensures a reasonable return, the private sector could provide the capital needed to do this. Last, the real estate market needs to be stabilized in order to halt falling property prices and revive the construction industry.

In short, experience in exiting recessions caused by financial crises shows that the priority for many industrialized countries should be to adopt the measures needed to reactivate the economy in the short term and leave fiscal deficit and public debt reduction for later, once private sector recovery is on firmer ground. These measures should include greater fiscal stimulus to compensate for lower private demand, interventions in the financial and private sectors to promote household, corporate and bank debt reduction, and reforms to spur exports, investment and productivity. These interventions could lead to an exit from the circle of recession and put the economy on the road to new growth. In this new context, only when the private sector is once again driving the economy—only then, and not before—should governments turn to repairing their own financial position.

3. China and the rest of the South: engines of the global economy

The developing countries (the South), and China in particular, are the main driver of global growth. Within the South, China contributes the most, growing at a rate of 9.2% in 2011. The annual growth target set by the authorities for 2011-2015 is 8%, which is a marked slowdown from the recent path. However, several international organizations project that China could exceed this growth target (see box I.4); it would thus continue to be the fastest-growing economy worldwide. While China has been affected by the current European crisis, the importance of Europe as a market for Chinese exports has declined in recent years while links to the rest of the countries of the South have grown stronger. In addition, China's economic policy is shifting towards stimulating consumer demand, as the engine of the economy instead of investment and exports.

At the projected rate of growth, China's GDP in purchasing power parity terms would surpass that of the United States in 2017, according to the International Monetary Fund (2012). This outcome could be a substantial tipping point in the international debate concerning globalization trends and their governance. The three decades of economic reform in China that began in 1979 represent the most intense process of industrialization and urbanization in history. When the reforms began, China's GDP was only 9% of that of the United States; its GDP per capita was only 2% of the United States'. The International Monetary Fund projects that by 2017 China's GDP will surpass that of the United States and its income per inhabitant will be one fourth of the United States'.

Box I.4

CHINA: THE LABOUR COSTS OF HIGHER PRODUCTIVITY

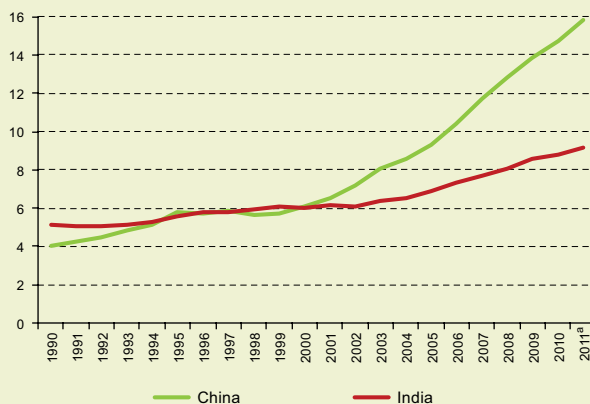
One of the keys to growth in China is soaring labour productivity and total factor productivity over the past decade.

Labour productivity in China as a percentage of labour productivity in the United States rose from 6% in 2000 to 16% in 2011 (see figure 1). For comparison purposes, in 1990 labour productivity in India (Asia's second largest developing economy) was higher than China's; since 2001 it has been lower.

China has thus narrowed its productivity gap with the United States more than India has. Multiple factor productivity (MFP) is a better indicator of an economy's efficiency. From 2000 to 2008, the Chinese economy grew at an annual average of 9.9%, with multiple factor productivity accounting for 43% of that growth. In other words, nearly half of the increase in GDP is due to more efficient combined use of capital

and labour. From 1990 to 1999, multiple factor productivity accounted for 40% while the second most important factor was the stock of capital, accounting for 45% of growth during that period. Last, 15% of the increase in GDP between 1990 and 1999 was due to labour force growth (compared with just 5% between 2000 and 2008).

Figure 1
CHINA AND INDIA: LABOUR PRODUCTIVITY, 1990-2011
(percentages of the level in the United States)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
^a Estimates.

Box I.4 (concluded)

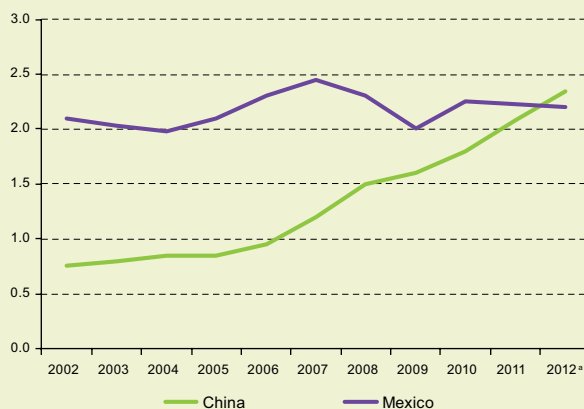
Several factors are behind the rapid increase in productivity in China.

First is the structural change that has taken place in its economy, with resources shifting from low-productivity sectors (agriculture) to higher-productivity ones (manufacturing). Second, companies are massively absorbing new technologies

and production processes incorporated in imported machinery and equipment and in FDI. Third, China has invested heavily in infrastructure, cutting the time and cost of transport and communications. Fourth, trade opening and global competition have spurred gains in efficiency. Last, strong upward pressure on wages requires greater

productivity in order to remain competitive internationally. Indeed, China's unit labour cost in dollars increased by a factor of 2.4 between 2002 and 2010 owing to wage increases and currency appreciation^a and is expected to surpass Mexico's soon (see figure 2).

Figure 2
CHINA AND MEXICO: LABOUR COST PER HOUR, 2002-2012
(Dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
^a Estimates.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Asian Productivity Organization (APO), APO Productivity Database 2011; Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs in Manufacturing, 2010", 11 December 2011; Pedro Aspe, on the basis of JP Morgan, "The Evolution of Mexico's Economy", presentation at the Woodrow Wilson International Center for Scholars, 8 February 2012 [online] <http://www.wilsoncenter.org/sites/default/files/PAA%20Woodrow%20Wilson%20Feb%2008.pdf> [date of reference: 6 June 2012].

^a The unit labour cost measures the competitiveness of a country in terms of its costs and is calculated as the ratio of workers' wages to productivity.

China's growth is expected to slow in the medium term. According to World Bank/Development Research Center of the State Council of China (2012), China's growth is expected to slip from an annual average of 8.6% in 2011-2015 to 5% in 2026-2030 because much of the benefit of the movement of persons from agriculture to manufacturing has already been realized, capital will make a smaller contribution to growth as more capital becomes available to workers, the labour force will shrink from 2015 on and multiple factor productivity growth will slow as China nears the technology frontier.

The other major emerging economies will also continue to expand in coming years. India is the second largest developing economy, after China. India's current-price GDP ranked eleventh in 2011, and its purchasing-power-parity GDP ranked third, surpassing Japan (IMF, 2012). India managed to maintain a positive rate of growth over the past decade, including the 2008-2009 global financial crisis. During that period, India accounted for more than 10% of world economic growth and became

one of the main global growth hubs, along with China. International organizations expect India's GDP to expand at an annual rate of 6.5% to 7.7% between 2013 and 2020. While India is the second largest emerging economy, its GDP per capita is lower than China's.

India is increasingly open to foreign trade, with the goods and services export ratio rising from 7% in 1990 to 19% in 2010. Compared with China, India's trade openness is still modest in terms of exports; however, imports (goods and services) now account for a similar proportion of GDP in both countries. India's share of world trade in goods is still small (1.4% and 2.1% of global exports and imports, respectively, in 2010) compared with its share of global GDP. India ranked twentieth in exports in 2010. Its export value was similar to Brazil's but lower than Mexico's (ECLAC, 2012).

In addition to China and India, there is an important group of emerging countries whose contribution to the global economy and world trade is also surging. This group includes the three other BRICS countries: Brazil,

the Russian Federation and South Africa. In 2010, BBVA (a private bank) defined a larger group of countries, which it termed EAGLES (emerging and growth-leading economies); they are the emerging economies that will drive global growth over the coming 10 years.¹¹ This group comprises the countries named above (except for South Africa), the Republic of Korea, Indonesia, Mexico,

Turkey and Taiwan Province of China. BBVA (2012) projects that China will contribute the most (one third) to global growth between 2011 and 2021, followed by India (12%) and the United States (10%). Among the other EAGLES, those that are expected to contribute the most are Brazil (3%), Indonesia (2.4%), the Republic of Korea (1.8%) and the Russian Federation (1.7%).

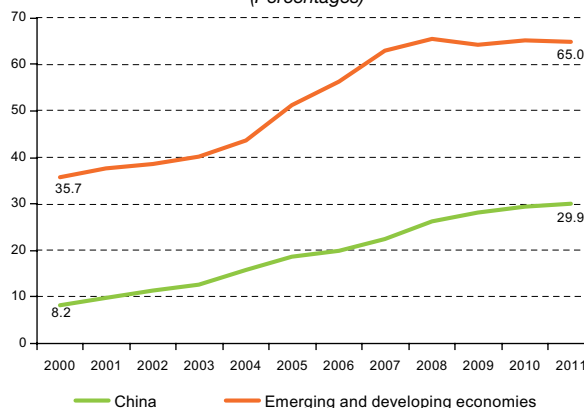
4. Emergence of the South in international finance

The economies of the South are increasingly raising their profile in international finance as holders of international reserves, managers of sovereign wealth funds and providers of trade finance. Over the past decade, the emerging economies nearly doubled their share of the global stock of international reserves. China's share rose nearly fourfold in a decade, to 30% of the world stock of official international reserves (nearly half of the total held by emerging and developing economies) in 2011, thanks to its substantial trade and current account surpluses throughout the period.

Other developing and emerging countries, such as those in the Middle East and North Africa, have significantly increased their share of global reserve holdings, owing to trade surpluses from oil exports. Growing reserve holdings make the economies of developing countries less vulnerable to exchange-rate and balance-of-payments crises than during previous episodes.

The emerging economies, headed by China, also hold most of the assets managed by sovereign wealth funds. Between 2002 and year-end 2011, assets managed by sovereign wealth funds increased from US\$ 1 trillion to nearly US\$ 5 trillion and the number of such funds rose more than in the preceding four decades. Most of this growth came from the oil-exporting countries of North Africa and the Middle East and from trade-surplus countries in Asia. These two subregions account for 55% of sovereign wealth funds overall and three fourths of the funds they manage (see figure I.10). Funds fed by commodity exports (chiefly, oil) accounted for 56% of all sovereign wealth fund assets at year-end 2011 (see table I.2). The other funds draw mainly on foreign currency reserves, fiscal account surpluses, State pension fund reserves and proceeds from privatizing State-owned enterprises (see figure I.11).

Figure I.10
CHINA AND EMERGING AND DEVELOPING ECONOMIES:
SHARE OF THE GLOBAL STOCK OF OFFICIAL
INTERNATIONAL RESERVES, 2000-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on International Monetary Fund, *International Financial Statistics*.

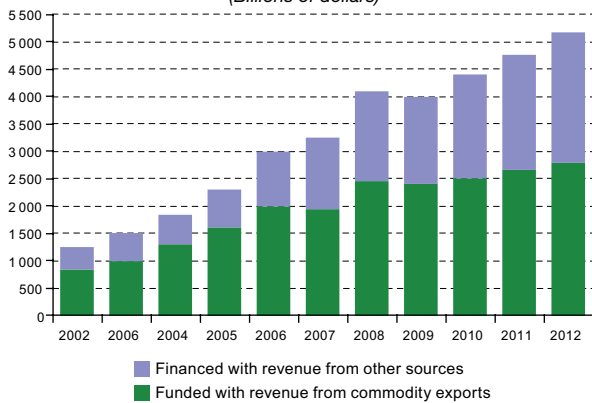
Table I.2
SOVEREIGN WEALTH FUNDS, BY SOURCE
COUNTRIES AND REGIONS, 2011
(Billions of dollars and percentages)

Country	Amount	Percentage	Region	Amount	Percentage
China	1 411	29	Asia	1 927	40
United Arab Emirates	783	16	Middle East	1 682	35
Norway	560	12	Europe	802	17
Saudi Arabia	478	10	America	138	3
Singapore	405	8	Africa	130	3
Kuwait	296	6	Others	120	2
Russian Federation	114	2	Total	4 800	100
Others	753	16			
Total	4 800	100			

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Sovereign Wealth Fund Institute and estimates from CityUK.

¹¹ For more details, see <http://www.bbva-research.com/KETD/ketd/esp/nav/eagles.jsp> [date of reference: 3 August 2012].

Figure I.11
SOVEREIGN WEALTH FUNDS: ASSETS MANAGED, 2002-2012^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Sovereign Wealth Fund Institute and estimates from CityUK.

^a Figures for 2012 are projections.

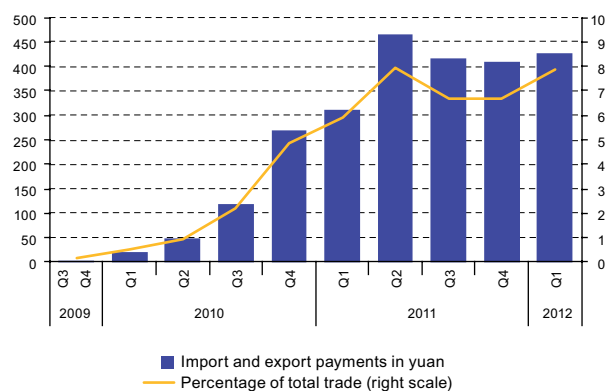
China is by far the largest actor in sovereign wealth funds, with 29% of the global total of assets held by such funds. China has four large funds, all created between 1993 and 2007: SAFE Investment Company; China Investment Corporation; Hong Kong Monetary Authority Investment Portfolio; and National Social Security Fund. Sovereign wealth funds have become key financial actors. Those that are not funded by revenue from commodity exports are a crucial source of international liquidity: China and Japan each hold one fifth of all United States treasury bonds in terms of value outstanding.

Another recent development in the South's advance is the growing use of the yuan in global trade. In July 2009 China launched a pilot programme for promoting the use of the yuan in the settlement of cross-border trade transactions. At first the programme operated out of five cities and worked with the special administrative regions of Hong Kong, China, and Macao, China, as well as the member States of the Association of Southeast Asian Nations (ASEAN). In 2010 the system was expanded to 20 cities and provinces towards all of the countries of the world, covering 90% of exports; in August 2011 it was expanded to encompass all of China. An agreement between China and Japan that took effect in June 2012 allows firms in both countries to conduct transactions directly in yuan and in yen. China has also signed local-currency convertibility agreements with some 20 countries, most recently with Brazil in June 2012 (for up

to US\$ 29 billion) during Chinese Prime Minister Wen Jiabao's visit to Brazil. At the G-20 meeting in Los Cabos, Mexico, BRICS leaders agreed to promote the use of their currencies in their international trade transactions.

These measures led to a rapid increase in the proportion of yuan trade settlements, from less than 1% in the first quarter of 2010 to 8% of total Chinese trade in the first quarter of 2012. Until mid-2011, the system was used mainly for import payments. More recently, exporters are using it more as the system is expanded throughout China (see figure I.12). HSBC, a private bank, expects that by 2016 one third of China's trade could be in national currency. Another indicator of more widespread use of the yuan is the fact that 4% of all letters of credit issued worldwide are in yuan, after the United States dollar (84%) and the euro (7%), according to Society for Worldwide Interbank Financial Telecommunication (SWIFT), an international payments system.

Figure I.12
CHINA: IMPORT AND EXPORT PAYMENTS IN YUAN, 2009-2012
(Billions of yuan and percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of People's Bank of China, *China Monetary Policy Report. Quarter One, 2012*.

Using the yuan in trade transactions has several advantages. First, for importers and exporters it eliminates exchange rate fluctuation risk, making it possible to cut back on the use of hedging instruments and lower the cost of the commercialized product or service. This is particularly important for SMEs. Second, it could streamline and lower the cost of payments with all countries (except the United States) by requiring just one currency exchange transaction instead of two.

D. Trade policy in the new international scenario

1. Recent trade barrier trends

The use of trade restrictive measures worldwide is modest but growing. Regular monitoring of national trade policies, initiated by the World Trade Organization (WTO) and other institutions following the outbreak of the global financial crisis in 2008, has continued over the past 12 months. One analysis, focusing in particular on G20 member countries (see WTO, 2012b), drew two main conclusions. First, the adoption of new trade restrictive measures by the major world economies remains at a moderate level, covering less than 1% of global goods imports in all of the periods examined since October 2008. Second, there are reasons for concern despite this. On the one hand, new restrictive measures are being put in place faster than others are removed, so their cumulative impact is growing and now encompasses nearly 3% of global imports. On the other hand, during the most recent period reviewed (mid-October 2011 to mid-May 2012), the reach of such measures nearly doubled in comparison with the immediately preceding period to stand at levels similar to those at the peak of the crisis, between October 2008 and October 2009 (see table I.3). Moreover, the monthly average for new restrictive measures nearly doubled between October 2010 and April 2011 compared with the immediately preceding period; it has remained at similar levels since then.

Table I.3
COVERAGE OF TRADE RESTRICTIVE MEASURES ADOPTED
BY THE MEMBERS OF THE GROUP OF 20 (G-20),
OCTOBER 2008 TO MAY 2012
(Percentages)

Period	Percentage of G-20 imports	Percentage of global imports
October 2008 to October 2009 ^a	1.0	0.8
November 2009 to May 2010 ^a	0.5	0.4
Mid-May to mid-October 2010 ^b	0.3	0.2
Mid-October 2010 to April 2011 ^b	0.6	0.5
May to mid-October 2011 ^c	0.6	0.5
Mid-October 2011 to mid-May 2012 ^c	1.1	0.9
Cumulative total	3.8	2.9

Source: World Trade Organization (WTO), *Report on G-20 Trade Measures* (mid-October 2011 to mid-May 2012), 31 May 2012.

^a Based on 2008 import figures.

^b Based on 2009 import figures.

^c Based on 2010 import figures.

Almost all the trade restrictive measures introduced by the G20 members since October 2011 were trade remedy measures and border measures on imports

(such as higher tariffs and non-automatic import licensing). The trade remedy measures were mainly initiations of anti-dumping investigations, generally involving imports originating in China and other Asian economies. But there has been a marked decline in the number of new export restrictive measures, such as export duties and quantitative restrictions (see table I.4). In recent months, the G20 members also made substantial use of subsidies, tax exemptions, local-content requirements and local-supplier preference in government procurement. However, since there is less information available on the use of these “behind the border” mechanisms compared with traditional trade barriers it is harder to document their existence and to quantify their impact on trade (WTO, 2012b).

Table I.4
TRADE RESTRICTIVE MEASURES ADOPTED BY THE MEMBERS
OF THE GROUP OF 20 (G-20), APRIL 2009 TO MAY 2012

Period	Trade remedy measures ^a	Border measures ^b	Export measures ^c	Others	Total	Monthly average
April to August 2009	50	21	9	0	80	16
September 2009 to February 2010	52	29	7	7	95	16
March to mid-May 2010	24	22	5	5	56	19
Mid-May to mid-October 2010	33	14	4	3	54	11
Mid-October 2010 to April 2011	53	52	11	6	122	20
May to mid-October 2011	44	36	19	9	108	18
Mid-October 2011 to mid-May 2012	66	39	11	8	124	18

Source: World Trade Organization (WTO), *Report on G-20 Trade Measures* (mid-October 2011 to mid-May 2012), 31 May 2012.

^a Includes anti-dumping, countervailing and safeguard measures.

^b Includes tariff increases and non-automatic import licensing.

^c Includes export duties and export prohibitions and quotas.

From a medium-term perspective, there are still significant risk factors in the global economy that could lead to a further scaling-up of trade restrictions. Among these risks are the expected cooling of global economic growth in 2012 compared with 2011 (including recessions in several European countries); persistent global imbalances between surplus and deficit countries; high unemployment in most of the industrialized economies; and the strong fiscal consolidation under way in the euro zone.

2. Recent developments in trade negotiations

More than 10 years after they began, the negotiations of the Doha Round at WTO are floundering, with successful conclusion seeming highly unlikely. The main reason is the inability to bridge the positions of industrialized countries and the main emerging economies concerning the commitments that each group is willing to make on liberalization of agricultural and industrial products and services. These differences have blocked deals in other areas of the talks because the Round is being negotiated on a “single undertaking” basis under which the outcome for each area under negotiation is part of a single, indivisible package. Compounding these problems are the deteriorating global economy, the approaching presidential and legislative elections in the United States and the change of authorities in China. All of this is feeding a broadening perception that no agreement will be reached on the set of issues now on the Doha Development Agenda (see Kleimann, Guinan and Small, 2012; Hufbauer and Schott, 2012).

With the Doha Round at a standstill, the members of WTO have begun to explore alternatives for reaching deals in specific areas that could gather enough support outside the single-undertaking framework. Among these are the ongoing efforts to reach an agreement on trade facilitation, an area that virtually all WTO members recognize as being of interest. Two other areas that have been mentioned as potential candidates for partial agreements are the elimination of agricultural export subsidies, and the industrialized countries’ granting duty-free and quota-free access for at least 97% of the products exported by the least developed countries.¹² But to date there has been no consensus on any of these initiatives. Recently, the focus has been turning to exploring potential plurilateral agreements (see box 1.5).

Some specialists have suggested that the future of WTO as a forum for negotiation in coming years should increasingly be linked to plurilateral initiatives because reaching agreement on them is less complicated. Some of the areas where negotiation of plurilateral agreements has been suggested are regulatory in nature and fall outside the scope of WTO agreements. Such is the case with proposals for creating a coordination mechanism between WTO and the International Monetary Fund for dealing with persistently undervalued currencies and for

setting rules on trade by State-owned enterprises and on the relationship between trade and climate change (Hufbauer and Schott, 2012).

While plurilateral agreements can be an expeditious way to break through institutional inertia at WTO, giving preference to such instruments poses a number of problems (Peña, 2012). Some of the major developing economies have thus far been reluctant to take part in such initiatives, which are usually pushed for by the industrialized countries. The effectiveness of future plurilateral agreements would unavoidably be limited if key actors in the global economy, such as the BRICS, remain on the sidelines. This is especially the case when regulating issues that are of systemic importance and of interest to all countries, like the relationship between trade and climate change. Moreover, focusing more on plurilateral negotiations poses the risk of fragmenting the world trading system and bringing its legitimacy increasingly into question, especially if there is a perception that plurilateral agreements give preference to the interests of the developed economies. Furthermore, there is the risk of marginalizing the less developed members of WTO, particularly the least developed countries. These are usually not invited to participate in plurilateral initiatives and, in any event, generally lack the capacities for doing so effectively.

Besides prompting the exploration of plurilateral initiatives at WTO, the Doha Round impasse has reinforced the already strong worldwide trend towards negotiating preferential trade agreements. As of June 2012, 232 agreements in force had been reported to WTO and many other agreements were under negotiation or at the feasibility study stage.¹³ There are two major trends in this regard. First, preferential agreements are, increasingly, deep integration agreements that provide not just for the liberalization of trade in goods (usually with limited exclusions concentrated in the agricultural sector), but also encompass trade in services and other, essentially regulatory matters as well. In this sense, they go beyond tariff liberalization to aim at reducing the transaction costs faced by businesses in global value chains. Second, an increasing number of agreements are transregional, that is, they involve economies in at least two different regions. Recent progress in this matter in the principal economic regions of the world is reviewed below.

¹² These two agreements were reached at the Ministerial Conference of the World Trade Organization, held in Hong Kong Special Administrative Region of China in December 2005. However, neither has been fully implemented because it was agreed to link their implementation to progress on the Doha Round overall.

¹³ See World Trade Organization (WTO), “Regional Trade Agreements Information System” [online] <http://rtais.wto.org/UI/PublicAllIRTAList.aspx> [date of reference: 27 June 2012].

Box I.5

TOWARDS A GROWING ROLE FOR PLURILATERAL AGREEMENTS AT THE WORLD TRADE ORGANIZATION?

The Doha Round impasse has led some WTO members to explore the possibility of pursuing plurilateral agreements that would not necessarily involve all of the members. Plurilateral initiatives are seen as a way around the challenge of reaching deals acceptable to all of the organization's current 156 members.^a To date, the largest plurilateral initiative has been an agreement for liberalizing trade in services. These talks, which began in January 2012 and are still preliminary, involve 20 WTO members (counting the European Union as one) representing 46 economies. These include practically all of the developed countries, the four newly industrialized Asian economies^b and some developing countries but none of the BRICS (Brazil, China, India, the Russian Federation and South Africa). The participating Latin American and Caribbean countries are Chile, Colombia, Costa Rica, Mexico and Peru.

Another recent plurilateral initiative refers to expanding the Information Technology Agreement (ITA) concluded by 29 WTO members in December 1996. ITA participants eliminated import tariffs on a number of information and communications technology products, such as personal computers,

software and semiconductors. Although it is a plurilateral agreement, ITA participants extend its benefits to all WTO members on a most-favoured-nation basis. The number of ITA participants has grown substantially, to the present 75 economies accounting for 97% of world trade in included products.^c In May 2012, informal discussions began on expanding ITA coverage to information and communication technology products that have appeared over the past 15 years.

In addition to these two initiatives, there is the agreement reached in December 2011 to expand coverage of the Government Procurement Agreement (GPA). This plurilateral instrument, in force since 1996, establishes the conditions under which foreign suppliers can access procedures for the procurement of goods, services and infrastructure by government agencies of its parties. Unlike the Information Technology Agreement, concessions negotiated under the Government Procurement Agreement are available only to the parties. To date, the parties are, almost exclusively, industrialized countries and newly industrialized economies of Asia and do not include any of the countries of Latin America and the Caribbean.

Nonetheless, China and other economies that have recently acceded to the World Trade Organization are also negotiating accession to the Government Procurement Agreement, which would boost the latter's commercial attractiveness considerably.

Plurilateral negotiations are also taking place outside WTO. Noteworthy among them is the Anti-Counterfeiting Trade Agreement (ACTA), negotiated between 2008 and 2010 and signed in October 2011, although it is not yet in force. This instrument aims at strengthening cooperation among signatories to combat intellectual property rights violations such as trade in counterfeit goods, establishing standards that are higher than those set out in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Most of the ACTA signatories are industrialized economies, except for Mexico and Morocco. This agreement has met with strong domestic opposition in some of the countries that negotiated it, including broad-based rejection by the European Parliament in a vote on 4 July 2012. As a result, doubts remain as to whether it will come into force.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization, *15 Years of the Information Technology Agreement. Trade, Innovation and Global Production Networks*, Geneva, May 2012; Gary Clyde Hufbauer and Jeffrey J. Schott, "Will the World Trade Organization enjoy a bright future?", *Policy Brief*, Washington, D.C., Peterson Institute for International Economics, May 2012; and Félix Peña, "Entre Doha, el cambio y la fragmentación: ¿hacia dónde va la OMC?", *Brief*, No. 82, Latin American Trade Network (LATN), Buenos Aires, April 2012.

^a The most recent country to accede was the Russian Federation, in August 2012.

^b Taiwan Province of China, Hong Kong Special Administrative Region of China, Republic of Korea and Singapore.

^c The Latin American and Caribbean signatories of the ITA are Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Peru.

In the Asia-Pacific region, two wide-ranging economic and trade integration projects are taking shape that could end up competing against each other.

On the one hand, negotiations continue on the Trans-Pacific Partnership (TPP), an initiative led by the United States with eight other TPP countries: Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore and Viet Nam. Canada and Mexico became negotiating partners in June 2012.¹⁴ The participating countries had targeted late 2012 for completing the negotiations, but it seems clear that this will not be possible because of their complexity and because of the proximity of elections in the United States. On the other hand, in May 2012 the Prime Ministers of China and Japan and the President of the Republic of Korea announced that negotiations on a trilateral free trade agreement that had been under study

for several years would begin in late 2012. These three countries have also signed an investment promotion, facilitation and protection agreement.¹⁵

The announced negotiations among the three major economies of East Asia will be extremely complex because of the marked sensitivities involved, but successful completion would be of great significance.

In addition to its considerable economic weight (see table I.5), such an agreement would likely impact the regional architecture of economic integration in Asia. It would lay the groundwork for what is known as ASEAN+3, a project for creating a free trade area made up of the 10 member States of the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea. Against this background, tensions could arise

¹⁴ Japan, which has also expressed interest in joining TPP negotiations, has still not submitted an official request.

¹⁵ In May 2012 the first round of free trade agreement negotiations between China and the Republic of Korea began. This agreement could be integrated into a subsequent trilateral agreement that would include Japan as well.

between the United-States-led Trans-Pacific Partnership and an all-Asian initiative headed, in practice, by China. This factor should be carefully weighed by the countries

of Latin America and the Caribbean, some of whom are seeking to strengthen their economic and trade ties to Asia and the Pacific by means of trade negotiations.

Table I.5
SELECTED COUNTRIES AND GROUPS: GDP, GDP PER CAPITA, POPULATION, EXPORTS AND IMPORTS, 2011

Grouping or country	GDP (billions of dollars)	GDP per capita (dollars)	Population (millions of inhabitants)	Goods exports (billions of dollars)	Goods imports (billions of dollars)
Trans-Pacific Partnership (TPP)	21 574	32 420	665,5	3 426	4 133
Australia	1 586	68 916	23,0	246	234
Brunei Darussalam	17	39 355	0,4	11	6
Canada	1 805	51 689	34,9	450	451
Chile	272	15 453	17,6	81	75
United States	15 610	49 601	314,7	1 480	2 263
Malaysia	306	10 467	29,2	227	188
Mexico	1 208	10 514	114,9	350	351
New Zealand	181	40 454	4,5	38	36
Peru	185	6 070	30,5	46	38
Singapore ^a	270	50 324	5,4	410	366
Viet Nam	135	1 498	90,4	88	127
China-Japan-Republic of Korea free trade agreement	15 136	9 884	1 531,3	3 277	3 122
China	7 992	5 899	1 354,9	1 898	1 743
Japan	5 981	46 973	127,3	823	855
Republic of Korea	1 164	23 680	49,1	555	524
World	69 560	9 974	6 974,0	17 779	18 000
<i>Share of global aggregates (percentages)</i>					
Trans-Pacific Partnership (TPP)	31.0		9.5	19.3	23.0
China-Japan-Republic of Korea free trade agreement	21.8		22.0	18.4	17.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2012 (GDP, GDP per capita and population) and United Nations, United Nations Commodity Trade Statistics Database (COMTRADE) (exports and imports). Data on global exports and imports are from the World Trade Organization; data for Brunei Darussalam and Viet Nam are from International Monetary Fund, Direction of Trade Statistics (DOTS).

^a For Singapore, exports include re-exports and imports include re-imports.

The European Union continues to actively participate in preferential trade negotiations with partners in other regions, particularly Asia. These negotiations are taking place within the framework of the Global Europe strategy launched in October 2006, partially in response to the lack of progress in the Doha Round (Kleimann, Guinan and Small, 2012). In addition to its free trade agreement with the Republic of Korea, in force since July 2011, the European Union is negotiating similar agreements with India, Malaysia and Singapore; in June 2012 it announced the start of negotiations with Viet Nam. In July 2012 the European Commission announced that it would ask European Union member States for authorization to open negotiations for a free trade agreement with Japan.¹⁶ Outside Asia, the European Union signed a free trade agreement with Colombia and

Peru and an association agreement with the countries of Central America and Panama. It is also negotiating an association agreement with MERCOSUR and a free trade agreement with Canada. Lastly, the European Union and the United States are at an advanced stage in exploring the feasibility of opening negotiations for a wide-ranging transatlantic free trade agreement.¹⁷ The push for negotiating all of these agreements has been strengthened by the difficult economic situation in a number of European countries, heightening the need for more favourable conditions for their exports, especially in larger and faster-growing markets.

In short, it is in Asia-Pacific that major trade initiatives involving the Asian economies themselves, the United States and the European Union are playing out. This reflects Asia-Pacific's position as the primary hub of global economic growth and its pivotal role in the value chains that increasingly characterize global trade. The world's main economic powers are, to a certain extent, competing in the region —not just for tariff concessions

¹⁶ According to the European Commission, the negotiations are geared primarily towards removing non-tariff obstacles in the Japanese market (such as in the automobile industry) and to opening government procurement markets in Japan to European firms. See European Commission, "Commission proposes to open negotiations for a Free Trade deal with Japan", Press release, 18 July 2012 [online] <http://trade.ec.europa.eu/doclib/press/index.cfm?id=823> [date of reference: 23 July 2012].

¹⁷ See "Interim Report to Leaders from the Co-Chairs of the EU-U.S. High Level Working Group on Jobs and Growth", 19 June 2012 [online] http://www.ustr.gov/webfm_send/3480 [date of reference: 28 June 2012].

but also for defining the rules of the game that apply to Asia-based value chains in crucial spheres such as services, investment, government procurement, intellectual property, technical standards, rules for State-owned enterprises and competition policy. In some of these spheres, the preferences of industrialized economies like the United

States and the European Union do not coincide with those of China and other developing Asian economies; this is a potential source of tensions among them. The strong and growing weight of Asia-Pacific in the global economy means that the repercussions of this process will be felt worldwide.

3. Key issues in recent trade disputes

The increase in the number of disputes brought before WTO in 2012 compared with 2011 seems to confirm the uptrend in trade restrictive measures worldwide.

Eleven disputes were brought before WTO in the first half of 2012, versus eight in all of 2011.¹⁸ Among WTO member States, the most frequent respondents were the United States (three cases) and China (two). In Latin America and the Caribbean, Brazil and Honduras are complainants in disputes with South Africa and Australia, respectively; the European Union brought a complaint against Argentina.¹⁹

Some of the more recent disputes concern issues that are beyond the bounds of trade in the strict sense and relate to several public policy areas. Six of the 11 disputes brought in the first half of 2012 have to do with the use of trade policy instruments (anti-dumping, countervailing and safeguard duties). The others primarily referred to technical barriers to trade, intellectual property rights, sanitary and phytosanitary measures, import licenses and other non-tariff measures, and export restrictions. A number of the disputes filed since 2009 concern public health policy and other measures aimed at promoting a green economy. How these differences are settled could have a profound impact on public policy in the countries involved, as well as on how these issues are regulated internationally.

At the intersection between trade and public health, Honduras and Ukraine each filed complaints against Australia. Both countries are challenging Australia's Tobacco Plain Packaging Act 2011, which requires that all cigarette packages have the same generic design. Australia put the legislation in place in order to reduce tobacco use, an objective promoted by the World Health Organization. Honduras and Ukraine hold that in so doing Australia is in violation of the WTO Agreement on Trade-Related Aspects

of Intellectual Property Rights (TRIPS) and technical barriers to trade (TBT), as well as the General Agreement on Tariffs and Trade 1994 (GATT 1994). This dispute, which is still in the consultations stage, spotlights the delicate balance in the multilateral trading system between protecting intellectual property rights and protecting public health. The importance of public health is recognized in article 8 of the TRIPS agreement and in the 2001 WTO Doha Ministerial Declaration underlining the importance of interpreting and implementing the TRIPS agreement in a manner supportive of public health. Nevertheless, the outcome of this dispute will help determine how much flexibility there really is.

Although environmental issues had been challenged through WTO in the past, recent disputes in this sphere are tied to policies geared towards promoting sustainability and a green economy. Environmental sustainability issues are moving up the global agenda and becoming a public policy focus at the national level. Countries are competing to position themselves internationally in fast-growing industries such as renewable energy and clean technologies. This has given rise to trade disputes.

Noteworthy among recent disputes with environmental implications are the challenges filed by the European Union, the United States and other WTO members against Chinese restrictions on the export of certain raw materials. In June 2009, the United States, the European Union and Mexico each brought a complaint against export restraints imposed by China on several raw materials (including bauxite, coke, fluorspar, magnesium, manganese and zinc) that are used in technology products. The complainants held that China's export regime for these materials was inconsistent with the General Agreement on Tariffs and Trade and with China's WTO Accession Protocol. China indicated that the measures in question had been implemented in order to conserve these natural resources and protect the health of its citizens. China is a major producer of these raw materials and is the only source for some of them. The dispute settlement panel found that the measures imposed by China resulted in

¹⁸ Strictly speaking, 13 disputes were filed in the first half of 2012, but 2 involved separate challenges filed by two or more WTO members against the same measures.

¹⁹ The dispute filed by Brazil against South Africa, concerning anti-dumping duties imposed by the latter on poultry meat products from Brazil, is the first WTO dispute between BRICS.

export quotas that were not consistent with its obligations as a member of WTO, whose Appellate Body upheld these findings. China was given until December 2012 to bring its legislation into line with WTO agreements.

In March 2012 the United States, the European Union and Japan filed a similar challenge against China concerning measures restricting exportation of rare earths. The term rare earths refers to a group of 17 chemical elements²⁰ that are used in a wide variety of high-tech products and new environmental technologies, so world trade in them is growing. China, which accounts for 50% of the world's reserves of rare earth minerals, has justified the export restrictions on the grounds of concern over environmental damage from large-scale rare earth mining and potential exhaustion of deposits. The complainant countries allege that the measures affect rare earth supply and prices in the global market and give an advantage to Chinese industries that use them as inputs. After the consultation process failed to yield an agreement, a dispute settlement panel was established in July 2012.

Other recent disputes involve the policies pursued by some countries to promote the development of renewable energies and associated industries. In December 2010 the United States requested consultations with China with respect to measures in support of wind power equipment manufacturers. According to the United States, the measures might be inconsistent with the GATT and the WTO Agreement on Subsidies and Countervailing Measures because they give preference to the use of local components over imported components for making such

equipment. In June 2011 it was announced that the parties had reached an agreement whereby China committed to eliminating the subsidies. Still under way are challenges filed by Japan and the European Union in 2010 and 2011, respectively, against the domestic-content requirements of Canada's Feed-In Tariff Program (FIT Program) for contracts with suppliers of renewable energies such as solar, wind, hydraulic, and bioenergy power. The programme was created to promote a greener economy and protect the environment. Both the European Union and Japan hold that some of its measures are inconsistent with a number of WTO agreements in that they favour the use of equipment for renewable energy generation facilities produced in Canada's Ontario Province, putting potential foreign suppliers at a disadvantage.

Summing up, the WTO dispute settlement mechanism is increasingly being called upon to settle extremely complex issues that are related to sensitive public policy areas. This poses the risk of outcomes that do not appropriately strike the necessary balance between protecting open world trade and pursuing other important objectives, such as protecting public health and the environment. This could, in turn, lead to mounting challenges to the legitimacy of the multilateral trading system. Pressure on the WTO dispute settlement mechanism will increase if shortcomings persist in the multilateral settings dealing with issues such as sustainable development and the fight against climate change. The core challenge would therefore be to seek greater consistency among multilateral regulatory frameworks.

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²⁰ The rare earth elements include scandium, yttrium, lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium and lutetium.

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Chapter II

The commodity boom: analysis and outlook

A. Introduction

The rapid economic expansion of China and burgeoning Chinese demand for raw materials and food have triggered a boom in exports from Latin America and the Caribbean to China in recent years. Largely due to growing demand from China and other emerging economies, commodity prices (especially mineral and metal prices) have soared since the early 2000s. Both factors have contributed to growth in the commodity-exporting countries of the region (especially the South American countries). But they have also made these countries more dependent on the income generated by such exports, which poses several challenges. By contrast, the Central American economies and most Caribbean countries have, as net importers of primary goods, been hurt by rising commodity prices.

Amid international uncertainty and prospects of weak growth in the developed countries and a slowdown in the emerging economies, doubts are mounting about the sustainability of the strong demand and high prices of primary products that have benefited part of the region over the past decade. All of this raises the question of how Latin American countries would be affected by a sudden end of their commodity export boom. To answer that question, this chapter considers three different demand and price scenarios for 2013-2015, focusing on the 10 main groups of commodities exported by the region (oil,

copper, iron, soybeans, coffee, sugar, fishery products, meat, fruits and gas).

Estimates show that, even in the worst-case scenario, commodity prices will remain above their historical averages over the next few years, albeit generally below the highs reached in mid-2008. The high-price cycle that began in the early 2000s could therefore be expected to continue, although growth will slow. As prices level off, the value of the region's exports will continue to rise over the next four years but the pace will be substantially slower than in previous

years and will not go above an annual rate of 10%. As a result, the countries in the region will need to step up their efforts to boost export volumes if they are to maintain their level of export revenue.

Chinese imports from Latin American and Caribbean are mostly commodities, so favourable growth prospects in China mean that a certain minimum of the region's commodity exports will continue to go to China. If China expands by 7%-8% a year, the region's export

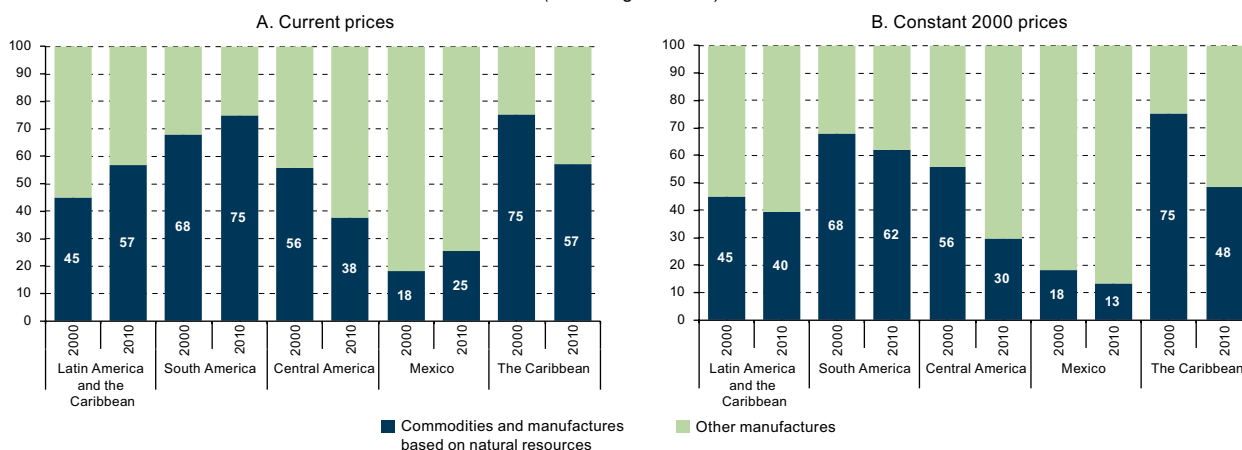
volume to the Chinese market would certainly increase by 16% a year and ensure continued growth in total export volume. That said, slackening commodity prices give the region room to promote exports of related—albeit more sophisticated—products. Deepening intraregional trade relations (characterized by an expanding proportion of this type of product) and improved relations with China and Asia-Pacific would contribute to a qualitative leap in the international integration of the region.

B. Trade in Latin America and the Caribbean over the past decade

In the 2000s, commodities and commodity-based manufactures as a proportion of the total value of exports from Latin America and the Caribbean expanded as prices began to soar at the start of the decade (see figure II.1A). Trends vary between the different subregions, however: whereas in South America

and Mexico the share of these products has grown, in Central America and the Caribbean it has shrunk significantly. The impact of prices on these trends is reflected in the evolution of exports at constant prices; the share of natural-resource-intensive goods is smaller in all of the subregions (see figure II.1B).

Figure II.1
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY TYPE OF PRODUCT AND SUBREGION, 2000 AND 2010
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

The above observations show the importance of distinguishing between export value and volume for an appropriate analysis of the “reprimarization” of the region’s exports, a trend discussed by several analysts in recent years. While a volume analysis indicates the type of goods that have grown the most in terms of quantities exported, a study based on value shows which products have contributed the most to the increase in export revenue. Rising revenue from the export of commodities and

commodity-based manufactures has various implications for economies, encouraging specialization in these goods to the detriment of manufactures not based on natural resources.¹ In addition, the analysis should take into

¹ These issues have been discussed extensively in the literature. For example, see Sinnott, Nash and de la Torre (2010), Ocampo (2011), IMF (2012), Kosacoff and Campanario (2007) and Jiménez and Tromben (2006).

account differences between countries in the region and between their export destinations.

A comparison of the 2000s with the 1990s shows that, for the region as a whole, the export value of commodities and manufactures based on natural resources rose more quickly (see table II.1). By contrast, exports of other manufactures expanded at a lower average rate than in the 1990s, owing mainly to the slackening of exports from Mexico. Excluding Mexico, the region's exports grew faster in 2001-2010 across all categories. A breakdown of growth by volume and price shows that in the 1990s export growth was mainly driven by expanding export volume, whereas in the 2000s prices had the greater impact (except in the case of manufactures not based on natural resources).

At the subregional level, trends in export volume and prices differ and are closely linked to the composition of each subregion's export basket. In South America, prices have risen more than export volume over the past decade, whereas in Mexico, Central America and the Caribbean—which benefited less from surging commodity prices—volumes showed higher average annual growth rates. Trends also varied within the subregions: in the Bolivarian Republic of Venezuela export value went up in the 2000s mainly because of rising prices, while countries such as the Plurinational State of Bolivia posted significantly higher growth in export volume.

A breakdown by type of product shows that primary product export value rose more quickly over the past decade in all subregions but that only in South America and the Caribbean countries did export volume expand faster than in 1991-2000 (see table II.1). The more sluggish growth in the export value of manufactures not based on natural resources is mainly due to the behaviour of exports from Mexico, which were down sharply compared with the previous decade. In terms of volume, the slowdown of manufactured product exports has been more widespread.

Much of the growth in commodities and commodity-based manufactures as a proportion of the export basket of Latin America and the Caribbean is attributable to the expanding share of China and the developing countries of Asia in general as a destination for the region's exports. In 2000, China absorbed just 1% of the region's exports; by 2010 its share had shot up to around 8%. The proportion going to all of the developing countries of Asia jumped from 3.5% to 15% in the same period, replacing the European Union as the region's third most important destination (behind the United States, whose share contracted sharply, and the region itself).

An analysis of exports at constant values shows that the relative weight of China and the developing countries of Asia fell markedly compared to their shares in current value terms, reaching around 5% and 10% respectively by

the end of the decade. However, a comparison of growth rates clearly shows the surge in exports to this region in 2001-2010, especially to China (see table II.2). A key characteristic of this expansion—as with intraregional trade—is that, despite soaring prices over the past decade, growth in export volumes has remained strong and has even outpaced growth in prices. In fact, the variation in volume accounted for around 60% of the growth in export value.

Table II.1
LATIN AMERICA AND THE CARIBBEAN: EXPORTS
BY SUBREGION AND TYPE OF GOODS,
1991-2000 AND 2001-2010
(Average annual growth rates)

Region or country	1991-2000			2001-2010			
	Value	Volume	Price	Value	Volume	Price	
Total	Latin America and the Caribbean	10.8	9.6	1.1	10.1	4.9	5.1
	South America	6.6	5.7	0.9	12.6	4.8	7.8
	Central America	11.6	11.3	0.4	11.4	8.3	3.1
	Mexico	20.0	17.7	2.2	6.5	4.5	2.0
	The Caribbean	2.5	2.0	0.4	12.2	8.0	4.1
Primary goods	Latin America and the Caribbean	5.8	4.0	1.8	14.1	4.3	9.7
	South America	6.3	4.9	1.4	15.3	5.3	9.9
	Central America	5.4	5.0	0.4	8.2	3.1	5.2
	Mexico	6.7	3.1	3.6	10.9	0.4	10.5
	The Caribbean	-2.4	-3.2	0.8	8.2	3.2	5.0
Manufactures based on natural resources	Latin America and the Caribbean	6.3	5.4	0.9	11.2	2.3	8.9
	South America	6.3	5.2	1.1	11.7	2.3	9.4
	Central America	11.9	12.0	-0.1	9.5	2.7	6.8
	Mexico	11.6	10.8	0.8	10.7	2.8	7.9
	The Caribbean	-1.1	-1.3	0.2	7.9	0.7	7.2
Other manufactures	Latin America and the Caribbean	16.9	16.6	0.3	6.7	5.9	0.8
	South America	7.0	6.9	0.1	8.4	6.3	2.1
	Central America	18.9	18.6	0.3	17.1	16.0	1.2
	Mexico	26.8	26.0	0.7	5.1	5.0	0.1
	The Caribbean	-1.7	-2.0	0.3	15.9	14.2	1.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

Table II.2
LATIN AMERICA AND THE CARIBBEAN: GOODS EXPORTS
BY DESTINATION, 1991-2000 AND 2001-2010
(Average annual growth rates)

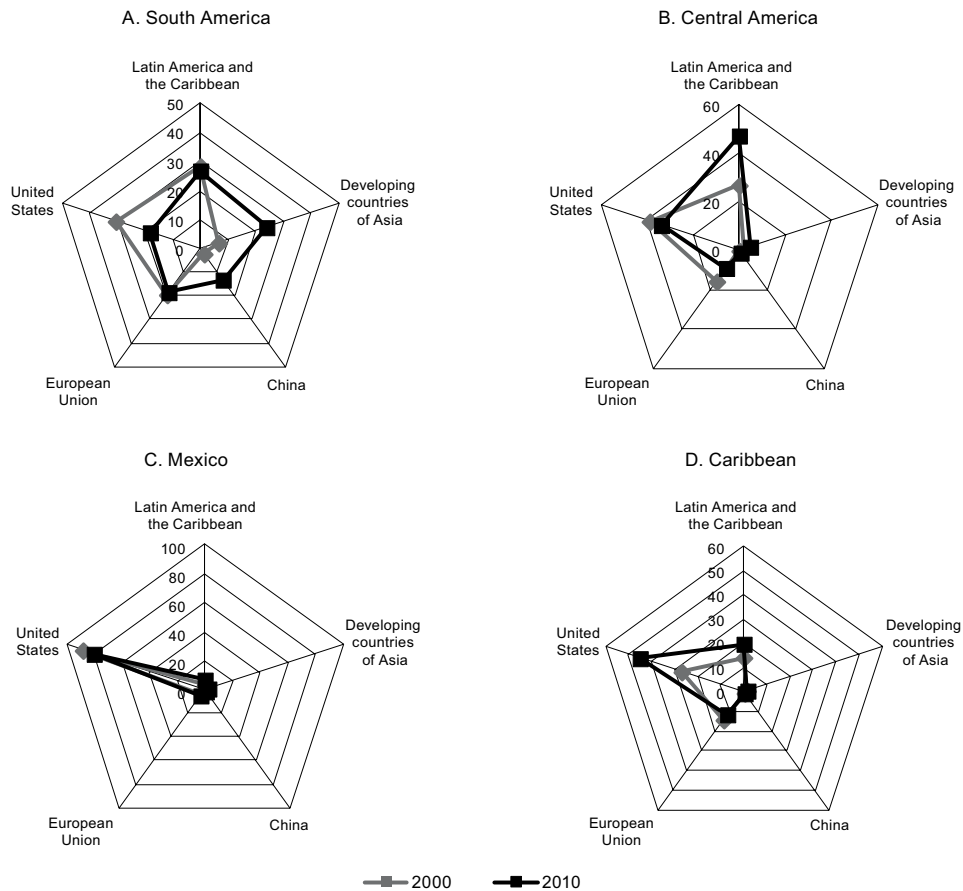
	1991-2000			2001-2010		
	Value	Volume	Price	Value	Volume	Price
World	10.8	9.6	1.1	10.1	4.9	5.1
Latin America and the Caribbean	10.8	9.8	0.9	12.4	7.8	4.5
United States	16.3	14.2	2.1	6.7	3.2	3.4
European Union	2.7	2.4	0.3	11.0	4.9	6.1
Japan	0.5	-0.3	0.7	11.5	2.6	8.9
Developing Asia	6.6	6.9	-0.4	25.1	14.4	10.7
China	12.8	13.6	-0.8	29.9	17.3	12.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

Trade with China and the other developing countries in Asia has intensified, mainly in South America. In 2000, exports from the South American countries to China accounted for around 2% of total export value; by 2010 the figure had risen to 13% and the share of the developing countries of Asia taken as a whole had gone from around 7% to 24% (see figure II.2.A). By contrast, the share of

the United States plummeted from approximately 30% to 18%, while the proportion going to the region itself and the European Union held steady at around 28% and 20% respectively. In Mexico, Central America and the Caribbean, however, China and the rest of the developing countries of Asia continue to account for a marginal share of their exports.

Figure II.2
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY SUBREGION AND DESTINATION, 2000 AND 2010
(Percentages of total export value)

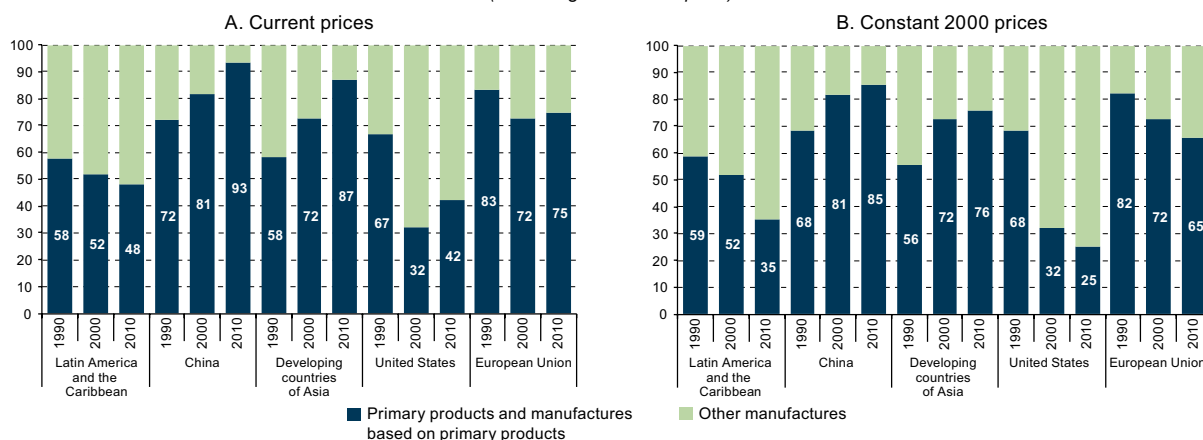


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE) and CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/Consultaintegrada.asp/>.

A breakdown by type of goods and destination shows that the proportion of commodities and commodity-based manufactures in the region's export basket has increased mainly on the strength of sales to China and the developing countries of Asia taken as a whole. The expansion has been driven by rising prices and export volume, as reflected in the growing share of these products in exports measured at current and constant prices (see figure II.3). By contrast, the weight of commodities and commodity-based manufactures in exports measured at constant prices has declined for other destinations, reflecting the buoyancy of other manufactures in volume terms.

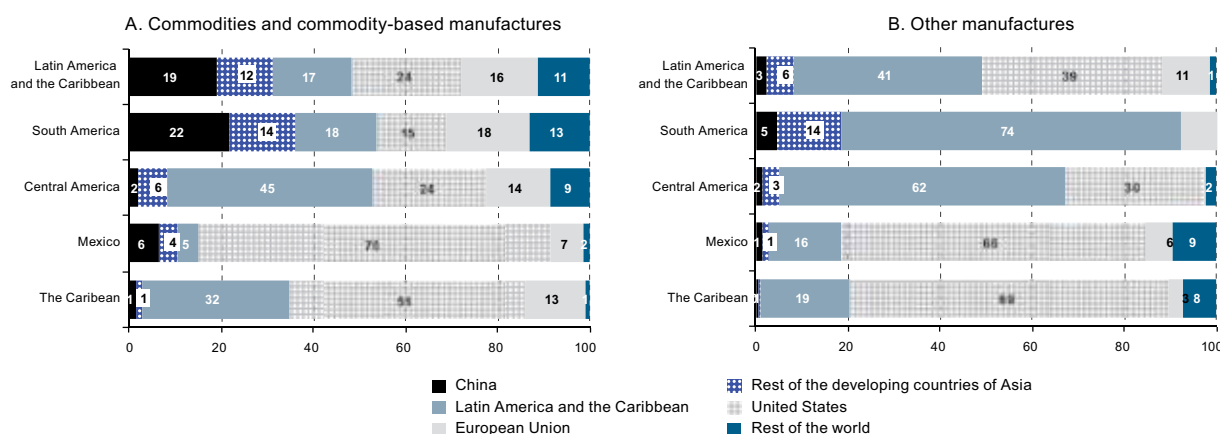
With regard to commodities and commodity-based manufactures, 19% of the jump in the value of the region's exports between 2000 and 2010 is attributable to growth in exports to China. In other words, out of every additional US\$ 100 of exports in 2010 compared with 2000, US\$ 19 went to China (US\$ 12 went to the other Asian developing countries, US\$ 24 to the United States, US\$ 17 to the region itself and US\$ 16 to the European Union). By contrast, the percentage is just 3% for manufactures not based on natural resources (6% to the rest of the countries of developing Asia, around 40% to the United States and the region itself and 11% to the European Union) (see figure II.4).

Figure II.3
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY TYPE OF GOODS AND DESTINATION, 1990, 2000 AND 2010
(Percentages of total exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

Figure II.4
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF THE INCREASE IN THE VALUE OF EXPORTS BY DESTINATION, 2000-2010
(Total absolute change in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE) and CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>.

South America was the source of 93% of the region’s total exports to China in 2010. China accounted for 22% of the increase in the value of South America’s exports of commodities and commodity-based manufactures between 2000 and 2010 (for every additional US\$ 100 of exports from the South American countries in 2010, US\$ 22 went to China). The percentage rises to 36% for all of the developing countries of Asia taken as a whole. In the other subregions, however, growth was mainly driven by exports to the region itself or to the United States; China’s share was very small (between US\$ 1 and US\$ 6 for every additional US\$ 100 in exports). With regard to manufactures not based on natural resources, China’s share was very small in all subregions. Exports within the region itself were high, however (especially

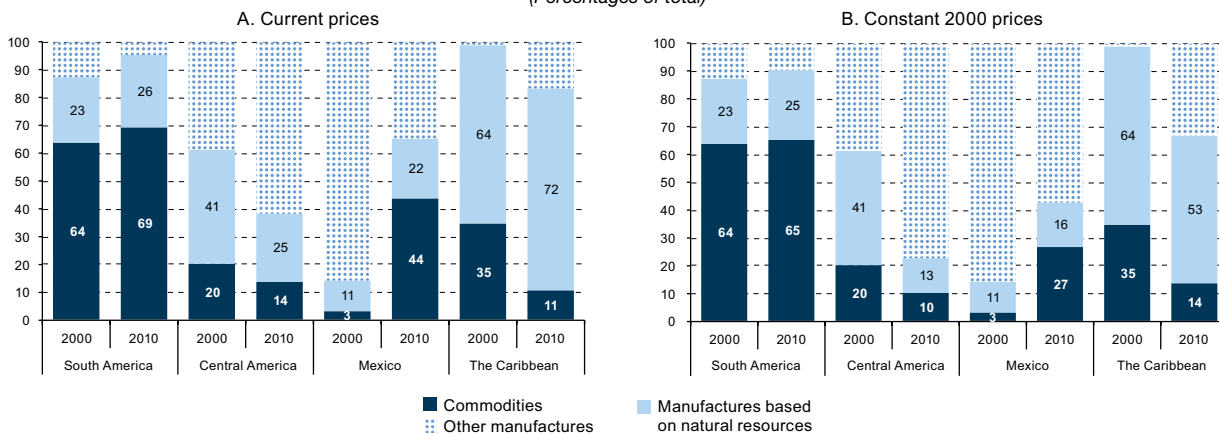
for South America and Central America), as were exports to the United States (for Mexico and the Caribbean countries).

An analysis of the structure of exports to China by type of goods shows major differences between subregions. Exports from South America are heavily skewed towards commodities and manufactures based on natural resources, especially since 2000, in terms of both value and volume (see figure II.5). By contrast, Central America stands out because of the high proportion of manufactures not based on natural resources (especially high-technology manufactures exported by Costa Rica), the sharp growth of this category since the start of the past decade and the declining share of commodities and commodity-based manufactures. Unlike Central America, the trend in Mexico has been a

surge in the percentage of commodity exports and, to a lesser extent, of manufactures based on natural resources together with a significant slump in the proportion of other manufactures (high-technology ones in particular). Lastly, the Caribbean countries show a decline in commodities

but a sharp increase in manufactures not based on natural resources (specifically, medium-technology ones). This trend is even more pronounced when analysing exports at constant prices, which also show a significant decline in the proportion of manufactures based on natural resources.

Figure II.5
LATIN AMERICA AND THE CARIBBEAN (SUBREGIONS): STRUCTURE OF EXPORTS TO CHINA BY TYPE OF GOODS, 2000 AND 2010
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE) and price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

At a higher level of disaggregation, the analysis shows that the main products exported to China and worldwide by most countries in the region are commodities or manufactures based on natural resources and that, in general, their share of total export value has expanded over the past decade (see table II.3). Prices of many of these products have shot up in this period, which largely explains why their share of total export value has increased.

Of the products listed as main exports to China, four are especially noteworthy: oil, electronic goods, copper and soybeans. In 2000, oil accounted for practically none of exports to China from the Bolivarian Republic of Venezuela, Colombia and Ecuador, but by 2010 it had become their leading export to the Chinese market. A similar trend was recorded in exports of electronic products from Costa Rica to China, which skyrocketed

Table II.3
LATIN AMERICA (SELECTED COUNTRIES): MAIN PRODUCT EXPORTED WORLDWIDE AND TO CHINA, 2000 AND 2010
(Percentages of total export value)

Country	Product	World		Product	China	
		2000	2010		2000	2010
Argentina	Soybeans	14.8	25.4	Soybeans	76.8 (3.0)	75.8 (8.5)
Bolivia (Plurinational State of)	Gas	8.3	40.7	Tin	86.3 (0.4)	32.8 (3.0)
Brazil	Iron	6.1	15.5	Iron	25.9 (2.0)	44.4 (15.6)
Chile	Copper	40.4	58.2	Copper	72.8 (5.0)	85.7 (24.6)
Colombia	Oil	36.2	41.2	Oil	0.0 (0.2)	49.0 (4.9)
Costa Rica	Electronics	30.3	19.2	Electronics	0.1 (0.2)	81.8 (3.0)
Ecuador	Oil	52.4	55.3	Oil	0.0 (1.2)	70.3 (1.9)
El Salvador	Textiles	1.1	31.8	Scrap metal	0.0 (0.0)	66.6 (0.1)
Guatemala	Textiles	0.4	10.8	Sugar	76.3 (0.1)	61.4 (0.4)
Honduras	Coffee	25.8	26.3	Precious metals	0.0 (0.0)	20.5 (3.3)
Mexico	Oil	9.6	13.6	Copper	5.0 (0.2)	28.1 (1.4)
Nicaragua	Coffee	27.1	18.5	Peanut oil	0.0 (0.1)	21.1 (0.4)
Panama	Fish	29.3	27.5	Scrap metal	33.6 (0.2)	67.3 (0.3)
Paraguay	Soybeans	45.1	47.1	Leather	44.4 (0.7)	61.5 (0.8)
Peru	Copper	13.5	25.1	Copper	9.7 (6.4)	43.3 (15.4)
Uruguay	Meat	15.9	19.2	Soybeans	0.0 (4.0)	39.5 (5.4)
Venezuela (Bolivarian Republic of)	Oil	85.5	93.1	Oil	0.0 (0.1)	86.6 (8.0)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE).
Note: Data in brackets correspond to China's share in the total exports of each country.

from a mere 0.1% to 82%; by contrast, the share of these products in worldwide exports plummeted. However, China continues to account for only a small proportion of these countries' total exports. Copper exports to China from Chile and, especially, from Peru expanded to such

an extent that by 2010 the Chinese market accounted for a significant share of these countries' total exports. The share of soybeans in Uruguay's exports to China climbed substantially, although soybeans are not Uruguay's main export worldwide (see table II.3).

Box II.I
IMPORT AND TRADE BALANCE TRENDS

Since the 1990s, imports into Latin America and the Caribbean from the developing countries of Asia, particularly China, have been growing faster than those arriving from other origins, mainly because of a greater increase in import volume (see

table below). As a result, the developing countries of Asia have seen their share of total imports arriving in the region go from 8% in 2000 to nearly 25% in 2010, with imports from China surging from 2% of the total to almost 15% during the period. As

with exports, this growth has been offset by a sharp decline in the share of imports arriving from the United States, although it is still the principal origin of imports arriving in Latin America.

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS BY MAIN ORIGIN, 1991-2000 AND 2001-2010
(Average annual growth rate)

	1991-2000			2001-2010		
	Value	Volume	Price	Value	Volume	Price
World	11.8	11.1	0.7	9.1	6.1	3.0
Latin America and the Caribbean	11.1	10.0	1.1	10.6	6.4	4.3
United States	13.9	13.5	0.5	4.6	1.3	3.3
European Union	7.8	7.6	0.3	8.0	5.3	2.7
Japan	7.0	6.8	0.3	7.4	5.8	1.7
Developing countries of Asia	18.4	18.8	-0.3	19.6	18.4	1.2
China	24.5	24.7	-0.2	27.7	26.9	0.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics and World Bank.

Imports arriving in the region are highly concentrated in manufactures not based on natural resources —especially so in the case of imports from China and from the developing countries of Asia, approximately 90% of which are goods of this type.

Differences in the composition of export and import flows, as well as changing patterns over the past decade, are reflected in the region's trade balance. Latin America and the Caribbean has been running an overall trade surplus with the world since 2002, but that surplus contracted sharply in 2007-2008 and has held relatively steady since then (see figure below). This overall balance is due to a rising surplus in commodities and their by-products and a growing deficit in manufactures not based on natural resources, with wider variations in the latter since 2005. By contrast, the overall trade deficit with China grew during the period owing to a larger deficit in manufactures not based on natural resources that was not offset by a rising surplus in other categories of goods (see figure below).

A breakdown by subregions shows that the main factor behind the trade deficit with China is the growing negative balance

recorded by Mexico and, to a lesser extent, Central America and the countries of the Caribbean. By contrast, South America has had a fairly balanced trade balance with China over the past decade. A breakdown by type of goods shows that, as with their trade with the world, the countries of South America have posted a growing trade surplus with China in commodities and commodity-based manufactures since the early 2000s. This explains the surplus that Latin America and the Caribbean as a whole is running in this type of goods. By contrast, all of the subregions are seeing a growing trade deficit with China in manufactures not based on natural resources.

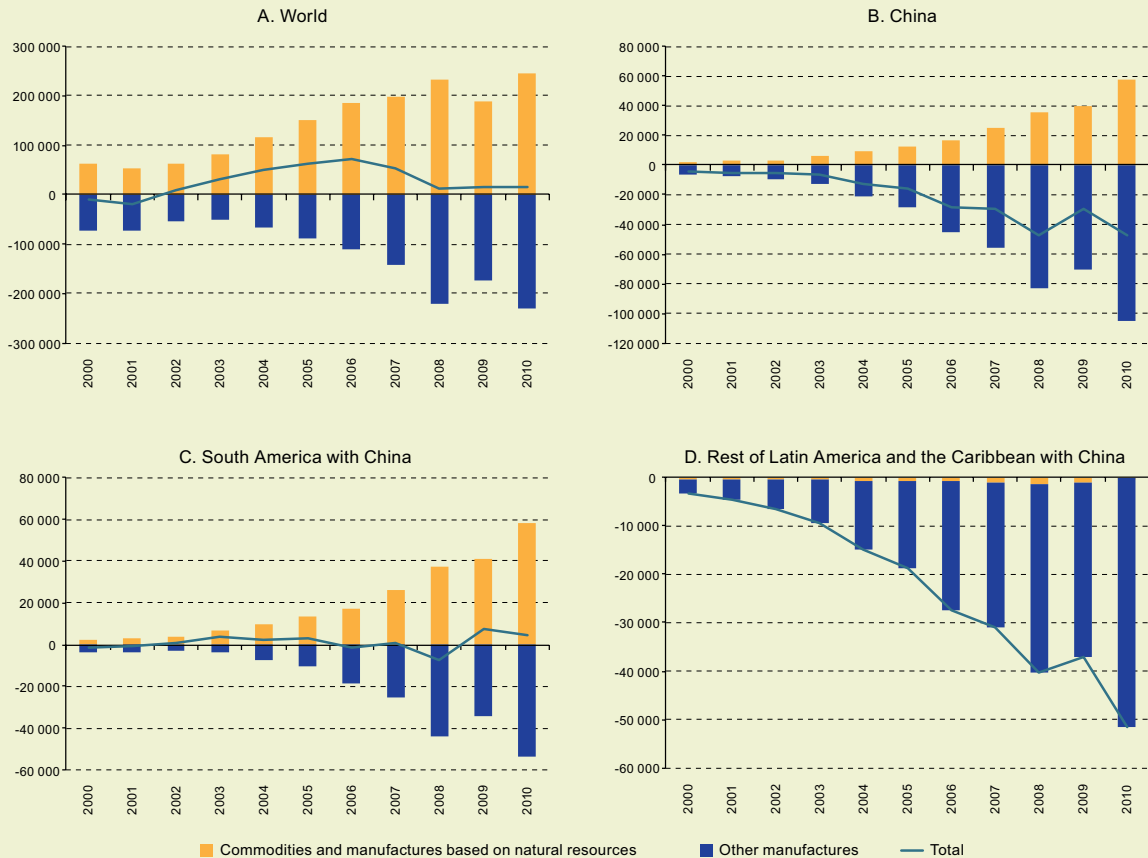
The growing deficit with China in manufactures not based on natural resources has sparked great concern in the region. One of the facets of this problem is the competition that imports from China pose for Latin American firms in their own domestic markets, and the challenges this entails for the region's manufacturing sector.

One way to gauge Chinese competition in domestic markets is to estimate, by sector of economic activity, the ratio between imports arriving from China and apparent consumption. Durán and Pellandra (2012)

conduct studies of this kind based on input-output tables for six countries in Latin America (Argentina, Brazil, Chile, Colombia, Ecuador and Mexico). In each case they identify the industries most affected by imports from China substituting domestic output during 2005-2010. Except for the primary sectors (agriculture, forestry, hunting and fishing and oil and mining), in the 10 other sectors examined, which are manufacturing sectors, imports from China grew faster than those arriving from the rest of the world. Among the manufacturing sectors, Durán and Pellandra (2012) identified at least five in which imports from China were eroding domestic production: textiles, clothing and footwear; rubber and plastic; metal and metal products; machinery and equipment; and automobiles and auto parts. The authors compared China's penetration in 2005 and 2010 and found that it increased in a number of key industrial sectors in several countries. Among these sectors were machinery and equipment in Argentina, Brazil and Mexico; automobiles in Colombia, Chile and Ecuador; and textiles, clothing and footwear in Argentina and Brazil. The greatest impact was felt in Chile and Mexico.

Box II.1 (concluded)

**LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE WITH THE WORLD
AND WITH CHINA, TOTAL AND BY TYPE OF GOODS, 2000-2010**
(Millions of dollars at current prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp/>; price information from the International Monetary Fund (IMF); United Nations Conference on Trade and Development (UNCTAD), United States Bureau of Economic Analysis (BEA), United States Bureau of Labor Statistics, World Bank, José Durán and Andrea Pellandra, "Cambios en la estructura económica e industrial mundial en la primera década del siglo XXI: El efecto de la emergencia de China sobre producción y comercio en América Latina y el Caribe", unpublished, May 2012.

C. Commodity prices

Since the early 2000s, commodity prices have skyrocketed, in many cases reaching record highs in mid-2008. Although the global economic crisis that broke out in the second half of 2008 partially reversed the upswing in prices, another boom starting in early 2009 pushed prices for many products up to levels even higher than those recorded before the crisis. According to Erten and Ocampo (2012),

this commodity price pattern—which contrasts sharply with the price trend for manufactures—marks the initial phase of a new real commodity price supercycle, the fourth during the 1865-2010 period (see box II.2).

Commodity prices fell during much of 2011. Although overall commodity prices showed a slight rise at year end compared with the end of 2010, this was due

to rising energy prices, since the other groups fell (food, agricultural raw materials and minerals and metals) (see figure II.6).² The trend reversed temporarily in the first

few months of 2012, although in most cases prices did not return to the levels posted in late 2010 and fell again in the second quarter.

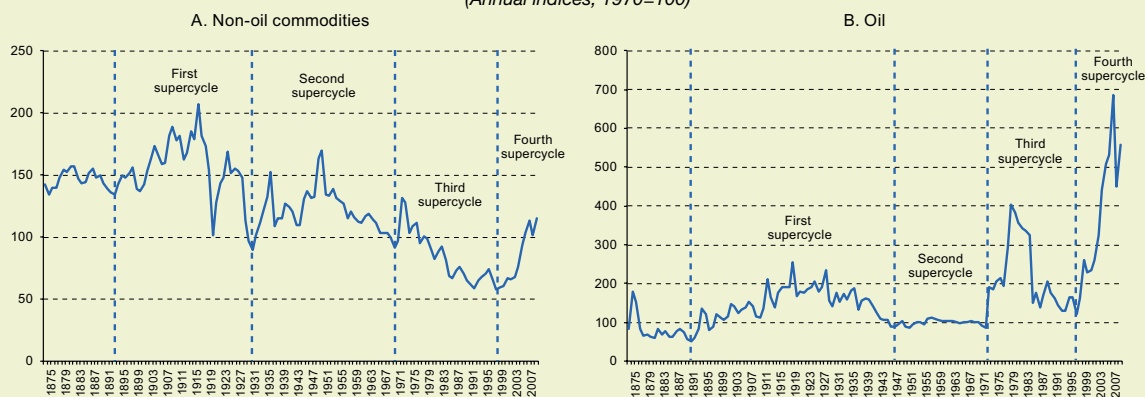
Box II.2 LONG-TERM COMMODITY PRICE TRENDS

Erten and Ocampo (2012) suggest that there have been four real commodity price supercycles during 1865-2010.^a The first, between the late nineteenth century and the 1930s, had marked upswings and downtrends and peaked around the First

World War. The second ran from the 1930s to the mid-1960s and peaked during post-war reconstruction in Europe, with a steep upswing and a weak downtrend. The third began in the early 1970s, peaked in the mid-1970s and then trended down until

the late 1990s; it was marked by a weak upswing and a sharp downtrend. The fourth, which began in the early 2000s, has had a steep upswing and is ongoing (see the figure below).

REAL COMMODITY PRICES, 1875-2010 (Annual indices, 1970=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from University of Oxford, Montevideo-Oxford Latin American Economic History Database [online] <http://oxlad.qeh.ox.ac.uk/>.

Long-term price trends differ substantially among commodities (see table below). In three of the four supercycles, metal prices have risen more sharply than agricultural product prices, especially in the most recent cycle. While real prices for metals doubled and reached one of their all-time highs, agricultural product prices jumped

some 75%, reversing the steep slide seen since the 1980s.

Evidence shows that average real prices for non-oil commodities have fallen from one supercycle to the next. The exception is metals, where average real prices are higher in the current supercycle than in the preceding one. But the current supercycle

is still under way, so average metal prices could fall at the end.

Real oil prices show a marked uptrend over the long term, unlike other commodities. Oil price supercycle intensity and amplitude have increased, and the correlation with non-oil supercycles has strengthened.

COMMODITY PRICE SUPERCYCLES

	First supercycle	Second supercycle	Third supercycle	Fourth supercycle
Non-oil commodity prices				
Years	1894-1932	1932-1971	1971-1999	Since 1999
Peak	1917	1951	1973	2010
Percentage increase	50.2	72.0	38.9	81.3
Percentage decrease	-54.6	-43.3	-52.5	-
Price index (average) ^a	157.3	119.4	86.2	82.2
Cycle duration (years)	38	39	28	-
Years of upswing	23	19	2	11
Years of downswing	15	20	26	-
Metal prices				
Years	1885-1921	1921-1945	1945-1999	Since 1999
Peak	1916	1929	1956	2007

² According to IMF indices, in December 2011 commodity prices were an average 5% higher than in December 2010. Excluding energy products, which climbed by 17%, prices of the other products slipped by an average of 12% (food prices slid 8%;

agricultural raw materials fell 12%; minerals and metals posted an 18% drop). Taking into account the average prices for each year, all product groups went up in 2011 as a result of the surge in the first half of the year.

Box II.2 (concluded)

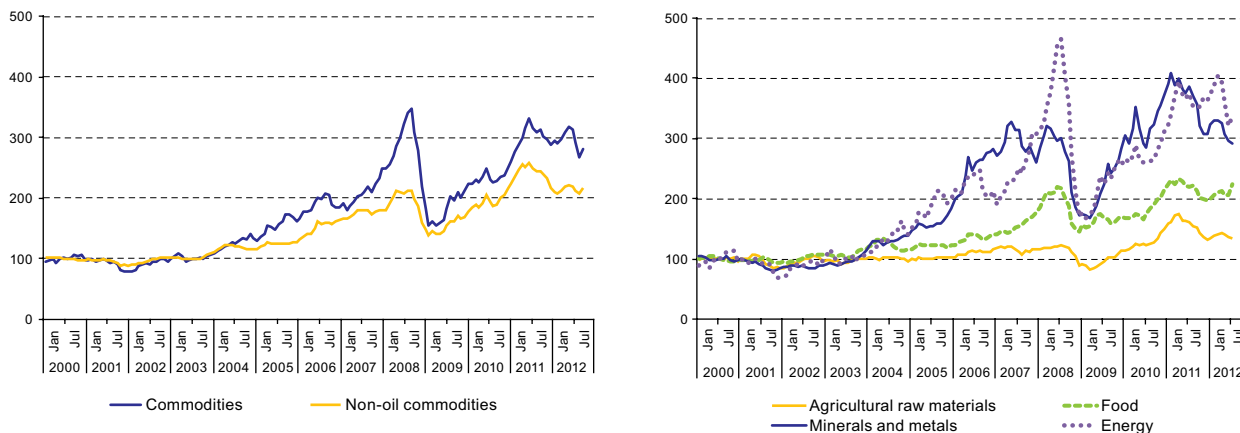
	First supercycle	Second supercycle	Third supercycle	Fourth supercycle
Percentage increase	105.7	66.6	98.0	202.4
Percentage decrease	-70.2	-51.9	-47.4	-
Price index (average) ^a	151.6	95.7	85.2	109.3
Cycle duration (years)	36	24	54	-
Years of upswing	31	8	11	8
Years of downswing	5	16	43	-
Agricultural product prices				
Years	1894-1932	1932-1971	1971-1999	Since 1999
Peak	1917	1951	1973	2010
Percentage increase	52.8	90.3	52.0	76.6
Percentage decrease	-56.2	-49.6	-56.0	-
Price index (average) ^a	163.2	127.0	87.5	74.3
Cycle duration (years)	38	39	28	-
Years of upswing	23	19	2	11
Years of downswing	15	20	26	-
Oil prices				
Years	1892-1947	1947-1973	1973-1998	Since 1998
Peak	1920	1958	1980	2008
Percentage increase	402.8	27.4	363.2	466.5
Percentage decrease	-65.2	-23.1	-69.9	-
Price index (average) ^a	36.9	24.8	53.2	91.2
Cycle duration (years)	55	26	25	-
Years of upswing	28	11	7	10
Years of downswing	27	15	18	-

Source: Bilge Erten and José Antonio Ocampo, "Super-cycles of commodity prices since the mid-nineteenth century", *DESA Working Paper*, No. 110 (ST/ESA/2012/DWP/110), 2012.
^a For the fourth supercycle, which is still under way, this is the average for 1999-2010.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bilge Erten and José Antonio Ocampo, "Super-cycles of commodity prices since the mid-nineteenth century", *DESA Working Paper*, No. 110 (ST/ESA/2012/DWP/110), 2012.

^a The term supercycle refers to above-trend price fluctuations that last for decades and affect a broad range of commodities.

Figure II.6
COMMODITY PRICE TRENDS, JANUARY 2000-JULY 2012
 (Average monthly indices 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF).

Over the past year, commodity price trends have been determined mainly by uncertainty surrounding the short-term outlook for the global economy (owing to the euro zone crisis and the shaky recovery of the

United States economy), slower growth in the emerging economies (especially China) and the effect that high prices are starting to have on the supply of some commodities (especially, some basic metals) (IMF, 2012).

Financial factors have also come into play. The worsening euro zone crisis has resulted in the United States dollar again being used as a safe haven asset, causing the dollar to appreciate and dollar prices to fall. In addition, mounting uncertainty as to the short-term economic outlook has pushed risk premiums up in both commodity derivatives markets and credit markets. This has made maintaining inventories more

expensive and put downward pressure on the spot prices for these products.

In the case of food, supply shocks triggered by severe droughts in some producer countries (especially the United States and several countries in Eastern Europe) have, in recent months, reversed the downtrend in international prices recorded in the first half of the year (ECLAC/FAO/ICCA, 2012).

Box II.3

CHINA AND THE COMMODITY PRICE BOOM

One of the factors behind the rising price of some commodities since the early 2000s has been the steady increase in demand in emerging countries, especially China. Along with other large emerging economies in Asia, China is the main driver of global demand for metals because its economy is in a highly metal-intensive stage of development. Nevertheless, while Chinese consumption of the principal base metals

has soared in recent years and contributed a good deal to the worldwide increase in consumption, this has not necessarily been reflected in a significant rise in China's share of global imports. For example, Chinese consumption of aluminium and zinc accounts for a very large percentage of the worldwide total but is primarily supplied by domestic production, which made up some 40% of total production in

2010 (see table below). By contrast, rising consumption of copper and iron has driven imports up sharply and increased China's direct influence over international prices for these metals. China's consumption of copper went from some 13% of the global total in 2000 to nearly 40% in 2010, and its share of imports rose from about 10% to approximately 40% during that period.

CHINA: SHARE OF GLOBAL PRODUCTION, CONSUMPTION AND IMPORTS OF SELECTED COMMODITIES, 1990 2000 AND 2010 ^a
(Percentages)

Product	Production			Consumption			Imports		
	1990	2000	2010	1990	2000	2010	1990	2000	2010
Aluminium	4.4	11.4	39.7	4.5	14.0	39.8	0.9	5.8	1.9
Copper	5.2	9.3	23.9	4.7	12.7	38.8	1.0	9.8	37.6
Iron	18.2	23.3	55.3	19.6	30.3	92.5	3.5	13.7	65.3
Zinc	8.2	21.6	40.5	5.6	15.8	42.9	0.2	0.5	8.9
Oil	4.2	4.3	4.9	3.5	6.2	10.6	0.2	3.6	9.7
Coal	22.3	26.0	43.8	21.4	24.6	45.9	0.5	0.3	14.5
Natural gas	0.7	1.1	2.9	0.7	1.0	3.3	0.0	0.0	1.6
Maize	20.2	18.0	20.1	18.3	20.3	19.1	7.5	6.0	4.6
Wheat	16.7	17.1	16.9	19.2	19.6	17.5	13.3	2.0	1.7
Soybeans	10.2	9.6	6.7	10.9	16.4	25.4	7.7	26.2	56.1
Sugar	6.7	5.3	7.5	7.5	6.1	8.8	4.9	3.7	4.0
Coffee	0.1	0.2	0.3	0.3	0.4	0.2	0.4	0.6	0.9
Fruit	6.1	13.8	19.5	6.2	14.0	19.1	1.8	3.4	4.2
Beef	2.4	8.8	9.6	2.2	9.1	10.1	1.8	2.3	3.8
Fish and seafood	15.3	30.2	35.0	17.5	34.2	35.6	11.9	19.6	18.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Food and Agriculture Organization of the United Nations (FAO), FAO Statistical Database (FAOSTAT), World Bureau of Metal Statistics, United States Energy Information Administration and World Steel Association.

^a For agricultural products and iron the data are for 1990, 2000 and 2009. The data on oil imports are for 1990, 2000 and 2009.

China plays a smaller role in energy products because (except for coal) it does not account for a significant share of global consumption, although its share has been growing in recent years. Nor does China account for a large percentage of global imports of these products, even though a large proportion of China's oil consumption is supplied by imported oil. Nevertheless, in the case of oil the aggregate effect of demand by the emerging economies as a whole is considerable (World Bank, 2012a).

China's impact on agricultural commodity prices is not significant, either, because it is not a major source of demand on the international markets for most of these commodities. To

cite an example, China is a major producer of maize; although in 2009 its consumption of this commodity accounted for 20% of the global total, its share of imports was very small (as the table shows). Soybeans are an exception to this general pattern because China's share of global soybean imports has soared in recent years. Chinese consumption and production of fish and seafood makes up a large percentage of the worldwide total; its share of imports is considerable, as well, but has not varied significantly over the past decade.

Jenkins (2011) estimated, for 2007, the effect of Chinese demand on the price of the principal products that the countries of

Latin America export to China (what Jenkins called the "China effect"), as well as its impact on export revenue for these countries.^a His findings show that the largest gains were from oil and copper, which together accounted for some 75% of the increase in revenue generated by the "China effect" between 2002 and 2007. While copper makes up a much smaller share of the region's exports to China than oil does, China's greater influence over the price of copper means that the contribution by both products is similar. Iron ore, aluminium and zinc account for 10%, 4.3% and 4.1%, respectively, of the increase in export revenue. Exports of soybeans, forestry products (wood and

Box II.3 (concluded)

pulp), meat, sugar and fruit have a small impact on revenue.

The impact of growing Chinese demand for commodities differs among the countries of the region because some are net commodity exporters (particularly, minerals and oil) and others are net importers. According to estimates by Jenkins (2011),

the countries of Latin America can be divided into four groups: (i) Chile, the Plurinational State of Bolivia and Peru (mineral-exporting economies), with increases in net export revenue ranging from 20% to 50%; (ii) the Bolivarian Republic of Venezuela, Ecuador and Mexico (major oil exporters), and Argentina and Brazil (the two most diversified

economies in the region), with gains of 7% to 20%; (iii) Colombia, Guatemala, Honduras and Paraguay, with gains of less than 10%; and (iv) Costa Rica, El Salvador, Nicaragua, Panama and Uruguay, with a net negative impact (the gains from higher commodity export prices do not offset the rising cost of commodity imports).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Food and Agriculture Organization of the United Nations (FAO), FAO Statistical Database (FAOSTAT); World Bureau of Metal Statistics; United States Energy Information Administration and World Steel Association; World Bank, "Commodity annex. Prospects for commodity markets", *Global Economic Prospects*, June 2012 [online] <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1339427993716/GEP2012bCommoditiesApp.pdf> and Rhys Jenkins, "El efecto China en los precios de los productos básicos y en el valor de las exportaciones de América Latina", *ECLAC Review*, No. 103 (LC/G.2487-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 2011.

^a The "China effect" gauges how much higher global commodity prices were in 2007 than they would have been if Chinese demand had grown at the same pace as the rest of the world between 2002 and 2007.

D. Medium-term outlook, 2012-2015

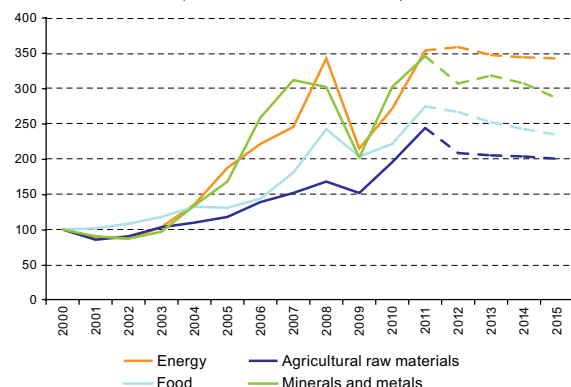
The prospect of weak growth among developed countries and a slowdown among emerging economies raises doubts over the sustainability of high commodity prices in the years ahead. According to some analysts, the price supercycle uptrend that began in the early 2000s may be coming to an end, although there is no consensus on this.

Deverell and others (2012) suggest that, while demand for commodities is likely to slow, this is expected to be a gradual process and should not result in a sudden drop in prices. Over the next few years, strong demand from China coupled with the gradual recovery of the developed economies may help to keep prices, on average, well above the levels observed during the 1980s and 1990s, meaning that the price supercycle would continue. World Bank projections suggest that this will indeed be the case; they forecast a slight retreat in average commodity prices over the next few years. Prices would, however, remain relatively high—in some cases even higher than in 2008 before the crisis struck (see figure II.7).

In order to assess how changes in commodity prices and the volume of global demand could affect Latin American and Caribbean exports in the years ahead, two econometric models were used to generate projections: a time series autoregressive integrated moving average (ARIMA) model and a gravity model.³ For the ARIMA model, monthly data for January 2006 to June

2012 on exports at current values and prices by product category were used to project export volumes for certain groups of products.⁴ For the gravity model, annual bilateral trade flows for 1995-2009 were used, together with a set of explanatory variables common to this type of model (GDP, distance, landlocked status, common language, existence of trade agreements). The elasticity of exports from each country in the region was calculated with regard to income in each of the main export destinations (China, the European Union, the United States and the region itself). Each country's export volume for 2012-2015 was then estimated on the basis of these elasticities, taking into account projected variations in GDP for the destination countries or regions.

Figure II.7
COMMODITY PRICES, 2000-2015
(Annual indices, 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from World Bank.

³ To develop the gravity model, the Santos Silva and Tenreiro (2005) approach was used, as was the traditional Anderson and van Wincoop model (2003) formalizing the ordinary least square methodology originally proposed by Tinbergen (1962). Working from this theoretical basis, a traditional gravity model and a gravity model in logarithms (Poisson) were estimated in order to calculate the income-elasticities of exports at the product level.

⁴ The product categories were food, beverages, oils, flours and meals and oilseeds, agricultural, forestry and fishing-related raw materials,

Before proceeding to a detailed prospective analysis for 2013-2015, price changes during the first half of 2012 will be analysed, together with projections for the year overall. Estimates indicate that prices for the region's export commodities will fall by 5% on average in 2012, whereas in 2011 they increased by just over 20% (see table II.4). Changing prices for minerals and metals, agricultural, fishing and forestry-related raw materials, and beverages are responsible for this drop in the average index; other categories experienced minor price increases.

Among the minerals and metals, copper and iron are particularly important because of their weight in the region's export basket; their prices fell by approximately 14% and 20% respectively during the first half of 2012 compared with the same period a year earlier. Other metals, such as aluminium, zinc, nickel, lead and tin, have followed a similar pattern. Within the group of agricultural, fishing and forestry-related raw materials, prices for wood pulp, rubber and cotton in particular were down. The largest drops in beverage prices were seen for coffee and cocoa.

Table II.4
LATIN AMERICA AND THE CARIBBEAN: EXPORT COMMODITY PRICES BY PRODUCT CATEGORY, 2010-2012
(Percentages and indices 2000=100)

Product category	Share of total commodity exports (2011)	Price indices			Annual variation	
		2010	2011	2012 ^a	2011	2012 ^a
Food	9.9	157.4	183.8	188.4	16.7	2.5
Beverages	2.7	170.2	237.4	195.9	39.5	-17.5
Oils, flours and meals and oilseeds	7.7	169.6	197.3	204.1	16.3	3.5
Agricultural and fishing and forestry-related raw materials	8.5	154.8	176.4	160.4	13.9	-9.1
Minerals and metals	26.7	245.2	287.8	248.3	17.4	-13.7
Energy	44.5	138.6	179.2	181.5	29.4	1.3
Total commodities	100.0	173.5	211.4	200.4	21.8	-5.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/Consultaintegrada.asp/> and ECLAC estimates for 2012.

^a ECLAC projections.

An analysis by product reveals that the 10 main groups of commodities exported by the region (oil, copper, iron, soybeans, coffee, sugar, fish, meat, fruit and gas) were responsible for 42% of the variation in export prices in 2011 and had an impact on price changes for another large percentage of exports, especially natural-resource-based manufactures (such as processed

coffee, beverages and tobacco, and leather). These 10 product groups are more important to countries such as the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Nicaragua, Paraguay and the Plurinational State of Bolivia, for which they represented over 50% of total export value in 2011 (see table II.5).

Table II.5
LATIN AMERICA AND THE CARIBBEAN: SHARE OF THE TEN MAIN COMMODITY GROUPS IN EXPORTS BY COUNTRY, 2011
(Millions of dollars and percentages)

Country	Millions of dollars	Percentage of the country's exports	Percentage of regional total	Main products
Brazil	120 666	47.1	27.3	Soybeans, iron and sugar
Venezuela (Bolivarian Republic of)	88 724	95.8	20.0	Oil
Mexico	62 208	17.8	14.1	Oil, copper and meat
Chile	51 027	62.7	11.5	Copper, fish and fruit
Colombia	32 840	57.7	7.4	Oil, coffee and fruit
Argentina	28 501	33.9	6.4	Soybeans, oil, copper and meat
Peru	19 412	42.5	4.4	Copper, oil, fish and coffee
Ecuador	16 992	76.0	3.8	Oil, fruit and fish
Trinidad and Tobago	5 093	46.4	1.2	Liquefied gas and oil
Bolivia (Plurinational State of)	4 876	53.5	1.1	Gas and soybeans
Paraguay	3 778	68.5	0.9	Soybeans and meat
Guatemala	2 680	26.4	0.6	Coffee, fruit and sugar
Costa Rica	2 087	20.4	0.5	Fruit and coffee
Uruguay	1 597	20.1	0.4	Meat and soybeans
Nicaragua	1 172	51.4	0.3	Fruit, coffee, meat and sugar
Rest of Central America	918	9.2	0.2	Fruit, coffee, fish and sugar

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and CEPALSTAT [online database] <http://websie.eclac.cl/sisgen/Consultaintegrada.asp/>.

minerals and metals, energy, natural-resource-based manufactures, other manufactures and other products.

In the region overall, the countries accounting for the largest proportion of exports of these products are Brazil, the Bolivarian Republic of Venezuela, Mexico and Chile, at almost 75% of the total for the region. In addition to these 10 product groups, other commodities such as bauxite and gold account for a significant percentage of total exports from the countries of the Caribbean.

In some medium-sized and small countries, such as the Bolivarian Republic of Venezuela, Chile, Ecuador, Plurinational State of Bolivia and Trinidad and Tobago, commodity exports make up slightly more than 20% of GDP as well as a substantial proportion of fiscal revenue. During 2007-2009, for example, the average was around 45% of fiscal revenue in the Bolivarian Republic of

Venezuela, 34% in Mexico, 32% in El Salvador and 31% in Ecuador (ECLAC, 2012).

Prices for these 10 commodity groups were down in general during the first half of 2012 compared with the same period of the previous year, in particular for fishery products, coffee and iron (see table II.6). Based on projections prepared by several international organizations and specialized bodies (including the World Bank, the Economist Intelligence Unit (EIU), the Organisation for Economic Cooperation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO)), average prices for these product groups (except for soybeans, meat and fish products) are expected to be lower in 2012 overall than in 2011.

Table II.6
LATIN AMERICA AND THE CARIBBEAN: PRICES FOR THE MAIN GROUPS OF EXPORT COMMODITIES, 2011 AND 2012

Product group	Share of total for the 10 groups (percentages)	Unit of measurement	Average price for the period				Variation rates (percentages)	
			First half		Entire year		First half 2012-2011	2012-2011
			2011	2012	2011	2012		
Oil ^a	50.3	US dollars per barrel	105	108	104	103	2.6	-1.0
Copper ^b	14.3	US cents per pound	427	368	400	369	-13.9	-7.8
Iron ^c	11.2	US dollars per ton	177	141	168	142	-20.6	-15.4
Soybeans ^d	11.1	US dollars per ton	561	545	541	608	-2.9	12.4
Coffee ^e	3.4	US cents per kilogram	628	444	598	567	-29.4	-5.1
Sugar ^f	3.0	US cents per kilogram	58	50	57	50	-13.4	-13.4
Fish ^g	2.6	US dollars per ton	1 694	1 390	1 537	1 565	-17.9	1.8
Meat ^h	1.9	US cents per kilogram	408	419	404	420	2.7	3.9
Fruit ⁱ	1.2	US dollars per ton	851	807	891	867	-5.1	-2.7
Gas ^j	1.0	US dollars per MMBtu	11	11	11	10	7.5	-4.8
10 groups	100.0		...	...	...	...	-5.1	-2.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data and projections from World Bank, Economist Intelligence Unit (EIU), Organisation for Economic Cooperation and Development (OECD) and Food and Agriculture Organization of the United Nations (FAO).

^a Average of Brent Crude, Dubai Crude and West Texas Intermediate.

^b London Metal Exchange.

^c Iron ore (reference: Brazil to Europe, 64.5% f.o.b.).

^d Yellow soybeans (CIF Rotterdam price).

^e Arabica coffee (Colombian variety).

^f Average international price.

^g Fishmeal (Bremer).

^h Port price in Australia and New Zealand.

ⁱ Port price for oranges in France.

^j Average of the price for Henry Hub natural gas and contracts for export from the Plurinational State of Bolivia to Brazil and Argentina (weighted according to the volumes exported by Trinidad and Tobago and the Plurinational State of Bolivia to their main export markets (United States, Argentina and Brazil)).

Using a neutral price scenario that takes the average of projections by international organizations and specialized bodies, two other scenarios were drawn up for 2013-2015: an optimistic scenario in which prices for each product group continue to rise at the same average annual rate as in 2005-2011, and a pessimistic scenario in which prices drop in 2013 by the equivalent of 50% of the fall recorded in 2008-2009 but this decline eases off towards 2015 (specifically, in 2014 the decline would be equivalent to 25% of that observed in 2008-2009 while in 2015 it would equate to 12.5%).

The data in table II.7 show that, in the neutral scenario, prices for the 10 product groups under consideration may fall by some 2% on average each year during 2013-2015, although certain groups (gas, fish products and fruit) could present positive average rates of variation. In the optimistic scenario, the medium-term

uptrend in prices for all product groups would continue and result in an average annual variation of 13.3% for the groups as a whole. In less favourable conditions (pessimistic scenario) the average variation would be negative (a decline of around 9% annually), essentially as a result of falling prices for the major product groups in the region's export basket: oil, iron, copper and soybeans.

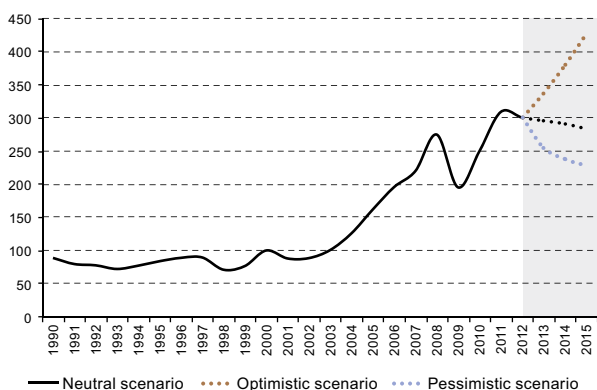
Apart from in the optimistic scenario, prices are expected to fall across the 10 main commodity groups over the next four years. Should prices decrease at the rate predicted by the pessimistic scenario, the average index would be below the highs seen in 2008 and 2011 but would still be above the 2009 low (see figure II.8). Nevertheless, solely an extreme scenario with decreases similar to those seen in 2009 continuing throughout 2013-2015 would trigger a steep downward trend in prices for the region's main commodities.

Table II.7
PRICE PROJECTIONS FOR THE MAIN COMMODITY GROUPS AND ALTERNATIVE SCENARIOS, 2013-2015

Product group	Unit of measurement	Average price for the period			Average annual rates of variation (percentages)		
		Optimistic scenario	Neutral scenario	Pessimistic scenario	Optimistic scenario	Neutral scenario	Pessimistic scenario
Oil	US dollars per barrel	129	99	78	11.8	-1.4	-10.6
Copper	US cents per pound	498	381	300	15.7	-1.7	-8.5
Iron	US dollars per ton	204	122	94	19.3	-8.1	-15.9
Soybeans	US dollars per ton	765	593	539	11.9	-1.2	-4.8
Coffee	US cents per kilogram	760	541	512	14.5	-1.9	-4.3
Sugar	US cents per kilogram	69	47	43	17.5	-1.6	-5.8
Fish	US dollars per ton	2 016	1 856	1 662	13.2	8.4	2.5
Meat	US dollars per kilogram	486	409	374	7.5	-3.5	-4.7
Fruit	US dollars per ton	943	879	814	4.3	0.8	-2.6
Gas	US dollars per MMBtu	13	10	7	13.3	1.4	-13.7
10 groups		...	...	...	13.3	-1.9	-9.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data and projections from World Bank, Economist Intelligence Unit (EIU), Organisation for Economic Cooperation and Development (OECD) and Food and Agriculture Organization of the United Nations (FAO).

Figure II.8
LATIN AMERICA AND THE CARIBBEAN: COMPOSITE PRICE INDEX FOR THE TEN MAIN GROUPS OF EXPORT COMMODITIES, 1990-2015
(Index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data and projections from World Bank, Economist Intelligence Unit (EIU), Organisation for Economic Cooperation and Development (OECD) and Food and Agriculture Organization of the United Nations (FAO).

In order to estimate exports for the 10 commodity groups for 2012 as a whole, in addition to the price projections analysed above, income-elasticities were estimated at the product level using the gravity model and International Monetary Fund (IMF) projections of GDP growth rates for the main destination countries and regions (see table II.8). These figures were then used to determine the projected variation in each country's export volume. These estimates were complemented by volume projections for the 10 commodity groups using the univariate ARIMA model methodology, based on monthly export series covering January 2006 to June 2012.

The scenarios for 2013-2015 were calculated using the price projections shown in table II.7, demand conditions drawn from the income-elasticities of exports (fixed in the

different scenarios) and alternative GDP growth rates (the optimistic scenario used the highest rate for the period as estimated by various international organizations; the pessimistic scenario is based on the lowest of these rates; the neutral scenario takes the average of the two extremes). In these exercises, exchange rates are supposed to be fixed, so that the impact of fluctuations in the main international currencies on trade flows is not taken into account.⁵

Table II.8
MAIN ASSUMPTIONS FOR THE PROSPECTIVE ANALYSIS OF EXPORT VOLUMES, 2012-2015
(GDP growth rates in percentages and elasticities)

Region or country	2012	2013-2015			Income-elasticity of exports ^a
	International Monetary Fund (IMF)	Optimistic scenario	Neutral scenario	Pessimistic scenario	
United States	2.0	3.0	2.0	1.5	1.7
European Union	0.0	2.4	1.1	0.5	1.9
China	8.0	9.0	7.8	5.0	2.3
Rest of Asia	2.1	6.0	5.0	4.0	2.3
Latin America and the Caribbean	3.4	4.5	3.2	2.0	1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) *World Economic Outlook Update. New Setbacks, Further Policy Action Needed*, July 2012; United Nations, International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD), rounded estimates that reflect greater and lesser optimism for the period 2013-2015 and Conference Board, *Global Economic Outlook 2012* [online] www.conference-board.org/data/globaloutlook.cfm.

^a Weighted average of elasticities calculated for each country, using exports by destination as weighting factors.

⁵ The projected scenarios for 2013-2015 include only demand and price variations for each product. In the neutral scenario, the exogenous GDP and price projections implicitly include other factors related to, for example, supply conditions for each product. The optimistic and pessimistic scenarios reflect price variations during 2005-2011 and 2008-2009, respectively, and represent more extreme situations that are considered less likely than the neutral scenario.

Analysing the income-elasticities of exports reveals that the average value of elasticity is greater in the case of China and the rest of Asia, ranging from 0.2 (Guatemala) to 4.6 (Ecuador). For the European Union, the estimated elasticities range from 1.4 (Peru) to 3.2 (Mexico); for the United States, they fluctuate between 0.6 (Panama) and 2.8 (Mexico); and for Latin America and the Caribbean, between 0.3 (Honduras) and 1.3 (Plurinational State of Bolivia).⁶ These significant differences in the value of the elasticities (greater in bilateral trade with China) are largely responsible for the projected growth in export volumes for the main commodity exporters in the region. Given that the income-elasticities of exports are structurally determined for 1995-2009, the projected scenarios for 2012-2015 do not consider possible changes in these elasticities over the new period, during which they are taken as exogenous parameters. If these elasticities were to undergo structural change during the projected period, the volume estimates could be somewhat lower.

For the region as a whole, the export value for the basket of 10 main commodity groups is projected to be some US\$ 440 billion in 2012 (around 1% higher than in 2011) and approach US\$ 510 billion by 2015 (see table II.9). Price rises in 2012 will be driven by soybeans, oil, fruit, and to a lesser extent, meat.

Table II.9
LATIN AMERICA AND THE CARIBBEAN: EXPORT VALUE OF THE MAIN COMMODITY GROUPS, 2011-2015
(Millions of dollars at current prices and percentages of total exports)

Product group	Export value (millions of dollars at current prices)			Annual growth rates (percentages)	
	2011	2012 ^a	2015 ^a	2012-2011 ^a	2011-2015 ^a
Oil	218 866	223 000	242 000	1.9	2.5
Copper	62 156	58 000	62 000	-6.7	-0.1
Iron	48 915	44 000	50 000	-10.0	0.6
Soybeans	48 413	56 000	70 000	15.7	9.7
Coffee	14 889	14 000	14 500	-6.0	-0.7
Sugar	12 938	14 000	29 000	8.2	22.4
Fish	11 229	11 000	15 000	-2.0	7.5
Meat	8 405	9 000	8 000	7.1	-1.2
Fruit	5 390	6 000	11 000	11.3	19.5
Gas	4 353	5 000	7 000	14.9	12.6
Total for the 10 groups	435 552	440 000	508 500	1.0	3.9
Other products	628 662	666 783	786 940	6.1	5.8
Total	1 064 214	1 106 783	1 295 440	4.0	5.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from statistics institutes, central banks, export promotion bodies, United States International Trade Commission (USITC), Statistical Office of the European Communities (EUROSTAT), Statistics Canada (STATCAN) and International Monetary Fund (IMF), Direction of Trade Statistics database (DOTS).

^a ECLAC projections (neutral scenario).

⁶ Income elasticities were estimated at the country level by destination. The figures presented in table II.8 correspond to weighted averages of the individual countries' elasticities, calculated using each country's share in total exports by destination as weighting factors.

Growth of the composite commodity price index is largely determined by four groups of products in the region's export basket: oil, copper, iron and soybeans. Overall, these groups accounted for 87% of exports of the 10 main commodity groups in 2011. Trends for these four groups will now be examined in more detail, looking at price and volume projections for the neutral scenario and comparing them with the two other scenarios described above.

(a) Oil

The most important group in the regional export basket is oil (comprising crude oil, petroleum-based oils and their products). Oil accounts for around 20% of total exports and 50% of commodity exports. The main producers of crude oil in the region are the Bolivarian Republic of Venezuela, Mexico, Colombia, Brazil, Ecuador and Peru (see the table embedded in figure II.9).

Global consumption of oil has increased in recent years, driven by economic growth in China and other emerging countries. The international price of oil has been a key factor behind rising or falling export revenue in several countries of the region. Between 2003 and mid-2008 the price of oil hit record levels and topped US\$ 130 a barrel before plunging to around US\$ 40 a barrel by the end of 2008 in response to the global economic crisis. However, as demand gradually recovered and geopolitical tensions emerged in the Middle East (particularly in Libya and Iran), oil prices started to climb again and reached another all-time high. In 2011, oil closed the year at over US\$ 100 a barrel; in 2012, in spite of a downward trend during April to June, new geopolitical tensions triggered further price rises during July and August.

Demand for oil continues to be driven by China, India, the Republic of Korea and Japan; in all of these countries, production needs are pushing energy consumption up. Nevertheless, the outlook for future economic growth is uncertain, and demand is therefore forecast to weaken during the second half of 2012. Although geopolitical tensions are likely to fuel short-term price uptrends, the European crisis and slackening growth of the world economy are tempering predictions regarding the future price of oil. As a direct result of reduced global demand and increased supply from the countries that are members of the Organization of the Petroleum Exporting Countries (OPEC), the average price is expected to dip slightly (1%) and hit US\$ 103 a barrel by year-end 2012 (see table II.6).

Based on projections by the World Bank, the Economist Intelligence Unit (EIU), the United States Department of Energy and the research departments of a number of investment banks (including Deutsche Bank and J.P. Morgan), the price of oil is expected to decline

at an annual average rate of 1.4% between 2013 and 2015. If this scenario is borne out, the price would drop from US\$ 103 dollars a barrel to around US\$ 99 in 2015 (averaging US\$ 99 between 2013 and 2015) and revenue from the region's oil exports would reach US\$ 242 billion that year, growing at an average annual rate of 2.5% between 2011 and 2015 (see table II.9).

Should prices continue to rise at a pace similar to the annual average increase between 2005 and 2011 (optimistic scenario), oil exports would increase from US\$ 223 billion in 2012 to just over US\$ 302 billion in 2015 with a price per barrel of US\$ 144 that year (US\$ 129 on average during 2013-2015). If the most pessimistic scenario comes to pass and further weakens the demand for oil and if geopolitical tensions surrounding certain producer countries ease, the price of oil could slump to US\$ 73 per barrel in 2015 (averaging US\$ 78 during 2013-2015). Oil export value for the region as a whole would not exceed US\$ 155 billion in 2015, corresponding to an average annual drop of 8.5% between 2011 and 2015.

Whatever the scenario, at an average price of US\$ 99, US\$ 129 or even, in the most pessimistic scenario, US\$ 78 a barrel, the average regional oil product price index during 2013-2015 would be considerably higher (between 4.4 times and 7.3 times) than the average during the 1990s and would be above (between 1.5 and 2.5 times) the low for 2005-2011 (see figure II.9).

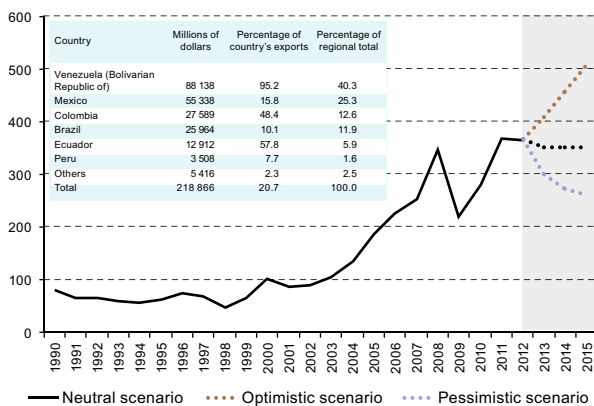
oil group represents the bulk of their export revenue, and a significant proportion of their national budgets depends on this income. The main export destinations for oil products are the United States (54.6%), the region itself (18.5%), China (8.5%), the European Union (7.1%) and the rest of Asia (5.5%).

(b) Copper

The copper group (copper ore, refined copper and copper waste) is the second most important group after oil. It represents 6% of the region's total exports and 14% of its commodity exports. Chile, Peru, and, to a lesser extent, Mexico, Brazil and Argentina are the largest exporters of this group of products (see the table embedded in figure II.10).

Since the mid-2000s the price of copper has soared to unprecedented levels, hitting successive record highs thanks to the sustained expansion of demand in China and other developing Asian countries. Future copper prices will be heavily dependent on demand, which is in turn closely linked to the outlook for world growth (in particular, to the impact of the crisis in the European Union) and to consumption patterns in China and other Asian countries. Together, Asia and the European Union receive around 70% of total Latin American and Caribbean copper exports.

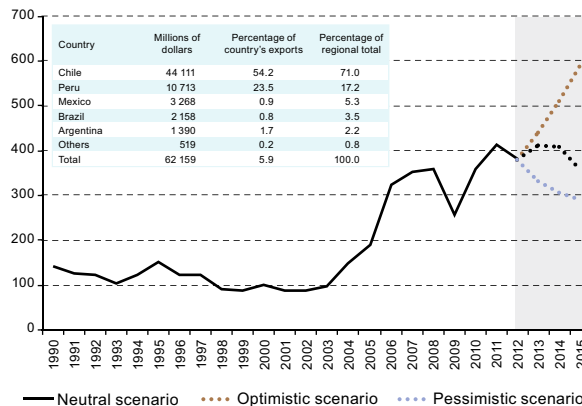
Figure II.9
LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX
FOR THE OIL PRODUCT GROUP, 1990-2015, AND
MAIN EXPORTING COUNTRIES, 2011
(Millions of dollars, percentages and index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from United Nations Conference on Trade and Development (UNCTAD) and United States Bureau of Labor Statistics regarding prices for the products in this group, weighted using export data from United Nations Commodity Trade Statistics Database (COMTRADE) for 1990-2011 and projected figures for 2012-2015.

Changes in the price of oil will have the greatest impact on three countries in the region: Bolivarian Republic of Venezuela, Colombia and Ecuador. The

Figure II.10
LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX
FOR THE COPPER GROUP, 1990-2015, AND
MAIN EXPORTING COUNTRIES, 2011
(Millions of dollars, percentages and index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from United Nations Conference on Trade and Development (UNCTAD) and United States Bureau of Labor Statistics regarding prices for the products in this group, weighted using export data from United Nations Commodity Trade Statistics Database (COMTRADE) for 1990-2011 and projected figures for 2012-2015.

During the first half of 2012 the price of copper retreated by 14% compared with the same period of 2011, as a result of the deteriorating global economic outlook,

predictions of lower consumption in the European Union and a slight slowdown in consumption in China (COCHILCO, 2012; Betancour, 2012). According to some estimates of the sensitivity of copper consumption to fluctuations in China's GDP, a 1% drop in GDP produces a 0.3% decline in copper consumption. Based on this ratio, Chinese imports of copper are also expected to slow during the second half of the year, with a small upturn towards year-end 2012 and during the first quarter of 2013 owing to seasonal factors in Chinese copper refineries, where peak output has historically been during the first quarter (Deutsche Bank, 2012). Considering these factors, the rate of change in the price of copper for the year overall is expected to be negative (-7.8%) and push the average price down from 400 cents a pound in 2011 to 369 cents a pound in 2012 (see table II.6).

The World Bank and specialized entities such as the Economist Intelligence Unit, J.P. Morgan and Deutsche Bank estimate that the price of copper will fall at an average annual rate of 1.7% between 2013 and 2015. In this scenario the average price of copper during the period would be 381 cents per pound (see table II.7). At this price level, and assuming annual Chinese GDP growth of around 8.2%, the value of the region's copper exports would slip from US\$ 62.156 billion in 2011 to around US\$ 62 billion in 2015 (see table II.9). In an optimistic scenario, with an average price of 498 cents a pound in 2013-2015, export value would surge to US\$ 100 billion in 2015, a jump of 60% on the value recorded in 2011.

Whether the average price of copper is 381, 498 or 300 (pessimistic scenario) cents per pound, the composite price index for this group during 2013-2015 would, on average, be 2.6 times to 4.3 times higher than the average for the 1990s and between 1.6 times and 2.7 times higher than the minimum for 2005-2011 (see figure II.10).

In all projected scenarios, Chile and Peru will be the most affected. Their ties with Asia, and especially with China, will be extremely important in the future because copper exports to those markets make up almost 50% of their total exports and account for almost 90% of total exports of this product group to China.

(c) Iron

The iron group (iron ore, its concentrates, iron ore agglomerates and ferro-alloys) ranks third in the region's commodity export basket, after oil and copper, with 11% of the total (just under 5% of total exports). The main exporter is Brazil, followed by Chile, Peru, Colombia, the Bolivarian Republic of Venezuela and Mexico (see the table embedded in figure II.11). These countries account for 99% of the region's iron exports, which go mainly to Asia and the European Union (60% and 20% of total iron exports, respectively). Among the

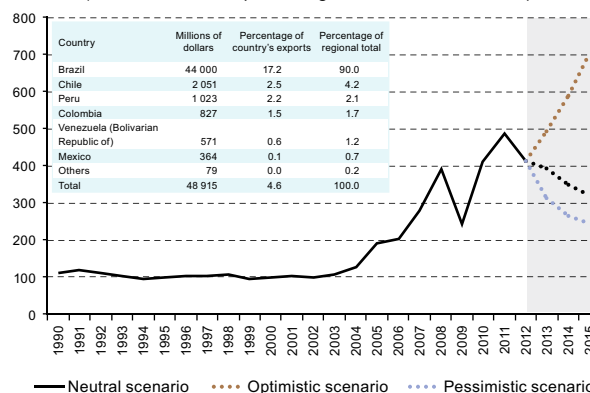
Asian countries, China is the main buyer of iron ore and the largest single buyer (with 48% of iron exports).

According to estimates from the World Bank, the Economist Intelligence Unit and other specialized entities, the price of iron will fall by 15.4% in 2012, dropping from US\$ 168 a ton to US\$ 142 a ton (see table II.6). At this price, the value of the region's iron exports will slide 10% in 2012, although this will be somewhat offset by larger export volumes. Exports of these products will therefore shrink from US\$ 48.915 billion in 2011 to around US\$ 44 billion in 2012 (see table II.9).

Projections for 2013-2015 suggest that, in the neutral scenario, the price of iron will drop at an average annual rate of 8.1%, taking the average price for the period to US\$ 122 a ton (see table II.7). In this scenario, the value of iron exports could stand at US\$ 50 billion in 2015 (see table II.9). An optimistic scenario, on the other hand, with an average price of US\$ 204 a ton, would produce an average annual export value increase of 2%, to US\$ 82 billion by 2015 —an increase of 67% on 2011.

Whatever the scenario, whether the average price of iron is US\$ 122, US\$ 204 or US\$ 94 a ton, over the period from 2013 to 2015 the average composite price index for the iron group would still be between 2.6 times and 5.6 times higher than the average during the 1990s, and 1.4 and 3.1 times above the low for 2005-2011 (see figure II.11).

Figure II.11
LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX
FOR THE IRON GROUP, 1990-2015, AND
MAIN EXPORTING COUNTRIES, 2011
(Millions of dollars, percentages and index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from World Bank and United States Bureau of Labor Statistics regarding prices for the products in this group, weighted using export data from United Nations Commodity Trade Statistics Database (COMTRADE) for 1990-2011 and projected figures for 2012-2015.

Brazil will be hardest hit by the slowdown in prices for the group of iron products because they represent almost 20% of Brazil's exports (90% of the region's total iron exports). During the first half of 2012, Brazil's cast iron exports fell by 22.8% (SECEX, 2012).

(d) Soybeans

The soybean group (soybeans, soybean oil and soybean cake) is the fourth most important group for the region and accounts for a share of total exports and commodity exports (4.6% and 11%, respectively) similar to iron. In recent years world soybean consumption has risen sharply, primarily due to soaring demand in China and the rest of Asia. Soybean harvests have increased exponentially in South America as prices have risen, especially in Argentina, Brazil, Uruguay and Paraguay. By the end of the past decade, soybeans had displaced other crops such as wheat, maize, sunflowers and oats. Soybeans make up more than 50% of Argentina's crops; in the other countries mentioned the number of hectares planted in soybeans has risen as well.

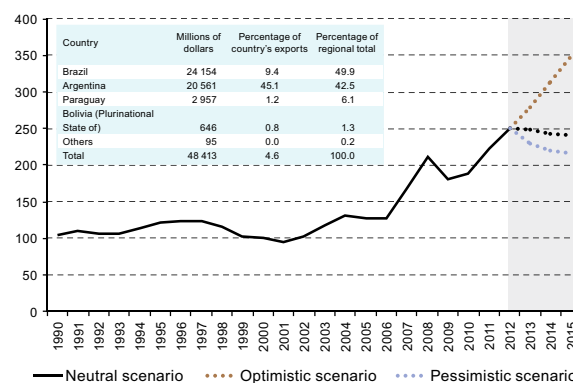
Future soybean trends remain uncertain because of the European crisis. Soybean prices went up during the first half of 2012 owing mainly to poor weather, in particular in the United States. These factors contributed to smaller harvests not only in the United States but also in Argentina and Brazil.⁷ As a direct consequence of smaller supply from the world's three largest producers, the average price of soybeans is expected to increase by 12.4% in 2012 and reach US\$ 608 a ton (see table II.6).

Specialized agencies such as the Food and Agriculture Organization of the United Nations (FAO), the United States Department of Agriculture (USDA) and the World Bank expect that the price of soybeans will drop by an average 1.2% annually between 2013 and 2015. If this scenario is borne out, the price of soybeans would fall from US\$ 608 a ton to around US\$ 593 a ton on average over this period (see table II.7).

In a more pessimistic scenario that weakens demand for soybeans even further, and if supply is restored thanks to more favourable weather conditions, the price of soybeans is expected to stand at US\$ 524 a ton in 2015 (averaging US\$ 539 a ton in 2013-2015). The region's export value for this group of products would accordingly decrease from US\$ 48.413 billion in 2011 to around US\$ 48 billion in 2015. Alternatively, should prices continue to rise steadily in a more optimistic scenario, soybean exports would increase to around US\$ 89 billion in 2015 at an average price of US\$ 765 a ton between 2013 and 2015.

Whatever the case, with a soybean price of around US\$ 593 a ton or at average levels of US\$ 765 a ton or US\$ 539 a ton, the average price index for 2013-2015 would be between 2.0 times and 2.8 times higher than the average for the 1990s and between 1.8 times and 2.5 times higher than the lowest level for 2005-2011 (see figure II.12).

Figure II.12
LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX
FOR THE SOYBEAN GROUP, 1990-2015, AND
MAIN EXPORTING COUNTRIES, 2011
(Millions of dollars, percentages and index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from United Nations Conference on Trade and Development (UNCTAD) regarding prices for the products in this group, weighted using export data from United Nations Commodity Trade Statistics Database (COMTRADE) for 1990-2011 and projected figures for 2012-2015.

Soybean price trends will have the greatest impact on Argentina, Brazil, Paraguay and the Plurinational State of Bolivia, as may be seen from the data provided in the table embedded in figure II.12. Of these countries, Argentina will be most affected because soybeans account for 45% of its total exports (42% of the region's exports of these products). The main export destination is China, followed by the European Union, Japan and the rest of Asia, which together receive around 70% of soybean exports from Latin America and the Caribbean.

Overall, exports of the 10 main commodity groups are expected to continue to expand, powered by strong growth in volume. Neutral scenario estimates suggest that export volume will offset sagging prices, with the result that the value of these exports will rise in 2013-2015 at an average annual rate of 4.8% (see figure II.13). Lower prices will mean that the countries of the region will have to work harder to maintain their levels of export income.

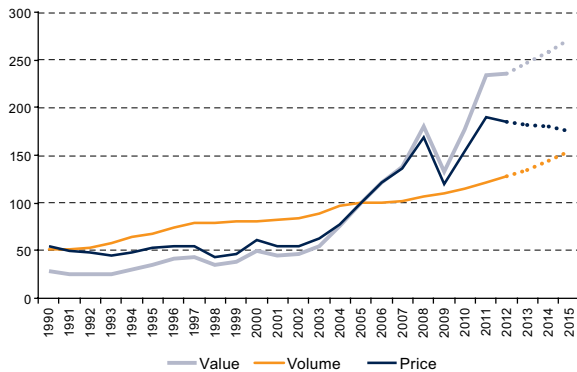
If all the products in each country's export basket (that is, products from the 10 main commodity groups and other products, including manufactures) are taken into account, neutral scenario projections indicate that the average price index for the region's exports will drop by 1.5% a year during 2013-2015. This decline will be offset by an annual average increase of 6.5% in export volumes.

Table II.10 presents average annual rates of variation in total export prices by export destination for 2013-2015. With the exception of the European Union, neutral scenario results show lower prices in the region's export destination markets and much sharper falls for China. These declines are primarily due to falling prices for oil, copper and iron ore, which are the main Latin American and Caribbean products imported by China. In the pessimistic scenario,

⁷ According to the latest estimates from the United States Department of Agriculture, global soybean production will shrink by 30% in 2012.

prices would fall across the board and China would once again account for the greatest impact. Comparing this scenario with the plunging prices seen in 2009, it is clear that, even in the case of China, the average price decline expected during 2013-2015 would only be 30% of the drop in 2015 (see table II.10).

Figure II.13
LATIN AMERICA AND THE CARIBBEAN: VALUE, VOLUME AND PRICE INDICES FOR THE TEN MAIN COMMODITY GROUPS, NEUTRAL SCENARIO, 1990-2015
(Annual indices, 2005=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and ECLAC estimates.

Table II.10
LATIN AMERICA AND THE CARIBBEAN: REGIONAL PRICE INDEX FOR TOTAL EXPORTS BY DESTINATION MARKET, 2013-2015
(Average annual growth rates)

Destination market	Optimistic scenario	Neutral scenario	Pessimistic scenario	Reference period (2008-2009)
Latin America and the Caribbean	4.6	-0.2	-3.3	-36.0
China	5.8	-6.5	-9.8	-32.7
European Union	7.1	0.6	-4.4	-22.7
United States	4.2	-0.5	-3.6	-15.5
World	3.0	-1.5	-3.8	-19.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Projections indicate that during 2013-2015 export volume growth will offset price declines, especially in the case of exports to China, which will continue to grow at average rates somewhat under the levels recorded during the 2000s (see table II.11). Although demand from Europe will slide, it is expected that Chinese buyers will react to falling commodity prices as they did during the 2008-2009 crisis: by stockpiling supplies (especially of metals, soybeans and other grains). During that period, both the volume and value of Latin American and Caribbean exports to other markets fell. However, in the case of China prices plummeted 32.7% while volumes increased by 38.4%, meaning that the value exported by Latin America and the Caribbean increased by 5.6%. In addition, Chinese buyers commonly sign medium- and

long-term contracts for supplying raw materials, particularly metals (copper, nickel and iron ore are the main inputs for the steel, construction and machinery industries).

As for the value of the region's exports, the projections suggest that the high average annual growth rates of over 20% recorded since 2005 will not continue. Projected average annual growth rates for 2013-2015 range from 0.7% in the pessimistic scenario to 10.5% in the optimistic scenario, with a rate of 5.0% for the neutral scenario. In this scenario, China and the United States would grow faster than the other destinations (see table II.11).

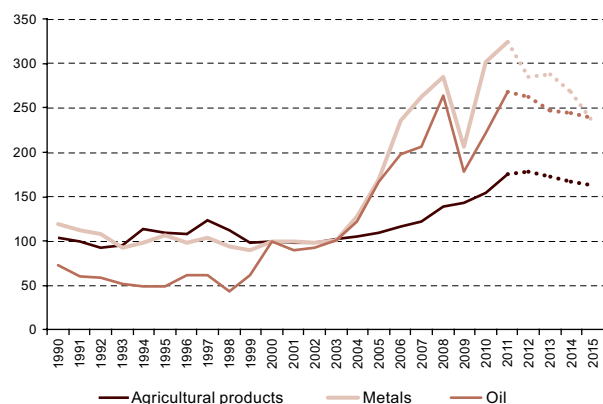
Table II.11
LATIN AMERICA AND THE CARIBBEAN: EXPORT VALUE AND VOLUME INDICES BY DESTINATION MARKET, 2013-2015
(Average annual growth rates)

Destination market	Optimistic scenario		Neutral scenario		Pessimistic scenario	
	Volume	Value	Volume	Value	Volume	Value
Latin America and the Caribbean	4.4	9.0	3.7	3.5	2.0	0.0
China	18.3	24.1	16.4	9.9	8.9	-0.9
European Union	5.5	12.6	1.1	1.7	0.8	-3.6
United States	6.2	10.4	6.2	5.7	3.4	1.9
World	7.5	10.5	6.5	5.0	4.5	0.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Despite the projected declines, especially for metals, prices for the main commodity groups will remain significantly higher in the years ahead than at the beginning of the current supercycle and in previous decades, even in real terms (see figure II.14).

Figure II.14
LATIN AMERICA AND THE CARIBBEAN: REAL COMMODITY PRICES, 1990-2015
(Annual indices, 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from World Bank; United Nations Commodity Trade Statistics Database (COMTRADE) and ECLAC projections.

There is another, albeit still unlikely, scenario in which the main obstacle has to do with the intensification of demand shocks (understood to mean

episodes of much sharper contractions in consumption or imports than those examined here) because these have the greatest impact on exporters of certain commodities, especially oil and copper (Kilian, 2009 and IMF, 2012). Variations in supply are more important for products

like coffee, soybeans, grain and cotton. The last two groups, while not analysed in this chapter, are also part of the export basket of some Latin American and Caribbean countries, although they are eclipsed by the groups studied here.

E. Conclusions

Given the current international climate, commodity prices are likely to remain high in the years ahead while staying below 2011 levels (particularly in the case of minerals and metals). Food and oil prices could continue to rise, depending on how specific conditions affect the supply of these products.

The main conclusion that may be drawn from the analysis carried out in this chapter is that, despite slackening prices, the region's export value will continue to climb over the next four years although at rates that are somewhat lower than in previous years and will not exceed 10%. The main factors behind this conclusion, in addition to evidence from the projections, are:

- (i) Chinese demand for imports from Latin American and the Caribbean is skewed towards commodities, which are the main raw materials it needs to grow.
- (ii) Greater demand from China and the rest of the countries of Asia for the region's main export commodities, especially in the copper, iron, soybean and oil groups, gives exporters a cushion, particularly in South America where exports have greater income-elasticity with regard to Asian countries than other trading partners. If China grew by just 5%, the region would be guaranteed a 9% increase in export volumes to China, which equates to a little over 1.5 percentage points of total expected average annual export volume growth during 2013-2015 (4.5%). According to the projections by several international organizations, and the Chinese government's own estimates, China's GDP will expand by more than 7%, meaning that its influence as a buyer will be a determining factor for some countries of the region.
- (iii) The behaviour of Chinese buyers, who have been keen to continue trading with suppliers in emerging markets (including in Latin America), leads to the

assumption that they are likely to wish to maintain stockpiles of some of the commodities exported by the region, as they did during the 2008-2009 crisis.

Nevertheless, a trade relationship that is skewed towards a commodity-intensive export basket is cause for concern because it can contribute to reprimarization and thus to export growth without the changes in the production structure needed to turn out more sophisticated products, even within the commodity group. This poses a number of challenges for public policy and its role in integration and inclusiveness.

An appropriate public policy aimed at fostering greater national value added in processes associated with commodity groups should enhance the formation of national networks (both between firms and between and within sectors) that can establish suitable mechanisms for cooperation and agreement and address unresolved development challenges. A policy of this kind should entail:

- (i) Promoting business innovation, competitiveness and internationalization and a greater presence in broader production chains at the national, regional and international level.
- (ii) Implementing measures to promote the incorporation of small and medium-sized enterprises into the export-related production process.
- (iii) According greater importance to intraregional trade relationships, which tend to be more intensive in more sophisticated manufactures (such as food, beverages and tobacco, textiles and chemicals) and promoting regional value chains.
- (iv) Deepening and improving trade relations with China and the Asia-Pacific region, so as to boost mutual cooperation in innovation through the development of long-term partnerships that will ensure price stability.

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Chapter III

Trade and economic integration in Latin America and the Caribbean: recent performance and short-term outlook

A. Introduction

This chapter begins with a brief analysis of foreign trade in Latin America and the Caribbean in 2011, broken down according to major partners and product categories for the region and its subregions. This analysis reveals a sharp slowdown starting in the second half of 2011. Section C reviews the region's external trade performance during the first half of 2012 and presents forecasts for the year as a whole. These point to a meagre expansion in both imports and exports, which have been dampened by the crisis in the euro zone, faltering economic growth in the United States and Japan, and slower growth in China and other emerging economies. Preliminary trade figures for January to June 2012 indicate that the slowdown, especially among European economies, is already being transmitted through trade flows. Regional exports grew by 4% over this period, and imports by 6%, while a growth rate of around 4% for exports and 3% for imports is forecast for the year as a whole.

ECLAC expects that the economic downturn in the European Union will shave 5% off Latin American and Caribbean exports to that market in 2012. There will also be an indirect impact on the region's trade with China, whose effects will be felt more acutely during 2013 as export value to the Chinese market rises only slightly owing largely to falling commodity prices.

Section D looks at trade policy developments in the region over the past 12 months. Latin America and the Caribbean has not remained on the sidelines of the global trend towards greater trade restrictions (see chapter I), although only a few countries have actually implemented such measures. In addition, the number of new trade agreements being signed by some economies

in the region with both regional and external partners continues to multiply.

Section E reviews the main developments over the past 12 months as regards the institutional aspects of economic integration in Latin America and the Caribbean. A diverse picture emerges. Major shifts are taking place in the regional architecture of formal economic integration, as the Bolivarian Republic of Venezuela joins the Southern Common Market (MERCOSUR), the Pacific Alliance is launched, and strides are made towards establishing a

free trade area between Mexico and the Central American countries. This is therefore a situation in flux, and it is difficult to predict how it will pan out. That said, Meso-America appears to be moving towards ever closer economic integration, while the situation in South America is less clear-cut. As for the Caribbean, the matter of how the costs and benefits of integration should be distributed among the economies of the Caribbean Community (CARICOM) is being hotly debated; addressing this issue will pose new challenges for the integration process.

B. The region's foreign trade performance in 2011

Latin America and the Caribbean saw a foreign trade slowdown in 2011, as the situation in the euro zone worsened and the global economic recovery floundered. Regional exports expanded by 23% and imports by 22% in 2011 —slower than the 28% and 31%, respectively, posted in 2010 (see table III.1).

Table III.1
LATIN AMERICA AND THE CARIBBEAN: TRADE
WITH MAJOR PARTNERS, 2009-2011^a
(Millions of current dollars and percentages)

	Millions of dollars			Growth rates	
	2009	2010	2011	2010	2011
Total exports	677 249	864 091	1 064 214	27.5	23.3
United States	277 693	350 806	419 224	26.3	19.5
European Union	90 915	109 456	137 984	20.4	26.1
Asia	102 936	147 278	185 415	43.1	25.9
China	48 211	71 908	95 211	49.2	32.4
Other Asian countries	54 725	75 369	90 204	37.7	19.7
Latin America and the Caribbean	130 949	164 528	197 061	25.6	19.8
Rest of the world	74 757	92 024	124 530	23.1	35.3
Total imports	634 333	830 727	1 011 945	30.8	21.7
United States	194 997	248 728	304 172	27.6	22.3
European Union	92 550	115 835	137 969	25.2	19.1
Asia	158 255	225 475	272 531	42.5	20.9
China	75 765	112 201	141 609	48.1	26.2
Other Asian countries	82 491	113 274	130 922	37.3	15.6
Latin America and the Caribbean	134 048	166 616	204 396	24.3	22.7
Rest of the world	54 483	74 072	92 877	36.0	25.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from national statistical institutes, national central banks, export promotion agencies, United States International Trade Commission (USITC), Statistical Office of the European Communities (EUROSTAT), Statistics Canada (STATCAN) and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database.

^a Includes data on Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Plurinational State of Bolivia, Uruguay and the Caribbean Community (CARICOM).

The region continues to run a trade deficit with China and the rest of Asia, offset by the surplus with the United States and new trading partners outside the region. The region's exports to countries in the "rest of the world" category grew the most in 2011, even outpacing its exports to China. This reflects the growth of exports to other developing countries in Africa, the former Soviet Union and the Middle East, as South-South trade becomes increasingly important (see table III.1).

South American exports and imports grew faster than the regional average in 2011, while those of Mexico and Central America lagged behind the average and Caribbean exports posted the weakest growth. Exports rose faster than imports in five of the largest economies (Bolivarian Republic of Venezuela, Brazil, Colombia, Mexico and Peru), giving the region a larger trade surplus than in 2010 (see table III.2).

Despite the 2011 slowdown, the region's exports once again outperformed world exports. As in 2010, Latin American and Caribbean exports outstripped the world average. They expanded by more than those of the United States, the euro zone and Asia, and were surpassed only by exports from Africa and the Middle East (see table III.3).

The region's foreign trade slowdown began during the third quarter of 2011, intensified in the fourth quarter and continued into the first two quarters of 2012, hitting its lowest point in June 2012 (see figure III.1). This trend has been seen across the region: nearly every country, with the exception of Costa Rica, Honduras, Nicaragua and Panama, experienced lower export growth during the fourth quarter of 2011 compared with the same period in 2010. A similar pattern emerges for imports, as growth was down in all of the countries of the region except for the Bolivarian Republic of Venezuela, Panama and the CARICOM countries.

Table III.2
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE
GROWTH RATES, 2010 AND 2011
(Percentages)

	2010		2011	
	Exports	Imports	Exports	Imports
Argentina	22.4	45.7	23.2	30.9
Bolivia (Plurinational State of)	29.6	20.1	31.1	42.2
Brazil	32.0	42.3	26.8	24.5
Chile	32.2	38.8	14.6	28.0
Colombia	21.2	23.7	43.0	34.4
Costa Rica	7.6	19.1	12.5	19.5
Cuba	19.2	6.5	-33.4	32.6
Dominican Republic	23.2	30.8	26.4	11.5
Ecuador	26.7	37.1	27.8	18.5
El Salvador	16.4	16.0	18.0	19.1
Guatemala	17.3	20.0	22.9	20.1
Honduras	19.4	17.5	41.7	25.5
Mexico	29.9	28.6	17.1	16.4
Nicaragua	32.4	21.9	28.4	27.0
Panama	-11.7	17.2	8.3	24.0
Paraguay	43.2	44.7	21.7	22.4
Peru	36.1	37.9	30.1	26.2
Uruguay	24.4	24.8	18.2	24.4
Venezuela (Bolivarian Republic of)	15.1	10.6	39.7	19.4
Latin America and the Caribbean	27.5	30.8	23.3	21.7
South America	27.5	35.6	27.7	26.1
Mexico and Central America	28.4	26.9	17.4	17.2
The Caribbean	18.2	17.5	10.3	12.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

Note: Data for Cuba were constructed using mirror statistics from Canada, the European Union, the United States and the rest of Latin America. Data for CARICOM were constructed using mirror statistics from the European Union, the United States and the rest of Latin America.

Table III.3
WORLD AND SELECTED REGIONS AND COUNTRIES:
GROWTH OF GOODS EXPORTS, 2009-2011
(Percentages)

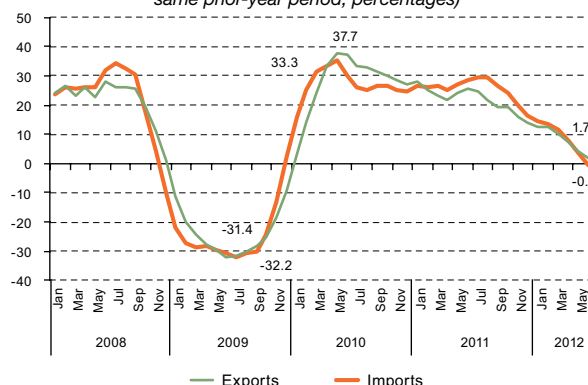
	Variation 2009	Variation 2010	Variation 2011
Latin America and the Caribbean	-22.4	27.5	23.3
Africa and the Middle East	-33.5	23.3	27.7
Asia	-15.9	30.0	19.1
United States	-18.0	20.5	16.5
Euro zone	-22.4	11.0	16.6
World	-22.4	21.3	19.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from national statistical institutes, national central banks, export promotion agencies, United States International Trade Commission (USITC), Statistical Office of the European Communities (EUROSTAT), Statistics Canada (STATCAN), International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database and Netherlands Bureau for Economic Policy Analysis (CPB).

The region's foreign trade slowdown has been reflected in trade flows with all of its major trading partners. Exports to all of the region's main destinations began to slacken in the third quarter of 2011, and the pace fell even more during the subsequent three quarters. Exports to the European Union slowed drastically, growing by just 2% in the first quarter of 2012 and contracting by 10% during the second quarter, compared with the same

periods in 2011. Exports to China dipped by 1.0% during the second quarter of 2012. The region's imports from all of its principal markets of origin began to slow in the third quarter of 2011 and did so more sharply during the second quarter of 2012 (see table III.4).

Figure III.1
LATIN AMERICA AND THE CARIBBEAN: FOREIGN
TRADE, JANUARY 2008 TO JUNE 2012
(Moving quarterly growth rates over the same prior-year period, percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

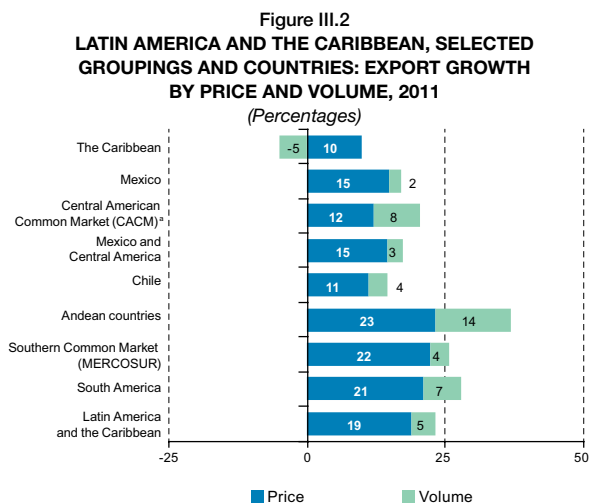
Table III.4
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE GROWTH,
FIRST QUARTER OF 2011-SECOND QUARTER OF 2012
(Percentages)

	2011				2012	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
Total exports	25.9	29.4	25.3	15.0	10.7	-1.3
United States	23.0	23.4	19.5	13.4	8.3	0.9
European Union	31.6	41.0	26.3	9.1	2.2	-10.4
Asia	32.1	31.9	29.7	21.3	17.7	-0.3
China	29.5	35.4	33.8	32.3	24.6	-1.0
Other Asian countries	30.4	20.7	19.1	11.2	12.2	0.6
Latin America and the Caribbean	20.5	22.1	22.4	14.8	10.6	-0.2
Rest of the world	31.4	48.0	44.5	19.0	19.4	-1.6
Total imports	25.1	26.1	21.8	15.4	11.7	2.8
United States	24.8	25.3	23.5	16.4	11.3	6.4
European Union	18.3	24.5	19.5	14.3	16.0	3.7
Asia	26.8	23.9	19.3	15.4	12.4	4.0
China	32.5	32.8	22.2	20.8	18.1	6.9
Other Asian countries	21.7	15.9	16.3	9.7	6.7	0.9
Latin America and the Caribbean	26.9	25.6	24.8	14.9	7.0	-2.5
Rest of the world	28.2	39.3	20.7	15.3	9.2	-1.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

During 2011, higher prices accounted for 80% of the increase in the region's export value. The price increase for the region overall was 19%, but it exceeded 20% in South America (except for Chile, whose export prices rose by 11%). Export growth in Mexico was also chiefly driven by higher prices. In the Central American countries, the contribution of rising prices (12%) and

expanding export volumes (8%) was more evenly divided. The Caribbean countries experienced negative export volume growth, but this was more than offset by higher prices for their export products (see figure III.2).



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from national statistical institutes, national central banks, export promotion agencies, United States International Trade Commission (USITC), Statistical Office of the European Communities (EUROSTAT), and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database.

^a Does not include data on maquila in Honduras or Nicaragua.

As in 2010, the region's mining and oil exports posted the fastest growth, far outstripping total exports. Exports of agricultural products also outpaced the regional average, despite greater price volatility during the second half of the year. The lowest growth (18%) was registered by manufacturing exports, driving their share of regional exports down from 57% in 2010 to 54% in 2011. At the same time, the share of primary products in total exports increased as reprimarization of the region's export structure continued. On the import side, as in 2010, the biggest increases were seen in fuels, followed by consumer and capital goods. Intermediate goods grew at a slower pace than the regional average, and their share of regional imports slipped from 51% in 2010 to 49% in 2011 (see table III.5).

In 2011, exports within the region grew more slowly than the region's total exports to the world. Intraregional trade, measured in exports, grew by 19.3%, four percentage points below total regional exports. By groupings, MERCOSUR recorded the greatest expansion of intrasubregional trade (21.8%). Trade between the Bolivarian Republic of Venezuela and Mexico and the rest of the region, meanwhile, expanded at rates higher than the regional average.

The intraregional trade ratio stood at 19.4% in 2011, just under the 19.7% recorded in 2010. No significant variations were observed in the percentages

of intrasubregional trade within the main integration schemes either, with the sole exception of CARICOM, whose percentage of intrasubregional trade dropped from 17.6% in 2010 to 15.4% in 2011. In keeping with the trend seen throughout the previous decade, the countries of the Central American Common Market (CACM) continue to post the highest intrasubregional trade ratio in the region (26.2%) (see figure III.3).

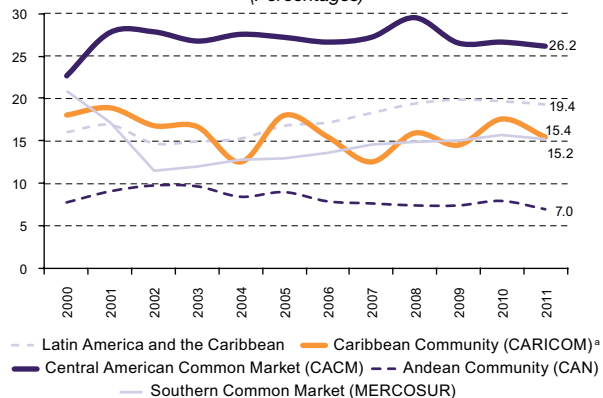
Table III.5
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE BY PRODUCT CATEGORY, 2010 AND 2011^a
(Percentages)

Product category	Growth rates		Share	
	2010	2011	2010	2011
Exports				
Agricultural products	24.0	26.0	12.0	12.2
Mining and oil	36.8	34.2	31.4	34.0
Manufactures	23.3	17.9	56.6	53.8
Imports				
Capital goods	23.9	20.5	18.2	17.9
Intermediate inputs	30.3	17.8	51.2	49.3
Consumer goods	32.8	22.4	19.1	19.2
Fuels	44.9	44.3	11.5	13.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from national statistical institutes, national central banks, export promotion agencies, United States International Trade Commission (USITC), and Statistical Office of the European Communities (EUROSTAT).

^a Includes Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay. Does not include maquila operations in Honduras or Nicaragua.

Figure III.3
LATIN AMERICA AND THE CARIBBEAN AND SELECTED GROUPINGS: SHARE OF INTRAREGIONAL AND INTRASUBREGIONAL EXPORTS IN TOTAL EXPORTS, 2000-2011^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the General Secretariat of the Andean Community; Argentine Center of International Studies (CAEI), on the basis of information from National Institute of Statistics and Censuses (INDEC), Secretariat of Foreign Trade (SECEX) of Brazil, Central Bank of Paraguay and Central Bank of Uruguay; Secretariat for Central American Economic Integration, Secretariat of the Caribbean Community (CARICOM) and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database.

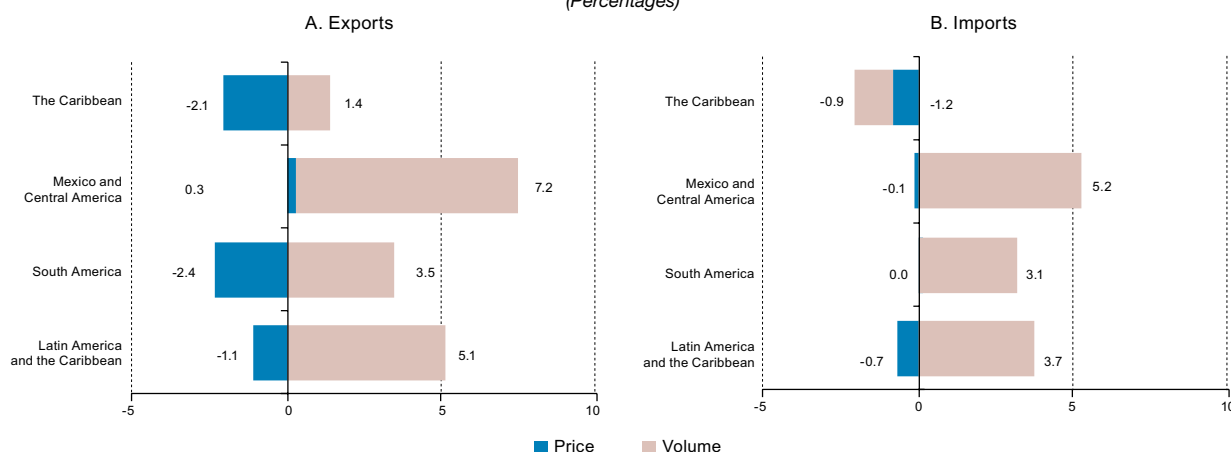
^a Does not include statistics for the Bahamas or for Haiti.

C. Foreign trade in the region during the first half of 2012 and outlook for the year overall

ECLAC forecasts that the value of the region's goods exports and imports will climb by around 4% and 3%, respectively, in 2012 (see figure III.4 and table III.6). This

represents a heavy slowdown compared with 23% and 22% growth, respectively, for 2011. The serious global economic scenario is, indeed, already taking a heavy toll on trade flows.

Figure III.4
LATIN AMERICA AND THE CARIBBEAN AND SUBREGIONS: PROJECTED VARIATION IN GOODS TRADE, BY PRICE AND VOLUME, 2012^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

^a Data refer to January-July for Argentina, Brazil, Chile and Mexico, and to January-June for the rest of the countries.

Table III.6
LATIN AMERICA AND THE CARIBBEAN AND SELECTED COUNTRIES: ESTIMATED VARIATION IN EXPORTS AND IMPORTS, BY PRICE, VOLUME AND VALUE, 2012
(Percentages)

Country	Exports			Imports		
	Price	Volume	Value	Price	Volume	Value
Argentina	-0,2	0,0	-0,2	3,0	-6,6	-3,7
Bolivia (Plurinational State of)	-1,9	18,1	16,2	-0,4	-0,7	-1,2
Brazil	-3,2	2,7	-0,5	-0,1	0,0	-0,1
Chile	-6,5	4,4	-2,1	-0,3	3,8	3,5
Colombia	-1,5	8,4	7,0	-0,3	10,6	10,3
Costa Rica	-1,8	12,8	11,0	-0,3	5,3	5,0
Dominican Republic	-1,9	10,1	8,2	-0,4	5,3	4,8
Ecuador	-1,4	-0,8	-2,2	-0,7	0,6	-0,1
El Salvador	-5,5	5,2	-0,3	-1,6	5,1	3,5
Guatemala	-6,7	19,1	12,5	-1,4	1,4	0,0
Honduras	0,6	6,8	7,4	0,0	5,2	5,3
Mexico	-6,5	19,9	13,5	-0,5	13,5	12,9
Nicaragua	-1,5	4,2	2,7	-0,1	3,7	3,6
Panama	0,2	-3,4	-3,2	-0,3	-12,2	-12,5
Paraguay	-6,6	-1,3	-7,9	-0,2	7,9	7,8
Peru	-1,6	7,7	6,1	-0,7	-3,4	-4,1
Uruguay	-2,0	12,6	10,6	-0,6	7,4	6,9
Venezuela (Bolivarian Republic of)	0,2	6,4	6,5	-0,3	19,1	18,8
Caribbean Community (CARICOM)	-1,3	-2,5	-3,8	-1,0	0,0	-0,9
Caribbean countries^b	-2,1	1,4	-0,7	-0,9	-1,2	-2,1
Latin America and the Caribbean	-1,1	5,0	4,0	-0,7	3,7	3,0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

^a On the basis of data referring to January-July for Argentina, Brazil, Chile and Mexico, and to January-June for the rest of the countries.

^b Includes the CARICOM countries, Cuba and the Dominican Republic.

The price component will suffer the most from the slowdown in regional exports, as it is expected to plummet from growth of 19% in 2011 to a contraction of 1% in 2012. Export volume, on the other hand, is projected to rise by close to 5% (see figure III.4). Export prices are likely to fall most sharply in South America and the Caribbean, by around 2% in both cases. Virtually all of the countries of the region will see a drop in export prices. The only possible exceptions are the Bolivarian Republic of Venezuela, Mexico and Paraguay, where prices may not change or may even increase slightly. The slump in the price component of exports will probably be offset by an increase in export volume in the vast majority of the countries of the region (see table III.6). Export volume growth in Mexico and Central America could outpace the regional average (see figure III.4A).

The composite price index for the region's main export commodities, which climbed 22% in 2011, will drop by around 5% in 2012 (see table II.4 in chapter II). This is in response to heightened volatility and sharp declines in the prices for some products in the export basket triggered by the deteriorating growth outlook from the second half of 2011 (see chapter II). Metal prices, including copper, zinc, tin and lead, fell significantly over

the first four months of 2012. Prices for some crops, such as soya and palm and their respective products, also began to lose ground in this unfavourable context, although not as quickly given the drought in the United States and smaller harvests in Argentina, Brazil and Paraguay.

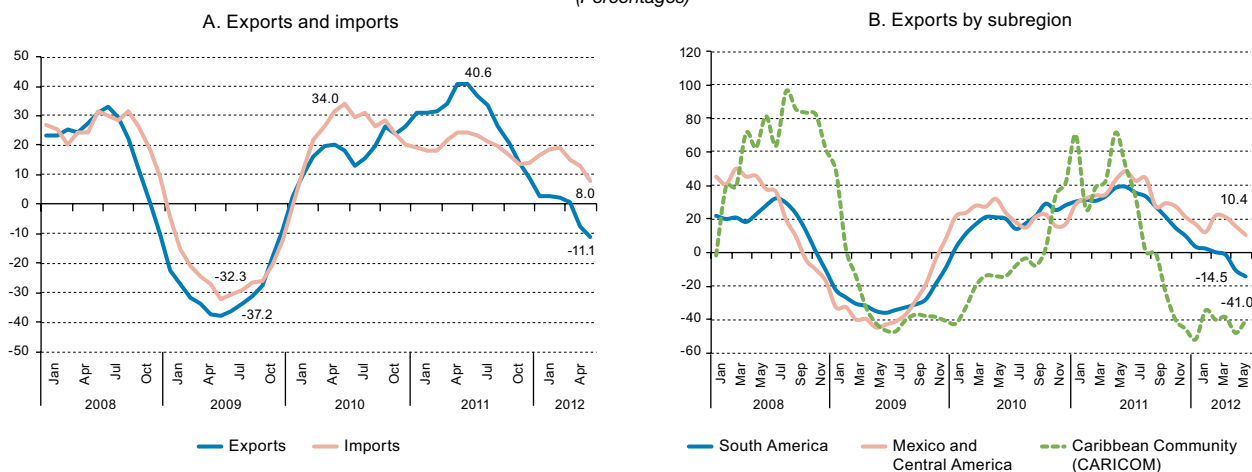
Import volumes are expected to grow by 4% in the region as a whole, more than offsetting the expected price decline of close to 1%. The Caribbean countries will likely be the only ones to see a slight drop in import volume; Mexico and Central America are expected to post the largest increase (see figure III.4B).

In Argentina, Brazil, Paraguay and the CARICOM countries, goods trade values are expected to fall for both exports and imports, performing well below the regional average (see table III.6). During the period January–July 2012, commodity and manufacturing exports from these three countries fell heavily in volume terms. In commodity exports, the largest drops occurred in soybean and soybean products in the cases of Argentina and Paraguay, and in petroleum

and iron ore in the case of Brazil. For manufactured goods, exports of automobiles and automobile parts, machinery, agro-industrial equipment and others slowed, particularly in the intraregional circuits (SECEX, 2012, INDEC, 2012).

An analysis of regional exports during the first half of 2012 according to main destination reveals that most Latin American and Caribbean countries experienced declines in their exports to the European Union. CARICOM and South American countries were the hardest hit (see figure III.5B). By country, exports from Paraguay and the CARICOM countries fell the most, followed by El Salvador, Chile and the other MERCOSUR countries (see table III.7). Most of the drop in Caribbean exports to the European Union was due to weaker sales of fuels and minerals (specifically, oil from Trinidad and Tobago, which accounts for 67% of Caribbean exports to the European Union). Latin American and Caribbean imports from the European Union posted slower, but still positive, growth (see figure III.5A).

Figure III.5
LATIN AMERICA AND THE CARIBBEAN: TRADE WITH THE EUROPEAN UNION, JANUARY 2008 TO JUNE 2012^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

^a Moving quarterly growth rates over the same prior-year quarter.

Exports from Mexico, Costa Rica and Honduras to the European Union were among the fastest growing from January to June 2012 (see table III.7). The best-performing products were machinery and mechanical equipment from Costa Rica, and shrimp and agricultural products such as bananas, oranges, tomatoes and lemons from Central America, whose export volume was up although prices were down. Mexico's exports of crude oil, passenger vehicles and electronic equipment such as voice receivers were among those posting the highest growth. All these products enjoy tariff preferences under the association agreement Mexico signed with the European Union in 1999.

ECLAC expects that the slowdown in economic activity in the European Union will have a dual impact on exports from Latin America and the Caribbean. The first impact, which will be direct and immediate, will be a fall in exports to that market. Countries with closer trade links to Europe will bear the brunt of this drop. The second impact, an indirect one, will be caused by falling demand for imports in China and the other Asian countries in response to lower European Union demand for Asian exports. This trend is expected to intensify in 2013 amid slackening of the region's exports to China and falling prices for the commodities it exports to that market, such as copper, iron ore and fishmeal.

Table III.7
LATIN AMERICA AND THE CARIBBEAN: EXPORT GROWTH RATES BY MAJOR TRADING PARTNER, JANUARY TO JUNE 2011-JANUARY TO JUNE 2012^a
 (Percentages)

	United States	European Union	Asia	China	Latin America and the Caribbean	World
Argentina	14.9	-13.6	-7.3	-1.7	0.7	-1.1
Bolivia (Plurinational State of)	52.7	-10.2	-14.8	-6.1	37.5	24.4
Brazil	17.4	-6.2	5.3	5.6	-7.9	-0.9
Chile	-3.9	-20.2	4.3	4.7	-3.9	-2.3
Colombia	11.5	17.4	40.9	66.5	19.5	11.3
Costa Rica	10.7	10.9	38.9	98.8	5.6	10.9
Ecuador	16.8	-11.2	84.3	101.6	0.3	9.9
El Salvador	-4.0	-31.5	-32.4	...	6.4	-3.6
Guatemala	1.7	-6.3	-26.3	200.9	1.3	0.7
Honduras	16.7	7.1	20.2	-15.6	10.3	7.0
Mexico	5.5	19.2	18.0	1.1	18.6	7.6
Nicaragua	4.5	-1.3	-16.0	...	18.0	10.8
Paraguay	5.4	-45.2	40.1	2.5	-9.4	-7.9
Peru	-5.8	-7.2	4.7	6.0	13.2	1.4
Uruguay	39.9	-18.5	17.5	13.0	9.3	10.0
Venezuela (Bolivarian Republic of)	-7.1	-6.6	13.7	22.5	5.7	7.8
Caribbean Community (CARICOM)	9.3	-40.7	...	...	10.1	-3.9
Latin America and the Caribbean	5.2	-5.3	6.9	8.8	4.8	4.1
South America	4.3	-8.3	5.8	9.1	0.3	2.1
Mexico and Central America	5.5	15.5	17.0	4.8	14.5	7.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

^a Preliminary estimates.

Preliminary estimates of the direct effect that economic contraction in the European Union will have on the region's exports suggest that export value to that market will fall by around 5% in 2012. The sharpest drop will be in exports from CARICOM countries (-19%) and South American countries (-7%), contrasting with the 16% growth forecast for Mexico and Central America. Assuming that commodity prices fall by around 10%, the indirect effect will be to slow the growth of the region's export value to China down to 2% in 2013, well below the 9% increase projected for 2012¹ (see table III.8). However, if China's economy continues to grow above 8%, the region's exports to China will continue to expand at a similar rate to 2012.

Six sectors will bear the brunt of the expected fall in the region's exports to the European Union

in 2012: agriculture; oil and mining; food; pulp and paper; metals and metal products; and chemicals and pharmaceuticals. These sectors represented 88% of total regional exports to the European Union in 2011 and accounted for 94% of the region's total export value to Asia in 2011 (see table III.9B). They will therefore be more exposed should exports to China and the rest of Asia slacken in 2013 in response to the economic contraction in the European Union.

Table III.8
LATIN AMERICA AND THE CARIBBEAN: PROJECTED EXPORT GROWTH IN 2012 AND COMPARISON WITH PREVIOUS CRISIS PERIODS
 (Percentages)

Major partners	Structure by partner 2000	Variation in exports 2001-2000	Structure by partner 2008	Variation in exports 2009-2008	Structure by partner 2011	Variation in exports 2011-2012 ^a
Latin America and the Caribbean	15.9	-0.9	21.7	-27.2	19.4	3.0
Asia	5.8	4.4	13.6	-10.5	18.0	8.0
China	1.1	35.8	5.7	5.6	9.1	9.0
European Union	11.5	-0.5	14.9	-29.4	13.0	-5.0
United States	58.0	-8.1	42.1	-24.9	38.9	6.5
World	100.0	-4.9	100.0	-22.0	100.0	4.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and official information from the respective countries.

^a ECLAC projections.

Thanks in part to changes in the region's foreign trade over the past decade in terms of export destination structure, export performance in 2012 is expected to be better than during other recent international economic crises. While the region's exports declined by almost 5% in 2001 (the year of the "dotcom" crisis) and slumped by 22% in 2009, during the global financial crisis, they are forecast to grow by close to 4% in 2012. Major shifts in the region's foreign trade over the past decade in terms of export destination structure have built greater resilience. Between 2000 and 2011, the United States' share dropped by almost 20 percentage points, from 58% to 39%. In contrast, Asia's share rose steeply (from 6% to 18%), with China jumping from 1% to 9%. Exports within Latin America and the Caribbean also increased, from 16% to 20% (see table III.8). In short, developing regions have grown as destinations for Latin American and Caribbean exports; since they are also the fastest-growing economies in the world economy, lower demand for Latin American and Caribbean exports in the industrialized countries has had less of an impact.

¹ This figure corresponds to the "pessimistic" scenario of the three analysed in chapter II with respect to regional exports for 2013-2015.

Table III.9
LATIN AMERICA AND THE CARIBBEAN: MAJOR PARTNERS AND EXPORT STRUCTURE BY DESTINATION AND BY MAJOR SECTOR, 2011^a
(Percentages)

	Latin America and the Caribbean	United States	European Union	Asia	Rest of the world	World
A. Percentages of total exports by sector						
Agriculture, forestry, hunting and fishing	16.9	6.6	12.2	44.1	20.1	100.0
Oil and mining	11.7	57.7	9.0	9.2	12.4	100.0
Food, beverages and tobacco	17.1	21.1	24.2	14.7	22.9	100.0
Textiles, garments and footwear	31.2	43.4	7.9	6.9	10.6	100.0
Wood, pulp and paper	26.5	19.6	20.5	23.1	10.3	100.0
Chemicals and pharmaceuticals	42.0	26.6	11.7	12.6	7.2	100.0
Rubber and plastic	36.8	43.1	5.9	2.3	11.9	100.0
Non-metallic minerals	33.2	47.7	4.3	1.3	13.5	100.0
Metals and metal products	14.2	15.8	19.6	47.3	3.2	100.0
Machinery and equipment	9.7	72.4	3.2	2.6	12.0	100.0
Automobiles and parts and components	27.8	50.9	6.3	4.1	10.9	100.0
Other manufactures	16.1	66.0	3.5	2.6	11.9	100.0
Total	19.4	38.9	13.0	18.0	10.7	100.0
B. Percentages of total exports by partner in each sector						
Agriculture, forestry, hunting and fishing	4.6	0.9	5.1	13.4	8.7	5.2
Oil and mining	11.3	26.9	13.3	9.9	19.0	18.4
Food, beverages and tobacco	13.9	8.2	29.9	13.2	29.4	15.4
Textiles, garments and footwear	4.6	3.1	1.8	1.1	2.5	2.8
Wood, pulp and paper	2.8	1.0	3.3	2.7	1.7	2.0
Chemicals and pharmaceuticals	23.6	7.2	10.0	7.9	6.4	10.7
Rubber and plastic	2.3	1.3	0.6	0.2	1.2	1.2
Non-metallic minerals	1.0	0.7	0.2	0.0	0.6	0.6
Metals and metal products	12.6	6.7	26.5	46.6	4.5	16.8
Machinery and equipment	8.2	29.3	4.1	2.4	16.0	16.0
Automobiles and parts and components	13.9	12.3	4.8	2.3	8.6	9.5
Other manufactures	1.2	2.4	0.4	0.2	1.4	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
	202 349	407 207	136 363	187 708	112 102	1 045 729

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and official information from the respective countries.

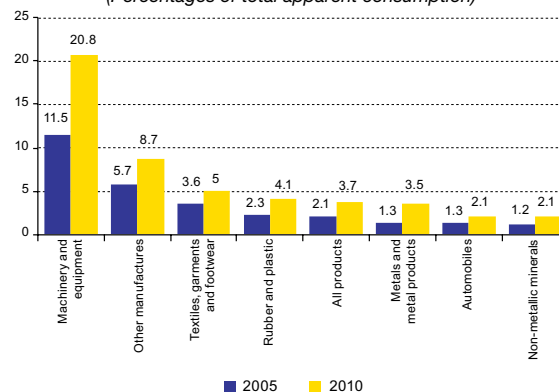
^a The totals in this table are not necessarily comparable with those in table III.1 as the information is from different sources.

D. Recent trade policy developments in the region

As in the rest of the world (see chapter I), trade restrictions have increased in Latin America and the Caribbean, although not across the board. Meagre economic growth and the resulting decline in demand from the United States and Europe have sparked fears that China and other Asian countries are redirecting to the region manufacturing exports that previously went to industrialized countries. In addition, some countries have been affected by currency appreciation, partly as a result of short-term capital inflows attracted by interest rate differentials with the industrialized countries. These factors may be intensifying the trend, already observed prior to the crisis, towards greater penetration of Asian manufactures (especially from China) in the region, displacing imports from the rest of the world as well as local production (see figure III.6). There is concern that this may lead to deindustrialization, especially in countries with a larger manufacturing sector. Particularly in Argentina and Brazil, measures have been introduced or announcements made over the past few months that point to further import restrictions as part of more active industrial policies (UNCTAD, 2012, pp. 54-55). Some of

these actions have been called into question, both within and outside the region (see box III.1).

Figure III.6
LATIN AMERICA (6 COUNTRIES): RATIO OF CHINESE IMPORTS TO APPARENT CONSUMPTION, 2005 AND 2010^a
(Percentages of total apparent consumption)



Source: José Durán and Andrea Pellandra, "Cambios en la estructura económica e industrial mundial en la primera década del siglo XXI: El efecto de la emergencia de China sobre producción y comercio en América Latina y el Caribe", unpublished, May 2012.

^a Includes Argentina, Brazil, Chile, Colombia, Ecuador and Mexico.

Box III.1

RECENT TRADE CONTROVERSIES INVOLVING ARGENTINA AND BRAZIL

On 30 March 2012, 14 members of the World Trade Organization (WTO) jointly expressed to Argentina their concern over a number of measures that Argentina applies to imports, pointing out that some appeared to be inconsistent with WTO agreements. The most relevant of these measures are as follows:

- Over 600 products are subject to non-automatic import licensing, including computers, tractors, automobiles and auto parts, plastics, chemicals, tyres, toys, footwear, textiles and apparel. The countries said that it frequently took more than the maximum 60-day period established by the WTO for licences to be issued, and in some cases applications were rejected without explanation.
- From 1 February 2012, all importers must seek pre-approval from the authorities ("Early Import Declaration") for every import transaction.
- There is a de facto policy of obliging importers to offset every import dollar with one export dollar (or one dollar of investment in Argentina).

On 25 May 2012, the European Union requested consultations with Argentina at the WTO on these measures, initiating a dispute settlement process that could culminate in the establishment of an arbitration panel. The Argentine restrictions also apply to the other members of MERCOSUR, prompting complaints from those countries. Other countries in the

region, including Chile, Colombia and Peru, have also expressed concerns.

On 26 June 2012, Argentina unilaterally suspended for three years Economic Complementarity Agreement No. 55 (ECA 55), signed in 2002 between Mexico and MERCOSUR, which governs trade in the automotive sector between Mexico and each of the member States of MERCOSUR. Argentina's decision reverses the free trade regime formerly in place with Mexico: automobiles from Mexico are now subject to a tariff of 35%, and auto parts to a tariff of between 16% and 18%. Automobiles from Argentina meanwhile are subject to a tariff of 20% in Mexico, and auto parts to a tariff of between 0% and 20%.

According to the Argentine authorities, this decision was taken in light of the potential negative impact on its automotive sector of an agreement reached between Brazil and Mexico in March 2012. Negotiated at the request of Brazil, it partially reversed the free trade regime previously in force between the two countries. With effect from March 2012, bilateral trade of light vehicles is only tariff free up to certain maximum amounts; these will be progressively raised until a free trade regime is once again in place in March 2015. Significantly, in recent years there has been a large surplus on the Mexican side of bilateral trade between Argentina and Mexico in the automobile industry. The Mexican authorities

have disputed Argentina's decision and have announced that they will challenge it within the framework of the Latin American Integration Association (ALADI).

In Brazil, in addition to the above-mentioned renegotiation of ECA 55, the "plan Brasil Maior" ("Bigger Brazil Plan") came into effect in August 2011, aimed at boosting the competitiveness of domestic industry by promoting technological innovation and value added. The plan contains some measures seeking greater controls over imports, such as shortening the period for anti-dumping investigations and introducing a preference margin of up to 25% for domestic products in public procurement processes. In September 2011, Brazil also raised the domestic tax on certain vehicles by 30 percentage points until 31 December 2012. Vehicles with a minimum of 65% of their content sourced in MERCOSUR or Mexico are exempt.

At the eighteenth Extraordinary Meeting of the MERCOSUR Trade Commission held in Mendoza (Argentina) in June 2012, Decision No. 25/12 was adopted to allow each member of the trading bloc to raise its tariff on external imports above the common external tariff on up to 200 tariff lines, up to the WTO maximum (bound) level (35%). These increases will apply for a period of 12 months, renewable for further 12-month periods until 31 December 2014. This same measure had been adopted in December 2011 for up to 100 tariff lines.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2012: Towards a new generation of investment policies*, Geneva, July 2012; Common Market Council of MERCOSUR, Decision No. 25/12 (MERCOSUR/CMC/DEC.N°25/12); press releases and articles.

Over and above the legality of trade policy measures taken by some of the countries of the region, their economic impact should be carefully weighed.

Affording certain sectors protection is a valid tool for coping with the challenges facing the region as a result of the weak and volatile recovery of the world economy following the crisis in 2008 and 2009. Nevertheless, the instruments used should be transparent, have a clear time horizon, and comply with the rules of the World Trade Organization (WTO) and those of integration agreements and other trade agreements to which individual countries are party. Likewise, the negative effects on the region should be minimized, in particular on less-developed countries. Last, in a world economy increasingly made up of value chains, blanket restrictions on trade, especially on capital and intermediate goods, ultimately hurt the competitiveness of the country imposing them because they have a negative impact on production sectors (whether they export or target the domestic market) that use those imported goods as inputs.

Several of the economies of the region already (or will in the coming months) enjoy preferential trade

relationships with both the United States and the European Union. In May 2012, after several years' delay, the free trade agreement between Colombia and the United States entered into force, while the free trade agreement between Panama and the United States is expected to follow suit during the second half of 2012. In June 2012 the association agreement between the European Union and Central American countries (including Panama) was signed, as was with the free trade agreement between the European Union and Colombia and Peru. Both agreements are expected to enter into force in late 2012 or early 2013 (see box III.2).

The number of trade agreements between countries of the region and Asia-Pacific has increased considerably over the past 12 months. Free trade agreements entered into force between Costa Rica and China, Chile and Malaysia, Peru and Japan, and between Peru and the Republic of Korea. The agreement between Chile and Viet Nam was signed, and negotiations between Colombia and the Republic of Korea were successfully concluded. In June 2012 Mexico's incorporation into the negotiations on the Trans-Pacific Partnership (TPP) was approved, taking the

number of participants from the region to three.² This flurry of activity concerns only a small number of countries from the region, however, all on the Pacific coast. Some (Chile and Peru) already possess an export structure that is heavily directed towards Asia; others (Colombia, Costa Rica and

Mexico in particular) export primarily to the United States but are seeking to forge closer ties with the fast-growing Asia-Pacific region. In the case of Costa Rica and Mexico, which chiefly export manufactures, the policy aim is to become more deeply embedded in Asian value chains.

Box III.2

RECENT TRADE AGREEMENTS BETWEEN THE EUROPEAN UNION AND LATIN AMERICAN COUNTRIES

On 26 June 2012, Colombia and Peru signed a broad-ranging trade agreement with the European Union. It provides that tariffs will be phased out for the bulk of bilateral goods trade, including for all industrial and fishing products (with the exception of some agricultural products). The agreement also contains commitments on subjects such as trade in services, government procurement, intellectual property rights, dispute resolution, sustainable development, and regional integration and cooperation. In several areas, the commitments made go beyond the scope of the relevant World Trade Organization (WTO) agreements. In 2011 the European Union accounted for 16% of Colombia's exports and 14% of its imports, while these shares for Peru were 18% and 11%, respectively.

Sustainable development is one of the goals of the agreement, which seeks to adopt a common position on issues such as the sustainable management of forests, the conservation of biological diversity, the prevention of illegal fishing and climate change. The parties also commit to make labour and environmental protection a priority,

in line with international conventions. There is a comprehensive chapter on cooperation, aiming to promote competitiveness and innovation, modernize production systems and facilitate trade flows and the transfer of technology among the parties. An accession clause allows the other member countries of the Andean Community to join the agreement at a later date.

On 29 June 2012, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama signed an association agreement with the European Union. It covers trade, political dialogue and cooperation and establishes a free trade area between the European Union and the countries of Central America (with some exceptions in the agricultural sector). The agreement also includes commitments on trade in services, investment, intellectual property and public procurement. Costa Rica and Panama took on greater commitments to openness in procurement than the other Central American countries. The European Union's share of total exports from Central America varies widely, from less than 2% in the case of Panama to 28% for Honduras;

its share as an origin of imports varies within a narrower band of 5% to 10%.

With regard to political dialogue, one objective is to foster common positions on matters such as development finance, migration, environment, security, good governance, and the fight against terrorism. The aim of the cooperation pillar is to provide resources, mechanisms, tools and procedures to ensure the effective implementation of the association agreement, in addition to the financial assistance for development already committed by the European Union for Central American countries until 2013. The priority areas include human rights, governance, social cohesion, migration, climate change and regional integration.

It is anticipated that both agreements will enter into force provisionally towards the end of 2012 or during the first half of 2013, once they have been ratified by the European Parliament and the respective parliaments of the signatory Latin American countries. Implementation will be final once ratified by the parliaments of all the member States of the European Union.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Ministry of Commerce, Industry and Tourism of Colombia, Directorate General for Trade of the European Commission and Secretariat for Central American Economic Integration.

Table III.10
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES AND GROUPINGS):
TRADE AGREEMENTS WITH PARTNERS OUTSIDE THE REGION, JUNE 2012

	United States	Canada	European Union	China	Japan	Republic of Korea	India	Other Asia-Pacific economies ^a
Colombia	X	X	S	R	R	C		
Costa Rica	X ^b	X	S ^c	X		R		Singapore
Chile	X	X	X	X	X	X	X	Australia, P4 ^d , Malaysia, Viet Nam
Dominican Republic	X ^e		X ^S					
Mexico	X	X	X		X			
Panama	S	S	S ^e					Taiwan Province of China, Singapore
Peru	X	X	S	X	X	X		Thailand
Caribbean Community (CARICOM)	X	N	X					
Central America	X		S					Taiwan Province of China ^g
Southern Common Market (MERCOSUR)		R	N			R	X	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization of American States (OAS), Foreign Trade Information System (SICE) [online] www.sice.oas.org.

Note: X: Agreement in force. S: Agreement signed. C: Negotiations successfully concluded. N: Under negotiation. R: Under review.

^a Only agreements in force or signed.

^b Along with the other Central American countries and the Dominican Republic.

^c Along with the other Central American countries and Panama.

^d Agreement between Brunei Darussalam, Chile, New Zealand and Singapore.

^e Along with the Central American countries.

^f Along with the countries of the Caribbean Community (CARICOM).

^g Except Costa Rica.

² Costa Rica has also expressed interest in joining the TPP, considering it fundamental to its strategy of entering global value chains (see "Costa Rica explora posible participación en Alianza Trans-Pacífico",

[online, Spanish only] www.sice.oas.org/TPD/TPP/Negotiations/CRI_TPP_s.pdf).

E. Recent developments with regard to economic integration in Latin America and the Caribbean

Besides negotiations with partners outside the region, the architecture of regional economic integration has shifted significantly over the past 12 months. In Meso-America, a single free trade agreement has been signed between Mexico and the five Central American countries, and Panama has been incorporated into the Central American economic integration subsystem. In South America, meanwhile, the Bolivarian Republic of Venezuela has become a full member of MERCOSUR, and Paraguay's right to participate in the bodies of this bloc has been temporarily suspended. The Pacific Alliance has been formally created; the members of this integration initiative are currently Chile, Colombia, Mexico and Peru. The Community of Latin American and Caribbean States (CELAC) is now operational, and the Union of South American Nations (UNASUR) is continuing its efforts to promote intraregional trade. These initiatives will now be examined in more detail.

The single free trade agreement between Mexico and Central America was signed in November 2011 and is expected to enter into force during 2012. It will replace the three agreements currently binding this group of countries. These are the agreements between Mexico and Costa Rica, between Mexico and Nicaragua, and between Mexico and El Salvador, Guatemala and Honduras. The main aim of merging the three agreements is to promote the use of intraregional inputs and reduce the administrative costs incurred by firms to benefit from tariff preferences and other advantages established in the current agreements.³ For example, there will be a single set of rules of origin for virtually all products, rather than the three sets currently in place. This will cut transaction costs for economic operators and promote the development of production linkages. This represents a major step towards the creation of a larger economic space with a gross domestic product of almost US\$ 1.3 trillion, a population of more than 150 million and close production and trade links with the United States (see table III.11). In addition, Panama's entry into the Central American economic integration subsystem will result in

that country's full participation in the existing free trade space between the countries in that subregion.

Table III.11
MEXICO AND CENTRAL AMERICAN COUNTRIES:
GROSS DOMESTIC PRODUCT, POPULATION,
EXPORTS AND IMPORTS, 2011

	GDP (billions of dollars)	Population (millions of inhabitants)	Exports (billions of dollars)	Imports (billions of dollars)	Free trade agreement with the United States
Mexico	1 154.8	113.7	349.6	350.8	Yes
Costa Rica	40.9	4.6	10.2	18.3	Yes
El Salvador	22.8	5.9	4.1	9.1	Yes
Guatemala	46.9	14.7	10.2	16.6	Yes
Honduras	17.4	8.2	3.9	9.0	Yes
Nicaragua	7.3	5.9	2.3	5.0	Yes
Total	1 290.1	153.1	380.2	408.8	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) estimates, World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, April 2012, for GDP and population; United Nations Commodity Trade Statistics Database (COMTRADE) for exports and imports; and Secretariat for Central American Economic Integration for Salvadoran and Honduran exports and imports.

The MERCOSUR summit held in Mendoza in June 2012 brought changes in the composition of the group. A decision was taken to admit the Bolivarian Republic of Venezuela as a full member, a process that had been under way since that country's withdrawal from the Andean Community in 2006. Paraguay's right to participate in MERCOSUR bodies was temporarily suspended, following the events that led to the removal from office of the then President Fernando Lugo by Paraguay's Congress in June 2012.⁴ The entry of the Bolivarian Republic of Venezuela as a full member was made official during the forty-first special meeting of the Common Market Group, held in Brasilia on 30 July 2012. It was agreed that the Bolivarian Republic of Venezuela would have until 2016 to gradually adopt the commitments arising from full MERCOSUR membership (see box III.3). MERCOSUR has thus become a market worth US\$ 3.3 trillion with 275 million inhabitants (see table III.12). The trading bloc has also added a major energy component to its profile as an agricultural powerhouse, given that the Bolivarian Republic of Venezuela possesses the largest proven oil reserves in the world.

³ See Secretariat of Economic Affairs of Mexico, "Tratado de Libre Comercio entre México y Costa Rica, El Salvador, Guatemala, Honduras y Nicaragua. Ficha informativa", November 2011, [online, Spanish only] www.economia.gob.mx/files/comunidad_negocios/comercio_exterior/TLC_Unico_ficha.pdf (date of reference: 28 June 2012).

⁴ The two decisions are linked, as the reason the Bolivarian Republic of Venezuela was not admitted to MERCOSUR earlier was because this had not been ratified by the Congress of Paraguay.

Box III.3

WORK PROGRAMME FOR THE INCORPORATION OF THE BOLIVARIAN REPUBLIC OF VENEZUELA AS A FULL MEMBER OF MERCOSUR

At the forty-first special meeting of the Common Market Group, held in Brasilia on 30 July 2012, MERCOSUR members agreed that a special working group would be set up to expedite efforts to fully incorporate the Bolivarian Republic of Venezuela into this bloc. The working group is to meet on a monthly basis from August 2012 and will be supported by six technical subgroups covering the following goals and areas of competency:

(i) Incorporation of the body of rules: As a first step, the secretariat of MERCOSUR will conduct a survey of the current

rules, to be presented no later than 10 August 2012.

(ii) Adoption of the common customs nomenclature: This subgroup will work towards adoption of the MERCOSUR common nomenclature by the Bolivarian Republic of Venezuela by December 2012.

(iii) Adoption of the common external tariff: The first results are expected in December 2012.

(iv) Trade liberalization programme (among MERCOSUR countries): The first results are expected in January

2013. The subgroup's activities will be complemented by bilateral meetings between the Bolivarian Republic of Venezuela and Argentina, Brazil and Uruguay.

(v) External relations: Information will be shared on the external MERCOSUR agenda and that of the Bolivarian Republic of Venezuela.

(vi) Institutional matters: The necessary steps will be taken to ensure the participation of the Bolivarian Republic of Venezuela in MERCOSUR bodies.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the minutes of the forty-first special meeting of the Common Market Group, Brasilia, 30 July 2012 [online, Portuguese only] www.mercosur.int/t_generic.jsp?contentid=4539&site=1&channel=secretaria [date of reference: 1 August 2012].

Table III.12
MERCOSUR AND PACIFIC ALLIANCE: GROSS DOMESTIC PRODUCT, POPULATION, EXPORTS AND IMPORTS, 2011^a

Country or grouping	GDP (billions of dollars)	Population (millions of inhabitants)	Exports	Imports
			(billions of dollars)	
Argentina	447.6	40.9	84.0	73.9
Brazil	2 492.9	194.9	256.0	226.2
Paraguay	21.2	6.5	5.5	11.5
Uruguay	46.9	3.4	7.8	10.7
Venezuela (Bolivarian Republic of)	315.8	29.8	92.6	50.7
Total MERCOSUR	3 324.5	275.5	446.0	373.1
Colombia	328.4	46.1	56.2	54.7
Chile	248.4	17.4	81.4	70.6
Mexico	1 154.8	113.7	349.4	350.8
Peru	173.5	30.0	45.6	37.7
Total Pacific Alliance	1 905.1	207.2	532.6	513.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, April 2012, for GDP and population; and United Nations Commodity Trade Statistics Database (COMTRADE) for exports and imports.

^a GDP figures (except for Brazil, Chile and Peru) and population are estimates provided by the International Monetary Fund (IMF).

Also in June 2012, at the fourth summit of the Pacific Alliance, held at the Paranal Observatory in Chile, the framework agreement was signed formally establishing the Pacific Alliance. Bringing together Chile, Colombia, Mexico and Peru, the Alliance aims to build a closely integrated area and work progressively towards the free circulation of goods, services, capital and people among its members. These four economies constitute a US\$ 1.9 trillion market with a population of 207 million (see table III.12). The Pacific Alliance is also seeking to become a platform for political cooperation and for trade and economic integration whose global reach focuses above all on the Asia-Pacific region. To achieve these goals, the presidents of the four member countries have drawn up a programme of work with several components (see box III.4).

Box III.4

HIGHLIGHTS OF THE WORK PROGRAMME OF THE PACIFIC ALLIANCE

At the fourth summit of the Pacific Alliance, the presidents of Chile, Colombia, Mexico and Peru gave instructions for the following action to be taken:

- Make parallel progress on negotiations on abolishing tariffs and rules of origin, including cumulation of origin.
- Negotiate a dispute settlement regime.
- Trade facilitation: Continue working towards implementation of a system of electronic certification of origin among the four member countries; interoperability of their foreign trade single windows; mutual recognition

of the authorized economic operator; and signing of a customs cooperation agreement.

- Establish a road map with specific initiatives on sanitary and phytosanitary measures.
- Continue to identify sectors of common interest so as to move towards harmonization or mutual recognition of regulations or technical standards that have an impact on trade.
- Design initiatives aimed at deepening integration with regard to services and capital, identifying existing obstacles and

assessing the need for and advisability of negotiating an agreement on services and investment within the framework of the Pacific Alliance.

- With a view to advancing towards full liberalization of migration flows between its members, implement a plan for cooperating and sharing information on these flows in real time.
- Take joint action to promote exports and attract investment, particularly in Asia.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Declaration of the fourth summit of the Pacific Alliance, Antofagasta (Chile), 6 June 2012 [online] www.sice.oas.org/whatsnew_pending/IV_PacificAlliance_Summit_s.pdf.

The Alliance, in which Costa Rica and Panama participate as observers, has positioned itself as a reference for economic integration in the region and is breaking with the subregional pattern. It includes South American countries as well as Mexico and may also include Central American countries in the future. In practice, this initiative will supersede the Latin American Pacific Basin Initiative which did not come together and, unlike that body, membership does not depend on being a State on the Pacific coast. The four current members of the Alliance are already connected via a network of bilateral free trade agreements and are therefore in a good position to work towards more ambitious integration goals.

In the Caribbean subregion, a debate has arisen in recent months in Jamaica over whether the country

should remain a member of the Caribbean Community (CARICOM). Jamaica is running a large trade deficit with its partners in this grouping, particularly with Trinidad and Tobago, the main economy in the bloc. Underlying the discussion is the issue of how the benefits of economic integration are distributed among the members, especially since these vary considerably in terms of size, level of economic development, population and other variables. Nevertheless, at the thirty-third Regular Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM), held in Saint Lucia in July 2012, Jamaica reiterated its willingness to remain a member of this grouping. With regard to external trade relations, CARICOM is engaged in negotiations with Canada, the Dominican Republic and the United States (see box III.5).

Box III.5

THE CARIBBEAN COMMUNITY (CARICOM): REGIONAL INTEGRATION AND TRADE RELATIONS WITH THIRD PARTIES

The process of integration within the Caribbean Community (CARICOM) has seen slow progress in recent years. Among other reasons, this is because member countries have been contending with the global crisis and implementation of the CARICOM Single Market and Economy project has not been a priority. Nonetheless, the CARICOM leaders have recently tried to inject renewed vigour into regional integration as a way of dealing with global challenges. As one of the new initiatives, in May 2012 an intergovernmental working group was set up to develop protocols on public procurement and contingent rights. The latter concern the rights of highly qualified CARICOM nationals and their dependants, such as the right to non-discriminatory access to social services in their country of residence. An intergovernmental group was also created to formulate a policy on corporate mergers and acquisitions.

In early July 2012, the Heads of State and Government of the CARICOM countries met in Saint Lucia to discuss institutional reform, foreign policy, trade and development. The countries made a

commitment to enhance coordination, with a view to developing a common foreign policy. One of the main topics was the growth and development of the regional economy in the context of the global economic crisis, and, in particular, strengthening the financial sector and shaping a regional fiscal policy.

With regard to external trade relations, little progress has been made in the negotiations launched in 2009 regarding a free trade agreement between CARICOM and Canada. The World Trade Organization (WTO) waiver for the current Caribbean-Canada Trade Agreement (CARIBCAN), according to which Canada accords non-reciprocal trade preferences to the Caribbean countries, is due to expire on 31 December 2013; Canada has confirmed that it will not seek renewal. The Canadian government has thus stated its intention to conclude the free trade agreement negotiations in early 2013. In May 2012, the Fourth Meeting of the Joint Council under the CARICOM-Dominican Republic Free Trade Agreement and Related Meetings took place in Trinidad and Tobago in order to further negotiations for a free

trade agreement between CARICOM and the Dominican Republic, but no significant progress has yet been made.

CARICOM and the United States are negotiating changes to their Trade and Investment Framework Agreement, and this process is expected to conclude shortly. The United States has also agreed to extend the benefits available under the Caribbean Basin Trade Partnership Act (CBTPA) to countries in that subregion that are currently excluded. Grenada, Montserrat and Suriname have all already formally requested eligibility for these benefits. CARICOM and the United States are also in contact to address concerns among Caribbean rum producers over the subsidies granted by the United States Virgin Islands and Puerto Rico to multinational producers based in their territories. In 2011 these subsidies amounted to US\$ 452 million for producers in Puerto Rico and US\$ 133.5 million for those in the United States Virgin Islands; they thus undermine the competitiveness of CARICOM producers in their main export market, the United States.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

It remains to be seen how the Community of Latin American and Caribbean States (CELAC) and the Union of South American Nations (UNASUR) will go about entering a complex and shifting map of regional economic integration. Both forums have to date mostly focused on political coordination and dialogue. Yet their respective programmes of work also comprise action in the economic and trade sphere. This is especially true of UNASUR, whose working group No. 3 is tasked with

formulating proposals to foster intraregional trade among its members. A key question is how the final proposals will fit in with the commitments UNASUR members have already undertaken under subregional integration schemes and other trade agreements.

The process of economic integration in the region is, then, undergoing major readjustments; the current situation is in flux and the eventual outcome is difficult to predict. Meso-America appears to be making strides

towards ever closer integration, while the situation in South America is less certain. Achieving deeper integration among the subregions of Latin America and the Caribbean also remains a challenge. The newly formed Pacific Alliance is a step in this direction. Nevertheless, the major

missing link in Latin American economic integration is still between Mexico and MERCOSUR, given the size of the economies in question. On this point, as already discussed in this chapter, there have been more setbacks than advances in recent months.

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Chapter IV

The global economic outlook and the challenges it poses for the international integration of Latin America and the Caribbean

A. Introduction

As explained in chapter I, prospects for the global economy for the remainder of the decade point to several years of slow growth in the industrialized countries. Such a scenario reinforces the long-term trend towards a growing contribution by the developing economies to global economic variables. Another trend that is rearranging the international production and trade map is the geographical fragmentation of production, which is increasingly structured in value chains. These are characterized by substantial flows of trade in intermediate goods and services and of foreign direct investment. Variables such as physical and services infrastructure, connectivity and logistics are essential for this production mode to work smoothly.

This chapter, which is divided into five sections plus this introduction, looks at how the integration of Latin America and the Caribbean into the global economy fits into these trends. Section B summarizes some of the key factors shaping the global economic environment that the region will face for the remainder of the 2010s. The three ensuing sections examine the region's export performance in three relevant dimensions: participation

in value chains (section C); export employment (section D); and the participation of businesses in export activity (section E). Last, section F draws on the analysis set out in preceding sections to propose guidelines for action, underlining the importance of capitalizing on the potential of the region's own market in addition to continuing to strengthen links with other developing regions.

B. International economic outlook for the remainder of the decade

Over the next few decades, how well Latin America and the Caribbean integrates into the global economy will largely be determined by its links with the other developing regions. Latin America and the Caribbean is both witness to and protagonist of the changes taking place as the global economy's centre of gravity shifts towards developing countries. As explained in chapter I, in recent years developing countries have come to figure decisively, not only because of their contribution to world output but also because of their share of trade and foreign direct investment flows, their stock of international reserves and their resources managed by sovereign wealth funds, among other variables. If current trends continue, developing economies will account for more than half of world output and exports by the end of this decade. The prospect of a lost decade of growth for much of the industrialized world is just speeding up this structural change in the global economy.

This rebalancing of the global economy is being driven by Asia-Pacific, whose growing prominence over the coming decades will make that region increasingly important for Latin America and the Caribbean. This importance stems not only from Asia-Pacific's rapid economic growth but also from its large and growing population (see table IV.1). The expected expansion of the middle class in Asia over the next few decades (see chapter I) offers a good opportunity for Latin America and the Caribbean to diversify its exports to Asia. Middle-class consumption patterns usually reflect a demand for differentiated goods and services, creating openings in sectors such as agroindustry and niche tourism.

Trade is the main channel for the growing economic linkages between Latin America and the Caribbean and other developing regions. Between 2000 and 2011, the industrialized economies' share of total exports from Latin America and the Caribbean fell from 75% to 56% while the proportion going to the developing economies (including Latin America and the Caribbean itself) rose from 25% to 44%. This trend is even sharper if Mexico—which sends some 80% of its exports to the United States—is not included. Without Mexico, 60% of the region's exports goes to developing economies (see table IV.2). Nevertheless, the industrialized economies still take in nearly 90% of Mexico's exports, almost two thirds of exports from the Caribbean and more than half of Central America's exports. This confirms the region's

two distinct export destination market patterns. On the one hand, Mexico, Central America (with the relative exception of Costa Rica), the Caribbean (except Cuba) and some Andean countries are still closely linked to the United States market. On the other hand, most South American economies that export natural resources are increasingly shifting their export focus to China and the rest of Asia.

Table IV.1
WORLD, REGIONS AND SELECTED COUNTRIES: POPULATION AND EXPECTED POPULATION GROWTH, 2010-2050
(Millions of persons and annualized growth rates)

	2010	2020	2030	2040	2050	Annualized growth rate 2010-2050
Latin America and the Caribbean	585.0	647.1	696.5	729.7	746.0	0.6
Central America	42.5	50.5	58.3	65.5	71.6	1.3
South America	392.3	431.2	461.1	479.9	487.6	0.5
Caribbean	36.6	39.2	41.2	42.3	42.3	0.4
Mexico	113.4	125.9	135.4	141.5	143.9	0.6
Asia	4 164.3	4 565.5	4 867.7	5 061.0	5 142.2	0.5
China	1 341.3	1 387.8	1 393.1	1 360.9	1 295.6	-0.1
South-East Asia ^a	593.4	655.9	706.0	740.9	759.2	0.6
India	1 224.6	1 386.9	1 523.5	1 627.0	1 692.0	0.8
Rest of Asia	1 004.9	1 134.9	1 245.2	1 332.1	1 395.4	0.8
United States	310.4	337.1	361.7	383.5	403.1	0.7
European Union	499.3	509.7	514.5	514.0	510.3	0.1
World	6 895.9	7 656.5	8 321.4	8 874.0	9 306.1	0.8
Asia's share of total	60.4	59.6	58.5	57.0	55.3	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Population Prospects*, revision 2010.

^a Includes Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Viet Nam.

On the import side, the developing economies' share of the Latin American and Caribbean region's foreign trade has also surged. This trend, unlike changing export patterns, is seen across all of Latin America's subregions. The developing economies' share of the region's total imports rose by nearly 20 percentage points in a decade, from 30% in 2000 to almost 50% in 2011. But this substantial increase has been seen not only in South America, as is the case with exports, but in Mexico and the countries of the Caribbean as well. Only in Central America was the percentage increase in imports sourced in developing countries a modest one. Even so, it was already more than 47% in the early 2000s thanks largely to buoyant trade among Central American countries and between them and Mexico (see table IV.2).

Compared with trade relations, reciprocal foreign direct investment linkages between Latin America and the Caribbean and the rest of the developing world are still incipient. Over the past two years, the industrialized economies (which traditionally have been the primary source of foreign investment in the region) taken as a whole accounted for an average 80% of greenfield foreign direct investment in Latin America and the Caribbean. During the same period, however, the developing economies (particularly those of East and South-East Asia) accounted for most of the investments in

the region through mergers and acquisitions. By contrast, the bulk of outward foreign direct investment (both greenfield and through mergers and acquisitions) from Latin America and the Caribbean towards developing economies went to the region itself (see table IV.3). There is, then, considerable room for building up reciprocal direct investment between the region and the rest of the developing regions and transition economies. Existing strong trade links with Asia could be a springboard towards a second stage marked by growing reciprocal investments (see section F).

Table IV.2
LATIN AMERICA AND THE CARIBBEAN: FOREIGN TRADE STRUCTURE BY MAJOR MARKETS, 2000 AND 2011
(Percentages of each country's or subregion's total exports and imports)

	2000 ^a				2011 ^b			
	Industrialized economies	Developing economies			Industrialized economies	Developing economies		
		Latin America and the Caribbean	Rest of the developing economies	Total developing economies		Latin America and the Caribbean	Rest of the developing economies	Total developing economies
Exports								
Latin America and the Caribbean	75.0	16.4	8.6	25.0	55.5	19.4	25.1	44.5
Latin America and the Caribbean (not including Mexico)	57.3	27.9	14.8	42.7	39.8	26.5	33.7	60.2
South America	56.8	28.4	14.8	43.2	38.2	24.6	37.2	61.8
Central American Common Market	56.2	27.2	16.6	43.8	55.2	36.4	8.5	44.8
Mexico	94.7	3.6	1.8	5.3	88.5	7.5	4.0	11.5
Caribbean Community	66.2	24.9	8.9	33.8	64.2	27.5	8.3	35.8
Imports								
Latin America and the Caribbean	70.0	16.5	13.5	30.0	50.6	20.8	28.6	49.4
Latin America and the Caribbean (not including Mexico)	54.6	29.8	15.6	45.4	41.3	29.3	29.4	58.7
South America	54.0	29.2	16.8	46.0	39.5	27.4	33.0	60.5
Central American Common Market	52.7	34.5	12.8	47.3	50.6	34.1	15.3	49.4
Mexico	86.2	2.6	11.3	13.8	68.9	4.1	26.9	31.1
Caribbean Community	67.0	25.5	7.5	33.0	55.0	32.6	12.5	45.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, United Nations Commodity Trade Statistics Database (COMTRADE) and United Nations Conference on Trade and Development (UNCTAD), UNCTADstat database [online] <http://unctadstat.unctad.org/>.

^a Figures for the Dominican Republic are from 2001.

^b Figures for Belize, Cuba, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago and Uruguay are from 2010.

Table IV.3
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT FLOWS BY CATEGORY AND SOURCE AND DESTINATION REGION, 2010 AND 2011
(Millions of dollars)

Region	Cross-border mergers and acquisitions				Greenfield projects			
	Sales by Latin American and Caribbean businesses		Purchases by Latin American and Caribbean businesses		Latin America and the Caribbean as destination		Latin America and the Caribbean as source	
	2010	2011	2010	2011	2010	2011	2010	2011
World	28 414	20 689	15 831	18 659	120 113	138 680	21 754	20 655
Industrialized economies	2 744	908	12 036	9 173	94 771	112 431	5 200	3 499
Developing economies	24 741	17 585	3 951	8 157	23 324	25 880	16 544	17 156
Africa	-75	0	-84	-5	503	1167	809	1 774
East and South-East Asia	14 664	9 311	79	159	9 556	8 950	2531	675
South Asia	5 460	180	-735	3	566	598	826	64
Western Asia	0	147	0	18	836	699	513	178
Latin America and the Caribbean	4 692	7 983	4 692	7 983	11 864	14 466	1 1864	14 466
Transition economies	-3	2 119	-156	1 329	2018	370	10	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2012: Towards a New Generation of Investment Policies* (UNCTAD/WIR/2012), New York, 2012. United Nations publication, Sales No. E.12.II.D.3.

C. Latin America and the Caribbean in value chains

1. Share of intermediate goods in the region's foreign trade

To gauge the quality, density and impact of foreign trade on the economy and on employment, it is necessary to understand the export sector's internal and external linkages. This subsection uses data on intermediate goods trade and free export zones to track the development of external linkages and the region's participation in global value chains.

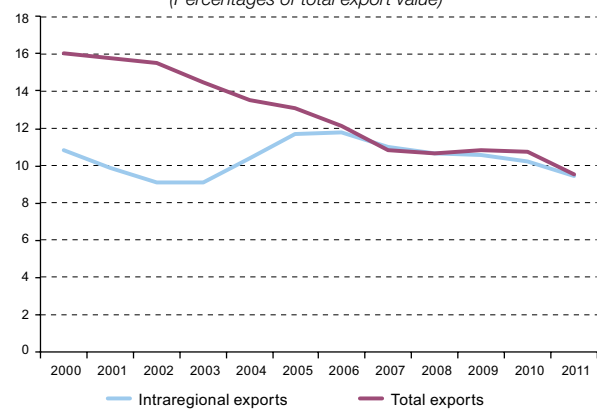
International trade has been growing faster than global output over the past 30 years, largely because trade in intermediate goods and services has soared as production processes fragment into global value chains (Backer and Yamano, 2012). The rise of international supply chains is not only due to changes in production but also to shifting patterns of consumption in the advanced countries towards massive and expanding demand for manufactured goods. To meet this demand, the Asian economies in particular sought arrangements drawing on their comparative advantages and then moved towards regional value chains built on nearby industry interconnections. Regional integration, especially in East Asia, made this easier.

Trade in intermediate goods is a useful indicator of production process fragmentation.¹ This is because the development of value chains boosts trade in such goods (including parts, components and accessories), especially in the manufacturing sector. According to World Trade Organization (WTO) estimates, intermediate goods accounted for 51% of global goods exports (not counting fuels) in 2009 (WTO/IDE-JETRO, 2011).

In 2011, intermediate goods made up 10% of Latin American and Caribbean exports within and outside the region, despite considerable differences in the composition of both export baskets (see figure IV.1). This is significant, because manufactures make up a far larger share of intraregional exports than of extraregional exports. In other words, the substantial trade in manufactured goods within the region is not translating into an increase in intraregional trade in intermediate goods. This is indicative of a low level of production integration, since it suggests as it does that most of the

manufactured goods traded among the economies of the region are made entirely in the exporting country. The proportion of intermediate goods in intraregional trade in Latin America and the Caribbean is low compared with other groupings of economies (see figure IV.2).

Figure IV.1
LATIN AMERICA AND THE CARIBBEAN: INTERMEDIATE GOODS AS A SHARE OF TOTAL AND INTRAREGIONAL EXPORTS, 2000-2011
(Percentages of total export value)



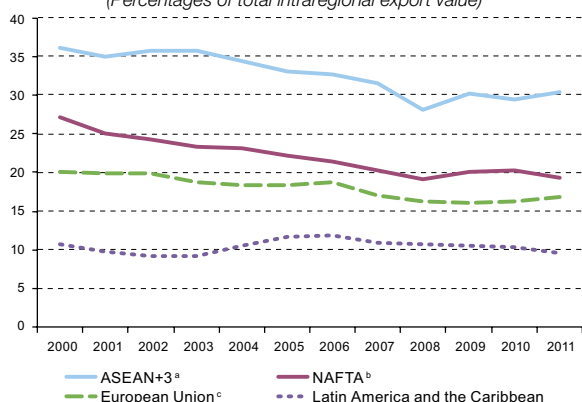
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

Gauging by the share of intermediate goods in total exports, Latin America and the Caribbean is not entering global value chains as quickly as other regions, particularly in Asia. In fact, intermediate goods as a percentage of the region's total exports dropped sharply over the past decade (see figure IV.1), having lost a great deal of momentum since the 1990s, especially in Mexico (the region's primary exporter of intermediate goods)² and Central America (see table IV.4 and figure IV.3). While intermediate goods as a percentage of the region's total exports fell sharply over the past decade, the decline was much less marked in the case of intraregional exports because commodities account for a smaller share. As commodity prices soared in the 2000s, their share of the region's total export value rose while the proportion of intermediate goods declined.

¹ This section uses the definition of intermediate goods used in Fung, García-Herrero and Siu (2012), which includes products classed as "Parts of..." in Standard International Trade Classification (SITC) Revision 2, including textiles (codes 61 and 65), machinery and transport equipment (code 7), manufactures of metals (code 69) and miscellaneous manufactured articles (code 8).

² The boom in Mexican exports of intermediate goods during the 1990s coincided with the first few years of the North American Free Trade Agreement (NAFTA) being in force.

Figure IV.2
LATIN AMERICA AND THE CARIBBEAN AND SELECTED GROUPS:
INTERMEDIATE GOODS AS A PROPORTION OF
INTRAREGIONAL EXPORTS, 2000-2011
(Percentages of total intraregional export value)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE), United Nations Conference on Trade and Development (UNCTAD), UNCTADstat database [online] <http://unctadstat.unctad.org> and information from the External Trade Data Bank for Latin America and the Caribbean (BADECEL).

^a Includes Cambodia, China, Indonesia, Japan, Malaysia, the Philippines, the Republic of Korea, Singapore, Thailand and Viet Nam.

^b North American Free Trade Agreement

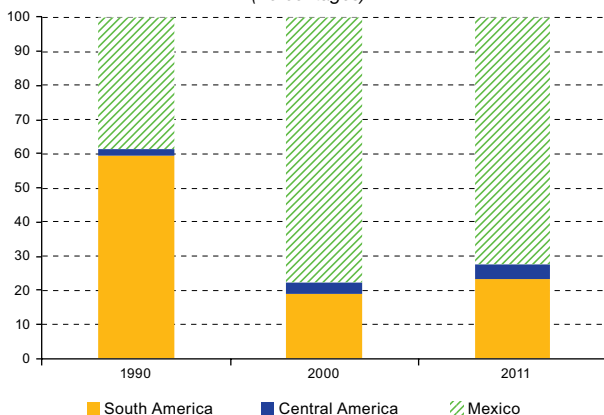
^c For 2011, does not include Austria, Bulgaria, Italy, Malta, the Netherlands, Spain or Sweden.

Table IV.4
LATIN AMERICA AND THE CARIBBEAN AND SELECTED
COUNTRIES AND SUBREGIONS: ANNUAL RATES OF GROWTH
OF INTERMEDIATE GOODS EXPORTS, 1990-2011
(Percentages)

	1990-2000	2000-2011
Latin America	19.2	5.8
South America	8.5	7.8
Brazil	7.6	8.3
Central America	29.3	6.5
Costa Rica	42.2	2.8
Mexico	30.5	4.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

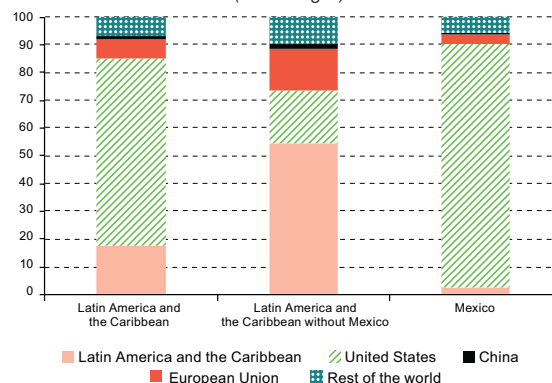
Figure IV.3
SELECTED COUNTRIES AND SUBREGIONS: SHARE OF TOTAL
LATIN AMERICAN AND CARIBBEAN INTERMEDIATE GOODS
EXPORTS, 1990, 2000 AND 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

Two thirds of the Latin American and Caribbean region’s intermediate goods exports go to the United States. But if Mexico is not included, 50% of the region’s exports of intermediate goods go to the regional market itself (see figure IV.4). For the two largest economies in South America (Brazil and Argentina), intermediate goods account for a larger share of intraregional exports than of total exports. In Brazil the difference exceeds 10 percentage points (see table IV.5). This underscores the importance of intermediate goods trade between the two countries, particularly in the automobile sector. The situation is similar in the Dominican Republic and El Salvador, whose substantial intermediate goods trade with the region is concentrated in the textile sector and in Central America. By contrast, for the two countries of the region where intermediate goods make up the largest share of their exports (Costa Rica and Mexico), the main market for those goods is the United States.³

Figure IV.4
LATIN AMERICA AND THE CARIBBEAN: INTERMEDIATE GOODS
EXPORTS, BY DESTINATION, 2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

Table IV.5
LATIN AMERICA AND THE CARIBBEAN AND SELECTED
COUNTRIES: SHARE OF INTERMEDIATE GOODS IN TOTAL AND
INTRAREGIONAL EXPORTS, 2000, 2005 AND 2011
(Percentages)

	Proportion of intermediate goods in total exports			Proportion of intermediate goods in exports to Latin America and the Caribbean		
	2000	2005	2011	2000	2005	2011
Latin America and the Caribbean	16.1	13.0	9.5	10.8	11.7	9.5
Argentina	7.1	6.4	4.7	8.8	9.0	7.7
Brazil	12.5	11.4	6.4	22.6	19.8	17.9
Costa Rica	35.4	29.5	25.7	8.9	9.1	6.2
Dominican Republic	1.4	11.9	11.3	2.1	9.0	19.2
El Salvador ^a	3.2	4.2	6.2	8.0	7.4	11.7
Mexico	26.0	24.1	21.0	10.8	17.4	10.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

^a Data for 2011 are from 2010.

³ In the case of Costa Rica, the Asian markets are also an important destination for its electronics exports.

The participation of Latin America and Caribbean businesses in global value chains is the subject of recent studies as well as current research.⁴ Flores and Vaillant (2011) describe global value chain insertion for businesses in some countries of the region during 2000-2007. They show that specializing in exporting unsophisticated products not included in the dynamic core of what is termed “the product space” (poorly differentiated and relatively

unprocessed natural-resource intensive goods) has kept these countries from taking on a leading role in global value chains, unlike other developing countries (those of South-East Asia in particular). However, some countries seem to be entering and moving up global value chains as they produce a higher proportion of intermediate goods in which they have gained comparative advantages or these products have become more sophisticated.⁵

2. The role of maquila operations and free export zones

The countries of the region often have entered global value chains through linkages located in export processing (maquila) or free export zones. In a maquila operation, part of the production process is outsourced to third parties who assemble processed parts using inputs brought in from abroad on the condition that the end product be re-exported. Operations conducted in these free zones are usually eligible for various sorts of tax and other benefits. In some countries, maquila operations are called active processing zones. In free export manufacturing zones, inputs imported for assembly are tax-exempt.

Free export manufacturing zones were created as an instrument for promoting the international economic integration of the countries of Latin America and the Caribbean. These zones have been useful in promoting and diversifying exports, attracting foreign investment and creating jobs in many countries of Latin America and the Caribbean, especially those that are closest to mass consumption markets (Granados, 2005). As table IV.6 shows, the closer a country is to the United States, the greater the percentage of free zone exports in its total exports.

In many cases, though, maquila operations do not have solid links to the national production structure because most of the inputs are imported. Such operations are guided, to a large extent, by global profit maximization objectives pursued by transnational companies. Such objectives are unrelated to those aimed at developing the national production system, although they do occasionally overlap (Durán and Ventura-Dias, 2003).

A breakdown of maquila operations into imported inputs and domestic value added for a number of countries in the region shows that the domestic value added of maquila exports averages 18% of total maquila export value and is the highest in Uruguay, at 61%. The average for the countries of Central America is 26% (see table IV.6).

In Latin America and the Caribbean, Costa Rica is seen as a global value chain entry success story. Costa Rica’s strategy for diversifying its export pattern towards higher value-added and knowledge-content products and activities shows how public policy can be paired with a strategic vision to change export patterns substantially in a relatively short period of time (see box IV.1).

World Trade Organization member commitments to eliminate export subsidies pose a risk for the future of these platforms—at least in the form they have operated up to now.⁶ Whether free export zones will be able to maintain their share of exports in a new environment with more restricted fiscal incentives will therefore be put to the test starting in 2016.

⁴ Some ongoing studies were presented at the Latin America’s Prospects for Upgrading in Global Value Chains Conference held in Mexico in March 2012 [online] http://www.cepal.cl/comercio/conference_LAC_GVC_MX_mar_2012/.

⁵ Among the countries examined by Flores and Vaillant (Argentina, Brazil, Colombia, Costa Rica, Mexico, Peru and Uruguay), Peru, Uruguay, Costa Rica and Colombia stand out for the degree of sophistication of the goods for which they gain comparative advantages during the period. This would indicate that they are modernizing their export basket, particularly in intermediate goods. However, Mexico, Brazil and Argentina, in that order, are still the countries with the most sophisticated exports.

⁶ In July 2007, the members of WTO set a deadline of 31 December 2015 for a group of 19 countries to phase out free export zone incentives that constitute banned export subsidies under the World Trade Organization Agreement on Subsidies and Countervailing Measures. Most of these countries are in the region, especially Central America and the Caribbean (Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Jamaica, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Uruguay).

In examining intermediate goods trade, this section contributes to an understanding of how the countries of Latin America and the Caribbean fit into global value chains. In the region's export pattern, it is only in Mexico, Central America and, to a lesser extent, the Caribbean

that participation in these chains figures heavily, mainly through maquila operations and free export processing zones where production is primarily aimed at the United States market. The cases where participation coincides with high local value added are even relatively few.

Table IV.6
LATIN AMERICA (SELECTED COUNTRIES AND GROUPINGS): MAQUILA AND FREE EXPORT MANUFACTURING ZONE EXPORTS, 2011
(Millions of dollars and percentages)

Grouping or country	Maquila and free export manufacturing zone exports		Imported inputs in maquila and free manufacturing export zone exports		Value added	
	Millions of dollars	Percentage of total exports	Millions of dollars	Percentage of maquila and free export zone exports	Millions of dollars	Percentage of total maquila and free export zone exports
Total for selected countries	226 045	34.0	193 063	85.4	39 598	17.6
Central American Common Market	15 590	41.8	11 490	73.7	4 100	26.3
Costa Rica	5 570	53.5	4 115	73.9	1 456	26.1
Dominican Republic	4 884	57.2	2 900	59.4	1 984	40.6
El Salvador	1 201	22.6	854	71.1	347	28.9
Guatemala	3 777	36.3	3 152	83.5	625	16.5
Honduras	3 290	45.8	2 108	64.1	1 182	35.9
Nicaragua	1 752	43.6	1 262	72.0	490	28.0
Mexico ^a	186 934	67.1	155 970	83.4	30 964	16.6
Panama	15 113	95.1	14 041	92.9	1 072	7.1
Uruguay	2 416	28.8	937	38.8	1 479	61.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the countries, Central American Monetary Council (CAMC), Comptroller General of the Republic of Panama, National Institute of Statistics and Geography (INEGI) of Mexico and National Institute of Statistics of Uruguay.

^a In 2007 Mexico stopped recording maquila exports separately. These figures refer to foreign and domestic market revenue reported under the Decree for the Promotion of the Manufacturing, Maquiladora and Export Services Industries (IMMEX) and are INDEX estimates.

Box IV.1 COSTA RICA ENTERS GLOBAL VALUE CHAINS

Especially over the past two decades, Costa Rica has sought to diversify its traditional export pattern (dominated by agricultural products such as bananas, pineapples and coffee) by increasing the proportion of manufactured goods. Policies geared towards attracting foreign direct investment were coupled with benefits under the country's free manufacturing export zone system and trade agreements, either under the umbrella of the World Trade Organization or preferential agreements. Among the former is the Information Technology Agreement, in which Costa Rica has been a participant since its entry into force in 1997. The latter include agreements signed with the United States (Dominican Republic-Central America-United States Free Trade Agreement, or CAFTA-DR), the European Union, China and Mexico, which are Costa Rica's main trading partners outside Central America. These agreements, along with others like those with Canada, Chile, Panama, the Dominican Republic, Singapore, the other countries of Central America and some Caribbean Community countries, covered

83% of Costa Rica's exports and 72% of its imports in 2007-2009. The country's attractiveness as an export platform for multinational companies is greatly enhanced by its political and social stability, the relatively high education level of its population and its privileged location close to the United States market with access to the Atlantic and Pacific oceans.

These trade agreements have done more than improve access for Costa Rica's exports to third markets and reduce the cost of imported goods. In the case of CAFTA-DR, an additional benefit came from Costa Rica's commitment to opening mobile telephone, Internet and insurance services (which used to be State-owned monopolies) to competition. This initiative led to a marked expansion of telecommunications coverage, for example. According to figures from the Vice Ministry of Telecommunications of Costa Rica, the percentage of households with Internet access went from 9.8% before liberalization to 31% in 2011, and the percentage of mobile telephone lines went from 33.3% of

the population to 103.2% (Deloitte, 2012). Because telecommunications are an essential infrastructure service for economic activity, opening the telecommunications market has boosted the international competitiveness of the Costa Rican economy.

Costa Rica is now part of five global value chains: electronics, medical inputs, automotive, aeronautics/aerospace, and inputs for the film and television industry. In 2011, the two main chains (electronics and medical inputs) generated US\$ 3.911 billion in exports (37% of total goods exports).^a That year, the largest market for the businesses participating in these chains was the United States, although for the electronics sector the Asian markets (China, Hong Kong Special Administrative Region of China and Malaysia) combined accounted for a larger share. Based on information at the company level, a Monje-Ariño study (2011) estimates that the local content (including goods, services and labour) of these five chains averaged 36% of their export value in 2009.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Francisco Monje-Ariño, "Costa Rica: trade opening, FDI attraction and global production sharing", *Staff Working Paper*, ERSD-2011-09, World Trade Organization, May 2011; Deloitte, "Telecomunicaciones en Costa Rica muestran crecimiento tras la apertura", 17 May 2012 [online] http://www.deloitte.com/view/es_cr/cr/505c9e7509f77310VgnVCM2000001b56f00aRCRD.htm [date of reference: 8 August 2012] and Foreign Trade Corporation of Costa Rica (PROCOMER), *Estadísticas de comercio exterior de Costa Rica 2011*, San José, May 2012.

^a The aeronautics/aerospace global value chain generates service exports as well, totalling US\$ 42 million in 2009 (Monje-Ariño, 2011).

3. Factors impacting the region's participation in global value chains

(a) Access to markets

Lower tariff and non-tariff trade barriers are among the requirements for fostering the emergence and development of regional and global value chains. A good example is provided by the economies of Asia, where trade liberalization (initially unilateral and subsequently negotiated) was pivotal in building the industrial production networks known as “Factory Asia”. In Latin America and the Caribbean, some free trade agreements (with the United States in particular) were useful in developing production linkages through assembly plants and maquila operations. The North American Free Trade Agreement (NAFTA) did so for linkages between Mexico and the United States; something similar subsequently took place under CAFTA, the free trade agreement between Central America, the Dominican Republic and the United States. In South America, the Southern Common Market (MERCOSUR) has helped enhance the production integration of the automobile sector between Argentina and Brazil.

In addition to tariffs, rules of origin can have a marked impact on transaction costs for businesses participating in value chains. Restrictive rules (those that give inputs sourced in a partner country under a trade agreement preference over those originating in other markets, which could be cheaper or higher-quality) impose an efficiency cost on value chains. This cost will be multiplied if, as is increasingly the case in the region, a country has trade agreements with multiple partners and each agreement has a different, specific rule of origin for the same product. The bilateralist approach to negotiating rules of origin under trade agreements is not a good fit with the reality of value chains, where an end product can use a variety of inputs imported from different origins.

As tariffs continue to decrease around the world, regulatory considerations increasingly come to bear on the operation of value chains. This trend is seen more and more in the agenda for trade agreements that, in addition to seeking tariff preferences, aim to create a favourable environment for establishing and developing value chains by reducing transaction costs for economic operators (WTO, 2011). The most recent agreements usually contain provisions aimed at a certain degree of harmonization of national standards in spheres such as trade in services, treatment of foreign investments, subsidies, trade facilitation and harmonization or mutual recognition of technical standards. This deep integration agenda is grounded in the fact that in a world of value chains the lines between trade in goods, trade in services and foreign direct investment are increasingly blurred

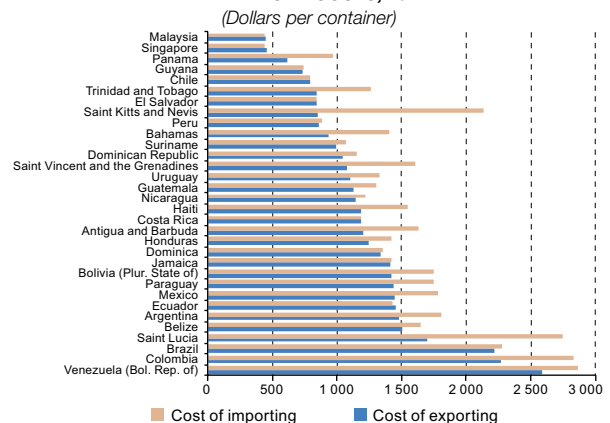
because all three are usually present in a value chain spanning two or more countries. In short, trade barriers are ever more regulatory in nature (“behind the border”).

(b) Logistics

Logistics is one of the main factors affecting business competitiveness and integration in value chains. Empirical studies show that small producers spend relatively more on logistics than large producers do. In Chile, the average cost per ton for large exporters is three times lower than for small and medium-sized producers (Becerra and Vicuña, 2008). In Costa Rica, transport costs for marketing one kilogramme of tomatoes account for nearly one fourth (23%) of the total cost for a small exporter, followed by customs (11%) and taxes (6%). For large exporters the major item of expense is customs (10%), followed by transport (6%) and taxes (5%). Because of logistical and operational inefficiencies, then, the profit (competitiveness) margin for small producers is 19% smaller than for the region’s large exporters (Fernández and others, undated).

Latin America and the Caribbean lags well behind world leaders in terms of foreign trade transaction costs. In most of the region’s countries, exporting or, especially, importing a container costs several times more than in Malaysia or Singapore, the world’s most efficient economies (see figure IV.5). This is due to various shortcomings, including transport infrastructure deficiencies, inefficient customs procedures and an insufficient supply of quality logistics services at internationally competitive prices.

Figure IV.5
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES),
MALAYSIA AND SINGAPORE: AVERAGE EXPORT
AND IMPORT COSTS, 2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *Doing Business 2012: Doing Business in a More Transparent World*, October 2011.

Projections of the region's needs for the next few years show that Latin America and the Caribbean is not allocating enough funding to economic infrastructure. ECLAC has estimated that the region should invest around 5.2% of GDP per year between 2006 and 2020 if it is to meet the needs arising from its

projected economic growth.⁷ If the goal is to close, by 2020, the 2005 infrastructure gap between the region and a group of fast-growing East Asian economies,⁸ the required investment would equal 7.9% of GDP for the period. That is approximately four times the average spent in 2007-2008 (ECLAC, 2011a).

D. Export employment⁹

1. Overview

This section looks at domestic linkages between export sectors, drawing on data from input-output tables for a group of six countries on which such information is available (Argentina, Brazil, Chile, Colombia, Mexico and Uruguay). The focus is on direct and indirect jobs generated by the export sector in these countries around 2005.

The number and quality of export-related jobs largely depends on how a country fits into the international trading system, which is seen in the sectoral structure of its exports. The number of jobs generated by exports depends on the sectoral composition

of exports, how labour-intensive they are and what linkages they have with other sectors.

Jobs directly and indirectly related to the export sector accounted for 9% to 24% of total employment in the countries reviewed; overall, this share has been growing over the past decade. In all of the cases except Colombia, export employment grew faster than total employment (see table IV.7). Except for Argentina and Chile, jobs indirectly related to exports (those associated with goods and services used as inputs by export sectors) outpaced those directly related to exports, and their share of total export employment rose (see table IV.8).

Table IV.7
LATIN AMERICA (SELECTED COUNTRIES): TOTAL EMPLOYMENT AND EXPORT-RELATED EMPLOYMENT
(Thousands of persons and percentages)

Country	Year	Total employment		Export employment (direct and indirect)		
		Thousands of persons	Average annual variation	Thousands of persons	Average annual variation	Percentage of total employment
Argentina	1997	9 584	1.2	881	5.9	9.2
	2007	10 320		1 559		15.1
Brazil	2000	78 972	2.9	7 956	10.6	10.1
	2005	90 906		13 149		14.5
Chile	1996	5 180	1.6	953	5.6	18.4
	2003	5 785		1 397		24.1
Colombia	1997	13 092	3.4	1 908	1.1	14.6
	2005	17 118		2 087		12.2
Mexico	2003	34 702		4 650		13.4
Uruguay	1997	1 522	-0.5	190	4.2	12.5
	2005	1 463		264		18.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output tables and employment surveys of the countries.

⁷ Assuming 3.9% annual growth in regional GDP and 1% annual population growth.

⁸ Malaysia, Republic of Korea, Singapore and Hong Kong Special Administrative Region of China.

⁹ This section is based on an upcoming ECLAC publication on inclusive trade and on two research projects under way (Durán and others, 2012 and Urmeneta, Durán and Castresana, 2012).

Table IV.8
LATIN AMERICA (SELECTED COUNTRIES): EXPORT-RELATED DIRECT AND INDIRECT EMPLOYMENT
(Thousands of persons and percentages)

Country	Year	Direct employment (DE)		Indirect employment (IE)		IE/DE
		Thousands of persons	Average annual variation	Thousands of persons	Average annual variation	
Argentina	1997	365	6,8	517	5,2	1,42
	2007	704		856		1,22
Brazil	2000	4 002	8,6	3 954	12,4	0,99
	2005	6 046		7 103		1,17
Chile	1996	564	6,2	389	4,7	0,69
	2003	860		536		0,62
Colombia	1997	1 401	1,0	507	1,4	0,36
	2005	1 522		565		0,37
Mexico	2003	3 465		1 185		0,34
Uruguay	1997	94	4,0	96	4,4	1,01
	2005	129		135		1,05

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output tables and employment surveys of the countries.

Faster growth of indirect export employment reflects the depth of domestic export sector linkages.

Nonetheless, there are differences among countries. In Argentina, Brazil and Uruguay, more than one indirect job is generated for each export-related direct one; in Chile, Colombia and Mexico the ratio is well below 1 (see table IV.8). The breakdown of indirect employment across sectors of economic activity also differs from country to country.

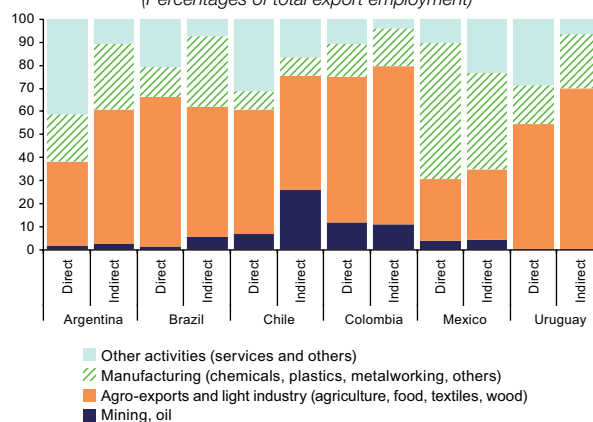
The pattern of export-related employment only partly depends on export performance. Other factors include changes in technical coefficients (which determine the number of workers needed per unit produced and the relationships between sectors of activity) and labour productivity. A variation in exports can impact employment (and its disaggregation into direct and indirect jobs) in different ways, depending on the labour-intensiveness of the sector and its linkages with other sectors. If exports are concentrated in commodities requiring little interaction with the rest of the production system, fewer indirect export jobs will be created.

An examination by aggregated sectors grouped in four categories shows the weight of the agro-export sector (including food, beverages and tobacco) and light industry (especially textiles and clothing, footwear, wood, pulp and paper) in the mix of direct and indirect export jobs in five countries in the region. Mexico stands apart in that the heavy industry sector (chemicals, plastics, metalworking) generates the bulk of employment directly and indirectly related to exports (see figure IV.6).

A more detailed analysis of 11 sectors suggests that there are three groups of activities. The first group consists of sectors that account for a large share of exports but do not contribute much to job creation because they are not very labour-intensive and have few linkages to the economy. One example is the oil and mining sector in Mexico. It was the fourth largest exporter in 2003 (10% of total exports) but accounts

for a very small percentage of total employment (1.1%) and direct export employment (4.3%) because it is not labour-intensive (eight workers per US\$ 1 million of output, compared with 30 workers for the economy on average). And because it has few backward linkages it accounts for just a small percentage of indirect export employment (3.7%), generating just 0.3 indirect jobs for each direct job.

Figure IV.6
LATIN AMERICA (SELECTED COUNTRIES): DIRECT AND INDIRECT EXPORT EMPLOYMENT BY SECTOR, AROUND 2005
(Percentages of total export employment)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output matrices and employment surveys of the countries.

The second group comprises sectors that account for a small percentage of total exports but are directly or indirectly labour-intensive and therefore generate more export employment than sectors in the first group. Brazil's agriculture, forestry, hunting and fishing sector is an example. Its contribution to total output and exports is small, but it is a labour-intensive sector—with 258 workers per US\$ 1 million of output—and accounts for more than 20% of both export employment and total

employment. Nevertheless, since it has few backward linkages, almost 100% of its export-related jobs are direct ones, with barely 0.1 indirect jobs for each direct job. On the other hand, this sector has a substantial impact on the generation of jobs directly related to exports, creating more than 40% of the total.

The third group of sectors accounts for a large share of exports and has significant linkages, so it generates more export-related jobs –primarily indirect ones because it is less labour-intensive than the average for the economy. The food, beverages and tobacco sector in Brazil is an example. It is the second largest in terms of exports and is moderately labour-intensive (20 workers per US\$ 1 million of output, compared with 58 on average for the economy). This sector therefore accounts for a small percentage of total employment (2.5%) and of direct export employment (about 9%). However, with its substantial backward linkages it accounts for nearly 30% of indirect export employment, generating six indirect jobs for each direct one. Other examples of such sectors are oil and mining in Chile and Colombia and food, beverages and tobacco in Uruguay.

International trade increases employment through exports, but there is also the risk of import-related job loss. Jobs lost in sectors that compete with imports were estimated using a special methodology based on one proposed by Sachs and Shatz (1994).¹⁰ The findings

show that, in the aggregate, the net effect on employment would be positive in the four countries examined around 2005 (see table IV.9).

- In **Brazil**, a higher export propensity in 2005 would have created nearly 3.5 million more jobs than if the export trend had held at the level recorded in 2000. A lower import ratio in 2005 would have prevented the loss of some 1.8 million jobs. The net effect would therefore have been a gain of more than 5.2 million trade-related jobs.
- In **Chile**, a higher export propensity than in 1996 would have generated some 334,000 additional jobs in 2003. An increase in imports would have meant the loss of 132,000 jobs that year. The net effect would have been a gain of more than 201,000 trade-related jobs.
- In **Colombia**, a lower export propensity in 2005 would have meant an estimated 416,000 fewer export-related jobs than would have been the case if the export coefficient had remained at the 1997 level. But a lower import ratio would have saved some 818,000 jobs, so there would have been a net gain of 402,000 jobs.
- In **Uruguay**, a higher export propensity would, in the aggregate, add 84,000 jobs. A higher import ratio in the economy would mean 32,000 fewer jobs. The outcome would be a net gain of 52,000 jobs.

Table IV.9
LATIN AMERICA (SELECTED COUNTRIES): ESTIMATED EMPLOYMENT ASSOCIATED WITH VARIATIONS IN EXPORTS AND IMPORTS
(Thousands of persons)

Sector	Brazil (2000-2005)			Chile (1996-2003)			Colombia (1997-2005)			Uruguay (1997-2005)		
	(1)	(2)	(1)+(2)	(1)	(2)	(1)+(2)	(1)	(2)	(1)+(2)	(1)	(2)	(1)+(2)
Agriculture, forestry, hunting and fishing	671	444	1 115	166.2	1.1	167.3	-333.3	-17.3	-350.6	-0.8	2.0	1.2
Oil and mining	155	43	198	-2.1	-10.1	-12.3	72.1	1.3	73.4	0.1	-8.8	-8.7
Food, beverages and tobacco	1 444	271	1 715	4.8	-26.0	-21.2	50.6	29.1	79.6	36.6	-3.4	33.2
Textiles, clothing and footwear	124	17	142	3.8	-34.5	-30.8	-75.9	79.2	3.3	5.7	-8.7	-3.0
Wood, pulp and paper	128	50	177	57.5	-8.6	48.9	3.8	34.1	38.0	7.4	-0.7	6.7
Chemicals and pharmaceuticals ^a	190	152	342	15.3	10.5	25.8	-28.4	204.1	175.7	1.9	-1.1	0.8
Rubber and plastics	16	-2	14	3.3	-0.6	2.7	-0.3	10.5	10.2	4.0	-0.8	3.2
Non-metal minerals	55	-3	52	1.0	-0.5	0.5	-1.8	6.3	4.5	-0.2	-0.3	-0.5
Machinery and equipment ^b	198	294	492	17.2	29.5	46.7	12.6	342.7	355.3	1.6	-1.6	0.1
Automobiles and parts	-20	350	330	3.4	-7.2	-3.8	4.4	47.8	52.2	0.3	0.6	1.0
Other manufactures	42	10	52	1.7	-2.6	-1.0	-3.2	74.8	71.6	5.2	-2.0	3.2
Other activities ^c	424	163	587	61.8	-83.2	-21.4	-116.3	5.0	-111.3	22.1	-6.9	15.1
Total	3 427	1 790	5 217	334	-132	201	-416	818	402	84	-32	52

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output tables and employment surveys of the countries.

Note: (1) is employment associated with variations in the export coefficient; (2) refers to employment associated with variations in the import penetration ratio.

^a Includes the petrochemical industry.

^b Includes the metals and metal products industry.

^c Includes the construction industry as well as power, gas and water and other services.

¹⁰ The first step was to estimate exports and imports in the most recent year for each country if the export coefficient (exports/output) and the import penetration ratio (imports/apparent consumption) in each sector had remained at the same level as in the previous input-output table. The next step was to calculate the variation in exports and imports in each sector, that is, the difference between

the value recorded for the most recent year and the estimate for that year based on the coefficients for year one. The last step was to apply the employment ratios for each sector to the resulting variations in exports and imports, in order to arrive at a measure of jobs created and jobs potentially lost by changing the degree of openness in each sector for the years examined.

In each country, some sectors gain and others lose. In Brazil, while the net impact for all sectors is positive, some would have seen a loss of export-related jobs (automobiles and auto parts) and others would have posted a small loss as a result of a higher import penetration ratio (rubber and plastics, and non-metal minerals). In Chile the net outcomes are more heterogeneous, with job loss in a number of sectors (especially textiles, clothing and footwear, other activities, and food, beverages and

tobacco). In Colombia, agriculture, forestry, hunting and fishing, and other activities would have seen the largest net job loss (because of the lower export propensity); the machinery and equipment and chemical and pharmaceutical sectors would have substantial net gains (owing mainly to a lower import penetration ratio). Uruguay also has sectors with a net job loss (oil and mining, textiles, clothing and footwear, and non-metal minerals) primarily due to a higher import penetration ratio.

2. Export employment by destination

In the countries examined, employment generated by exports differs markedly depending on the destination market. Because the labour content of export products varies between sectors, the impact of trade in terms of job generation depends on sectoral composition. Exports to a trading partner that skew towards commodities (which are labour-intensive but have few backward linkages) will have repercussions for employment that are different from those of trade with a country or region to which most exports are manufactured products.

- In **Argentina**, export value structure by destination is very similar to the distribution of export employment according to destination. In 2007, exports to Latin America and the Caribbean made up 32.5% of total exports; the jobs related to those exports accounted for 34.2% of total employment. By contrast, exports to the United States accounted for a small proportion of total exports and employment (7.9% and 5.9%, respectively). Trade with Europe accounts for 18.6% of export-related employment (because it includes more labour-intensive products like food, beverages and tobacco); this percentage is slightly higher than the proportion of exports to Europe to total exports (17.8%).
- Most of **Brazil**'s exports to the European Union and China (around 30% and 8%, respectively, of total exports in 2005) are agricultural commodities; manufactured products figure more heavily in its exports to Latin America and the Caribbean and to the United States (about 15% of total exports in each case). These differences are reflected in the distribution of export-related employment by region. Exports to the European Union and, to a lesser extent, China and the rest of Asia account for a higher share of export-related employment than of export value. The opposite is true for exports to other countries in the Latin American and Caribbean region and to the United States.
- In **Chile** (2003), there is a marked difference between China and the United States as destination markets. China accounted for more than 10% of Chile's exports (primarily from the mining sector) but a smaller share of export employment. By contrast, the United States market ranked third among export destinations (with 16% of the total, chiefly agricultural commodities and manufactures based on them) but accounted for nearly 30% of export employment.
- In **Colombia** there are also substantial differences according to destination. In terms of job generation, the leaders are the three main destinations for Colombian exports, that is, the United States, the Latin American and Caribbean region (although its contribution to export employment is lower than its contribution to export value) and the European Union (greater contribution to employment than to export value). In 2005, most of Colombia's exports to Latin American and Caribbean countries were manufactured goods (especially, chemicals and pharmaceuticals). Most of its exports to the European Union, the rest of Asia and, to a lesser extent, the United States were commodities (agriculture, forestry, hunting and fishing, and oil and mining), whereas the bulk of its exports to China were metals and metal products.
- The high percentage of **Mexico**'s exports going to the United States market (89.9% of the total in 2003) reflects the share of export employment attributed to this destination (90.3%). The other destination regions account for a very small share export value and export employment, even though the sectoral composition of exports differs.
- In 2005, **Uruguay**'s exports and export employment were fairly evenly distributed among destination regions. Nevertheless, the Latin American and Caribbean region (the prime destination for exports, at 35% of the total) accounted for a somewhat smaller share of export employment while the

European Union (the third-ranking destination, with 17% of the total) contributed slightly more to job generation than to total export value.

A breakdown of export-related employment between intraregional exports and exports to the rest of the world shows that the former are more employment-intensive in the manufacturing sector. Between 73% and 98% of total employment related to intraregional exports is in manufacturing (see table IV.10). A breakdown according to number of businesses yields similar results: most of the businesses that export manufactured goods do so to Latin America and the Caribbean (see section E).

Table IV.10
LATIN AMERICA (SELECTED COUNTRIES): EXPORT EMPLOYMENT BY TYPE OF SECTOR AND DESTINATION MARKET, AROUND 2005
(Percentages)

Type of trade	Sectors	Argentina	Brazil	Colombia	Chile	Uruguay
Intraregional	Primary products	17.2	8.9	25.7	27.0	2.5
	Manufactures	82.8	91.1	74.3	73.0	97.5
Extraregional	Primary products	24.5	31.4	67.1	52.9	13.2
	Manufactures	75.5	68.6	32.9	47.1	89.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output matrices of the countries.

3. Employment and backward linkages in the main export sectors

A look at the linkages and each link's contribution to employment in the countries can yield useful findings as to the volume of indirect export employment related to the region's main export sectors. An analysis of countries for which input-output tables are available shows that the five sectors accounting for the highest share of exports tend to have medium levels of backward linkages and some have high levels (Brazil and Mexico).¹¹ In Chile, Colombia and Uruguay, the sector that accounts for the most exports is not the one with more extensive linkages nor does it generate the most direct employment. It is the one with a ratio of indirect employment to direct employment that is higher than average for the export sector.

In Brazil, the three export sectors with the highest level of linkages are steel products and derivatives, machinery and equipment, and iron ore extraction. A similar situation occurs in the sector accounting for the largest share of exports (food and beverages), in which indirect employment accounts for a high proportion of the total. In Chile, mining and extraction is not among the sectors with substantial linkages because the linkage index is equal to the average of all the sectors and there are fewer links. In Colombia, the crude oil and natural gas sector (which accounted for the largest share of exports in 2005) has a low level of linkage whereas the

coffee products sector has a high level. In Mexico, the main export sectors have medium levels of linkage and in some cases, such as the electronics equipment sector, the linkages index is lower than average for the economy. In Uruguay, the five top export sectors have medium levels of linkage. The meat and meat products sector and the tanning and dressing of leather and leather products sector have relatively high linkage indices but a smaller than average number of links.

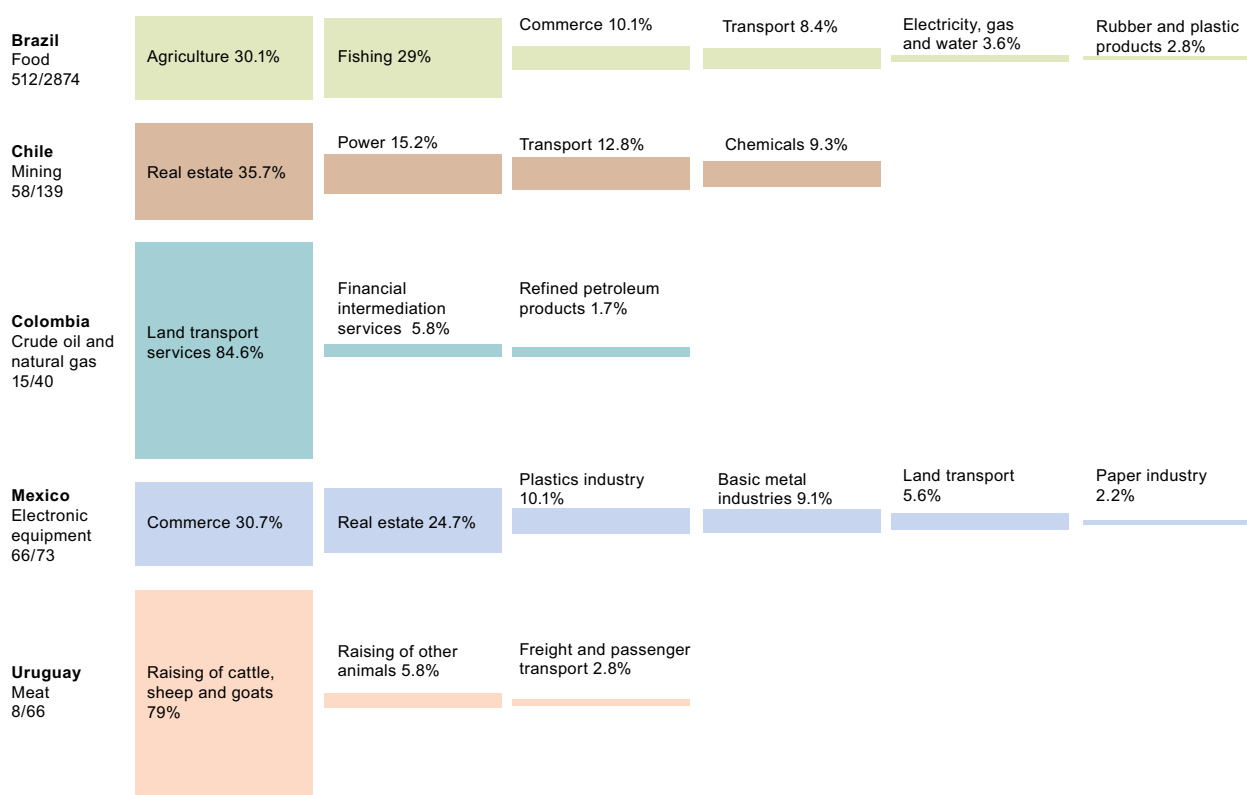
The sectors with the five top export products account for a large share of total export employment: 52% in Brazil, 73.5% in Chile, 37% in Colombia, 49% in Mexico and 42% in Uruguay. This is because the principal export sectors in the countries examined account for much more indirect employment than direct employment.

For the five countries reviewed, diagram IV.1 shows the principal export sector, the number of direct and indirect jobs associated with it (in thousands of persons), the sectors that supply that sector (in percentages) and their contribution to indirect employment (in percentages). In Brazil, the number of indirect jobs (2.87 million persons) in the principal export sector (food and beverages) is five times the number of direct jobs (512,000). There are six supplier sectors (agriculture, fishing, commerce, transport, power and rubber products), with indirect job generation split among them in descending order. Something similar happens in Mexico in the electronic equipment sector, although this sector has a lower ratio of direct jobs to indirect jobs. The ratio is also lower in the mining sector in Chile and the oil sector in Colombia. In Colombia and Uruguay, the top supplier sector accounts for a large proportion of employment and demand. Linkages are shorter in the mining sector in Chile, the oil sector in Colombia and the meat industry in Uruguay. In these latter two, the principal supplier sector accounts for the largest share.

¹¹ In this section, the level of linkage uses the Rasmussen-Hirschman index (which measures backward linkages) and the number of links (the number of sectors with a participation equal to or greater than 5% of total inputs for each sector). If both indicators for a sector are higher than the average for the economy, it is rated as having a high linkage level. The linkage level is low if both indicators are below the average. If the value for one indicator is higher than the average and the other is lower, the level of linkage is rated as average. The number of sectors in the input-output table (55 in Brazil, 26 in Chile, 38 in Colombia, 36 in Mexico and 54 in Uruguay) affects the linkage indicators.

Diagram IV.1
**LATIN AMERICA (SELECTED COUNTRIES): LINKAGES OF THE PRINCIPAL EXPORT SECTOR
 AND DIRECT AND INDIRECT EMPLOYMENT, AROUND 2005^a**

(Thousands of persons and percentages of employment demand in each linkage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output tables of the countries.

^a The share of indirect employment is shown by the height of each supplier sector. The share of demand is expressed as a percentage for each supplier sector. The graph does not show data for Argentina because the coefficients are from 1997.

Tracking export employment by sex shows that the percentage of women in export-related jobs ranges from 21% to 35%, approximately, depending on the country. There are no substantial differences in the breakdown of direct and indirect export employment by sex. In Brazil and Chile, the percentage of women in the export sector is lower than in economic activity overall. Only 11.9% of employed women in Brazil were directly or indirectly related with exports; in Chile the percentage was 12.7%. In Mexico, the share of men and women in export employment as a percentage of total employment was similar (see table IV.11).

Export-related jobs for women tend to be low- or medium-skilled, and the share of women with a high level of education is smaller than it is for economic activity overall. In some sectors, a significant percentage of women employed in the export sector have jobs that can be regarded as precarious, lacking in social security coverage and poorly paid or even unpaid, especially in agriculture in a number of countries.

Table IV.11
**LATIN AMERICA (SELECTED COUNTRIES): DIRECT AND
 INDIRECT EXPORT EMPLOYMENT, BY SEX, 2003 AND 2005**
 (Thousands of persons and percentages of the total)

	Brazil (2005)	Mexico (2003)	Chile (2003)
Total export employment	13 149	4 650	1 397
Women	34.7	32.7	20.8
Men	65.3	67.3	79.2
Direct export employment (thousands)	6 046	3 465	860
Women	37.6	32	21.7
Men	62.4	68	78.3
Indirect export employment (thousands)	7 103	1 185	536
Women	32.1	34.6	19.5
Men	67.9	65.4	80.5
Export employment share of total employment			
Women	11.9	13.8	12.7
Men	16.4	13.2	31.7
Sectors with a high percentage of women	Agriculture; textiles and footwear	Automobiles; textiles and footwear; metals; machinery and equipment	Food; agriculture; wood, pulp and paper

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of input-output tables and employment surveys of the countries.

E. Development of the region's export firms¹²

1. Overview

The number of export-oriented businesses in an economy depends on many factors, some domestic and some external. Among the domestic factors are the size of the economy, its degree of development and production specialization, and its trade policy stance. One of the principal external factors is the dynamism of international trade. Trade agreements have a substantial effect on trade policy. The number of export firms operating with non-traditional destinations usually grows more when there are trade agreements in place with those destinations.¹³

In 14 countries in Latin America and the Caribbean representing nearly 95% of the region's total exports, there were some 114,000 export firms in 2011. Approximately 32% of these were in Mexico, 19% in Brazil and 11% in

Argentina. The total number of export firms in the region increased by 15% between 2002 and 2011 (see table IV.12).¹⁴ In several countries the number of export-oriented businesses grew at a faster pace than businesses overall, especially in countries that have followed consistent policies for developing the export sector. Export firms are burgeoning in countries like Chile, Ecuador, Peru and the Plurinational State of Bolivia. However, the crisis that broke out in 2009 slowed the growth of the number of these firms, and it has proven difficult to regain that momentum. In several of the region's larger economies, including Argentina, Brazil, Chile and Colombia, there were fewer export-oriented businesses in 2011 than in 2008, before the crisis.

Table IV.12
LATIN AMERICA (SELECTED COUNTRIES): NUMBER OF EXPORT FIRMS, 2002-2011^a

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Argentina	12 908	13 708	14 088	14 751	15 053	14 588	14 235	13 700	13 625	13 000
Bolivia (Plurinational State of)	718	711	855	1 132	1 040	1 193	1 094	1 028	1 104	1 200
Brazil	19 340	19 796	20 902	23 726	23 113	23 537	23 032	22 434	21 918	21 961
Chile	6 118	6 435	6 640	6 880	6 973	7 917	8 240	7 517	7 447	7 684
Colombia	9 102	10 099	11 334	11 720	11 581	11 442	11 305	10 730	9 437	9 543
Costa Rica	2 080	2 178	2 219	2 369	2 523	2 589	2 645	2 504	2 897	3 015
Ecuador	2 504	2 869	2 863	2 980	3 116	3 556	4 195	4 248	4 354	4 407
El Salvador	1 270	1 393	1 536	1 552	1 605	1 605	1 665	1 544	1 780	1 803
Mexico	33 968	31 282	35 111	37 344	36 090	35 911	35 445	34 353	35 128	36 087
Paraguay	865	909	929	931	1 219	1 000	974	946	981	1 041
Peru	4 699	5 091	5 466	6 027	6 384	6 560	7 182	6 080	7 036	7 631
Uruguay	1 424	1 598	1 852	1 937	1 955	2 086	2 128	1 843	1 870	1 902
Total	94 996	96 069	103 795	111 349	110 652	111 984	112 140	106 927	107 577	109 274
Index	100.0	101.1	109.3	117.2	116.5	117.9	118.0	112.6	113.2	115.0

Source: Economic Commission for Latin America and the Caribbean on the basis of official customs data from the countries.

^a In some cases a part of the series had to be corrected because they did not include firms whose annual exports were below a certain amount. A linear estimate was made where data were lacking (Paraguay 2007; Argentina and Plurinational State of Bolivia, 2011).

¹² See Urmeneta, Durán and Castresana (2012) for more details.

¹³ In Chile, the number of firms exporting to Mexico, China, the Republic of Korea and Canada rose sharply between the date that free trade agreements with those countries took effect and 2011 (77%, 74%, 71% and 69%, respectively). Growth has been slower for more traditional destinations involving a larger number of firms.

To cite an example, 42% of these businesses export to the United States and the European Union but they grew in number by just 1% and 19%, respectively, after trade agreements came into force.

¹⁴ Table IV.12 does not include data for Panama or the Bolivarian Republic of Venezuela because of the lack of complete series.

The percentage of export-oriented firms is still very small. In most countries, the share of exporters as a percentage of total firms has remained below 2% over the past decade and was less than 1% in many of them (see table IV.17). The relative exception is Costa Rica, where the proportion of export firms is in the area of 4% of the total number of businesses.

The breakdown of export firms mirrors, albeit in a more concentrated manner, the structural heterogeneity

of the economies of the region. In many of the countries of Latin America and the Caribbean, the export sector shows a high concentration of exports in a handful of companies, usually large ones. The first percentile of firms accounts for more than 70% of exports from Argentina, Chile, Colombia, Mexico, Paraguay, Peru and the Plurinational State of Bolivia.¹⁵ Only in Panama and Uruguay is the percentage for this indicator similar to the one seen in the developed countries (see table IV.13).¹⁶

Table IV.13
LATIN AMERICA (SELECTED COUNTRIES): EXPORT CONCENTRATION INDICATORS
(Millions of dollars per firm, indices, percentages and percentage points)

Country	Average exports per firm in 2011 (millions of dollars)	Herfindahl-Hirschmann index, latest available year	Gini index, latest available year	Share of the top one percentile of businesses in total exports, latest available year (percentages)	Variation in the share of the top one percentile in total exports (percentage points)
Argentina	5.0	0.019	0.95	72.1	-0.1 (2002-2009)
Bolivia (Plurinational State of)	6.2	...	0.98	77.4	+8.8 (2007-2009)
Brazil	9.0	0.005	0.94	59.5	...
Chile	11.0	0.052	0.97	78.4	+14.5 (2002-2011)
Colombia	6.0	0.039	0.96	80.1	+11.4 (2007-2011)
Costa Rica	3.1	...	...	53.6	...
Mexico	8.5	0.020	0.97	73.3	-0.7 (2007-2011)
Panama	0.5	0.017	0.92	46.9	...
Paraguay	4.6	0.114	0.94	75.6	+4.9 (2007-2011)
Peru	5.0	0.029	0.96	70.0	+6.9 (2002-2011)
Uruguay	3.6	0.017	0.93	40.8	+6.0 (2002-2011)
Total	5.7	0.035	0.95	66.2	

Source: Economic Commission for Latin America and the Caribbean (ECLAC) estimates on the basis of official statistics from the countries (customs and other official agencies).

The universe of export firms varies widely because it is subject to high turnover in most of the countries of Latin America and the Caribbean. Many new firms enter the universe of exporters every year (entering exporters); just as many leave it (exiting exporters). Turnover is higher among smaller firms, and it picked up during the 2009 crisis, when the number of entering firms fell and the number of exiting firms increased.

In many countries in the region, the turnover coefficient, at more than 35%, is very high compared with the developed countries. Except for Brazil, turnover is even higher than in Spain, which is one of the industrialized countries that has seen considerable churn in the universe of exporters. Argentina is different in that the universe of exporters has remained virtually stable: the turnover coefficient is far lower (around 10%) and has been falling in recent years.

In Latin America and the Caribbean, export firms that have been exporting continuously for several years (five to seven) usually account for some 30% of all exporters. These continuing exporters usually operate in sectors with greater comparative advantages. In a number of countries of the region, these are natural resource-related firms that are more capital-intensive than the average for the economy. The percentage of successful export firms

is higher if firms that have become and continued to be exporters over the past few years are included.¹⁷

Despite the decline in exports in 2009, average exports per firm doubled in the past decade. Average export values per firm in the second column of table IV.13 decreases by nearly half if firms with the highest export values or those that export the principal commodities (in many countries these categories overlap) are excluded. Such is the case in Argentina (when leaving out the top 25 exporters), Brazil (when excluding the 50 major exporters), the Plurinational State of Bolivia (excluding the four largest mining companies), Chile (leaving out eight mining companies and two pulp companies), Colombia (leaving out the top 10 exporters) and Peru (excluding the five major mining exporters).

¹⁵ This proportion is 98.2% in the Bolivarian Republic of Venezuela, which does not figure in table IV.13.

¹⁶ In Belgium, for example, the first percentile of export firms accounts for 48% of exports (World Bank, 2012).

¹⁷ In Mexico, 17% of the exporting firms have been doing so for 10 years; in Brazil 26% have been exporting for the past nine years, and in Uruguay 19% have been exporting for that long. If this group is expanded to include new exporters that have continued for at least three years, these percentages increase significantly (to 39% in Mexico, for example).

Average export value for exiting exporters is far lower than average. In Colombia, average export value per firm between 2007 and 2010 was US\$ 3.3 million; for exiting firms it was only US\$ 178,000. In Uruguay in 2010, average export value was US\$5.7 million, falling to just US\$ 75,000 for exiting exporters. Average export value in Chile was nearly US\$ 11 million in 2011, whereas the average for exiting firms was around one tenth of that figure.

Proportionally, the number of exporters is larger among major companies than among SMEs. Taking the 500 largest firms in the region (in the eight countries for which data is available), virtually all of them are leading

exporters (see table IV.14). Many are also major importers (see box IV.2).

In 2010, the top 20 exporters accounted for 35% of total exports from the region's eight largest economies; the top 100 accounted for 47%. The most extreme case is PDVSA, in the Bolivarian Republic of Venezuela. It is the third largest oil producer in the world and accounts for more than 95% of the country's exports and more than 10% of the eight economies' total exports. Exports make up a large share of total sales by large firms: 72% for the 100 leading exporting companies and 51% for the top 20 (see table IV.14).

Table IV.14
LATIN AMERICA (8 COUNTRIES): TOTAL EXPORTS AS A PROPORTION OF THE SALES OF THE MAIN EXPORT FIRMS AND OF EACH COUNTRY'S TOTAL EXPORTS, ^a 2010
(Millions of dollars and percentages)

Ranking among top 100 exporters	Ranking among top 500 companies	Company	Country	Sector	Exports (millions of dollars)	Exports (percentage of firm's sales)	Exports (percentage of the 8 countries' total exports)
1	3	PDVSA	VEN	Oil/Gas	85 918.7	90.5	10.8
2	2	PEMEX	MEX	Oil /Gas	46 807.2	45.1	5.9
3	4	VALE	BRA	Mining	24 042.8	48.1	3.0
4	1	PETROBRAS	BRA	Oil /Gas	18 186.7	14.2	2.3
5	20	CODELCO	CHI	Mining	14 349.7	89.3	1.8
6	24	CEMEX	MEX	Cement	11 525.4	79.8	1.5
7	12	ECOPETROL	COL	Oil /Gas	9 940.9	46.0	1.3
8	26	FEMSA	MEX	Beverages/Alcoholic beverages	6 884.9	50.1	0.9
9	51	ESCONDIDA	CHI	Mining	6 476.3	70.3	0.8
10	59	Volkswagen (Mexico)	MEX	Automobile	6 288.7	73.1	0.8
11	50	Petroecuador	ECU	Oil /Gas	5 939.1	63.6	0.8
12	35	Grupo Alfa	MEX	Multisector	5 771.3	52.3	0.7
13	48	Grupo Bimbo	MEX	Food	5 174.3	54.5	0.7
14	62	Grupo México	MEX	Mining	5 151.8	61.9	0.7
15	89	Embraer	BRA	Aerospace	4 160.0	73.9	0.5
16	37	Bunge Alimentos	BRA	Agribusiness	4 000.0	36.7	0.5
17	83	Chrysler	MEX	Automobile/auto parts	3 990.9	63.2	0.5
18	95	Industrias Peñoles	MEX	Mining	3 861.1	74.2	0.5
19	132	Cargill	ARG	Agribusiness	3 700.0	90.0	0.5
20	144	Samarco Mineração	BRA	Mining	3 213.6	85.8	0.4
Total top 20 export firms					275 383.4	51.4	34.7
Total top 100 export firms					373 498.3	72.0	47.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *América Economía* and official data from the countries (customs).

^a Includes exporters in Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Mexico and Peru.

More than 80% of the major export companies in Latin America and the Caribbean are linked to natural resource exploitation and processing. An examination of investment commitments by major companies shows that natural resources will figure more heavily in the region's exports over the coming years. Soybean farming moving the agricultural frontier in Brazil and Argentina, deep oil discoveries (mainly off the Atlantic coast of Brazil), the discovery of gas fields (in Argentina and Mexico) and projected mining investment and output in the Andean countries would seem to be pointing in this direction.

In 2010, mining accounted for 28% of the value exported by the region's 500 largest companies; oil accounted for 10% and food for 7%. Other noteworthy sectors (most of which are natural-resource based) were agribusiness, auto parts, paper and pulp, and the steel industry (6% each), and petrochemicals (2%). Latin America's automobile and auto parts industry concentrates 12% of the exports of the region's large companies. This industry, which was born in the import substitution era, is now a complex intraregional exporter with considerable scope for growth, although it is facing increasingly stiff competition.

Box IV.2

IMPORTERS IN LATIN AMERICA AND THE CARIBBEAN

Import firms outnumber exporters in the region, and their ranks have grown more quickly. In Colombia there were 29,546 importers and 9,436 exporters in 2010. In Uruguay, importers outnumbered exporters by six to one (12,003 versus 1,865) in 2010. The difference is even larger in Paraguay: 15,158 importers and 1,041 exporters in 2011. In Brazil there are twice as many importers as exporters: in 2011 there were 47,000 exporters (a 100% increase in nine years) and 22,000 exporters. Chile had 7,684 exporters and some 35,000 importers engaged in international trade in 2011 (up 28% in three years).

Importing is usually easier than exporting, depending on factors such as product, specific origin or destination and tariff regulations. Many individuals have become importers,

too, taking advantage of advances in communications to import a host of products, usually in small amounts. In Colombia in 2010, some 1,000 importers brought in less than US\$ 1,000 worth of products. That same year in Chile, 36% of the 34,083 importers were individuals (only 9% imported more than US\$ 1 million in goods); 72.6% imported less than US\$ 100,000 worth. Throughout the countries of the region, trade opening has favoured direct importation by individuals, either with an intermediate destination or for consumption, so it is more appropriate to refer to agents carrying out import operations than to import firms as such.

A great many export firms also import intermediate and capital inputs. In Brazil in 2011, 55% of the exporters also imported; for major exporters (more than US\$ 100 million

in exports a year) the share rises to 65%. Other examples are Colombia (where in 2010 about 45% of exporters also carried out import operations) and Uruguay (where the percentage was 34% in 2010). In Chile in 2009 nearly all of the major exporters carried out import operations as well, and almost half of the exporters were also importers. These figures are in line with those seen in a highly industrialized export-oriented country like Germany, where firms that export and import make up the majority.

It would therefore seem that import strategies can have a significant impact on survival potential, productivity and intensive and extensive margins for export firms. This obviously depends on the prevailing production structure, the international situation and trade policies.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of customs data from each country.

2. Importance of the Latin American and Caribbean market for the region's export firms

Not only is the region the principal destination for most of its export firms: the number of export products is larger, and exports are less concentrated. More than half of the export firms do so within the region (between 55% and 69% of them, depending on whether Mexico is included), even though it is the destination for just one sixth of their total exports. For most of the countries, the region accounts for the lowest average per-company export value, the largest average number of products exported per firm and the lowest concentration indices. By contrast, fewer firms export to China, but the average export value per company, as well as export concentration, is higher. The region accounts for the largest number of exported products (87% of the total, using the six-digit Harmonized Commodity Description and Coding Systems) and the highest average number of products exported per firm (4.8). As a result, exports from companies to the region have the lowest concentration indicator: 0.02 according to the Herfindahl-Hirschmann index (see table IV.15).

The region's high technology-content exports go mainly to the region itself. For a set of nine countries, 26% of the export firms are low-technology, 25% are medium-tech, 19% export commodities, 8% are high-tech and 7% have not reported such information (see figure IV.7.A). The number of firms that export commodities or high-tech products is small in proportion to the share

of such products in total export value. Conversely, the percentage of low-tech firms to total exporters is larger than the percentage of low-tech exports to total exports. In the nine countries examined, 39% of the firms that export high-tech products export to the region, which is the principal market for these products (see figure IV.7.B).

The number of firms exporting more than one product to more than one destination has increased slightly, but mono-exporters with a single destination still prevail in all of the countries of the region. Some 39,000 firms in Latin America and the Caribbean (mostly SMEs) export a single product to a single destination. On the other hand, only about 3,600 firms export more than 10 products to more than 10 destinations; most of these are large companies. The pattern is very similar for all of the countries of the region, so the aggregate representation is mirrored, with slight differences, in each of the countries (see figure IV.8.A).

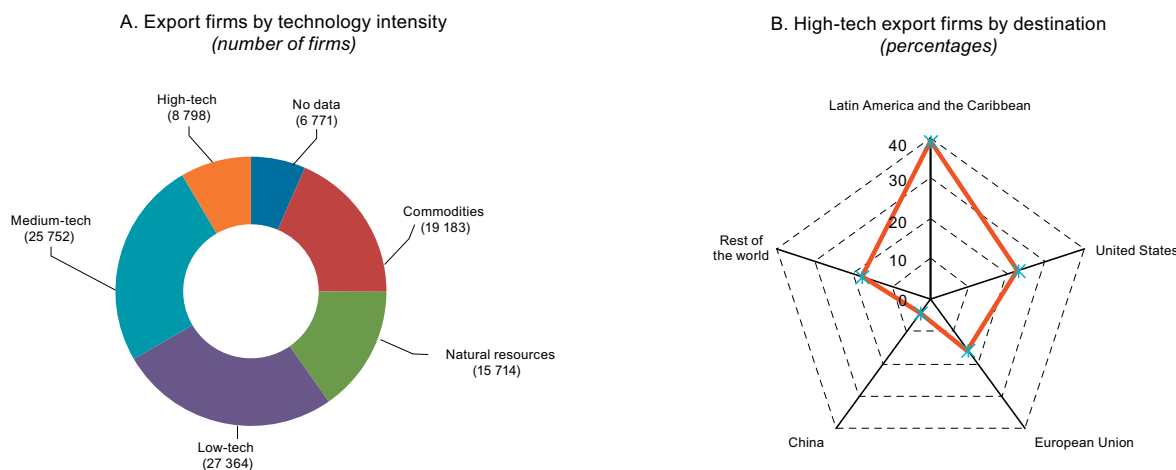
Among the region's export firms, there is a higher concentration of exports to Asia and a higher proportion of business involved in exports to neighbouring countries, the United States and the European Union. This mirrors the situation at the product level. From this viewpoint, trade with Latin America and the Caribbean tends to be more inclusive because it is less concentrated in terms of both products and firms.

Table IV.15
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): EXPORTERS, EXPORT AMOUNTS, EXPORT PRODUCTS AND CONCENTRATION, BY DESTINATION, 2010 OR LATEST AVAILABLE YEAR

	Argentina 2008	Brazil 2009	Chile 2009	Colombia 2009	Panama 2010	Paraguay 2010	Peru 2009	Mexico 2010	Uruguay 2010	Venezuela (Bolivarian Republic of) 2010	Total for the region ^a	Total for the region ^b
<i>Companies (percentages)</i>												
Latin America and the Caribbean	82	63	70	70	62	78	61	29	61	56	55	69
United States	20	30	28	33	28	12	34	74	19	26	44	28
European Union	27	39	29	15	13	21	26	15	25	20	24	29
China	5	10	9	3	3	7	6	4	10	2	6	7
Rest of the world	26	41	28	26	19	22	23	18	36	13	27	31
Total	100	100	100	100	100	100	100	100	100	100	100	100
<i>Average export value (millions of dollars)</i>												
Latin America and the Caribbean	1.8	2.4	1.7	1.2	0.2	4.2	1.0	2.0	2.5	6.4	1.9	1.8
United States	1.2	2.3	2.7	3.3	0.4	0.4	1.8	9.2	0.6	44.4	6.3	2.2
European Union	2.3	3.8	4.0	1.8	0.8	1.9	2.2	2.6	2.1	11.0	3.0	3.1
China	6.9	8.9	17.9	2.8	0.5	0.4	10.4	2.7	2.1	81.2	7.4	8.9
Rest of the world	3.3	5.3	7.1	1.9	0.5	3.5	6.2	3.2	4.1	26.6	4.2	4.5
Total	3.6	6.8	6.6	2.8	0.5	4.6	3.8	8.5	3.9	22.3	6.1	4.8
<i>Average export products per firm (number)</i>												
Latin America and the Caribbean	6.3	2.2	4.9	5.3	3.7	4.2	5.2	7.1	4.0	2.5	4.8	4.5
United States	3.7	1.0	3.1	2.0	2.3	2.8	3.0	6.3	3.0	1.8	3.0	2.6
European Union	4.1	1.7	2.9	2.5	2.4	3.6	4.3	4.5	2.9	2.0	3.2	3.1
China	1.9	1.0	1.6	1.5	1.4	1.7	1.5	2.5	2.1	1.3	1.7	1.6
Rest of the world	3.9	2.0	3.1	3.2	1.9	4.4	3.8	4.3	3.5	3.3	3.4	3.2
Total	5.1	1.9	1.9	2.3	2.9	12.1	2.0	5.9	4.2	2.3	3.6	3.3
<i>Herfindahl-Hirschmann index of firms</i>												
Latin America and the Caribbean	0.01	0.01	0.01	0.01	0.02	0.10	0.02	0.01	0.02	0.86	0.02	0.02
United States	0.04	0.02	0.03	0.10	0.03	0.12	0.06	0.02	0.03	0.96	0.05	0.05
European Union	0.03	0.01	0.06	0.06	0.10	0.49	0.04	0.10	0.02	0.84	0.10	0.10
China	0.08	0.04	0.16	0.30	0.23	0.23	0.08	0.05	0.03	0.84	0.13	0.14
Rest of the world	0.04	0.01	0.05	0.06	0.15	0.14	0.06	0.03	0.03	0.96	0.06	0.07
Total	0.02	0.00	0.05	0.07	0.02	0.11	0.03	0.02	0.02	0.92	0.04	0.04

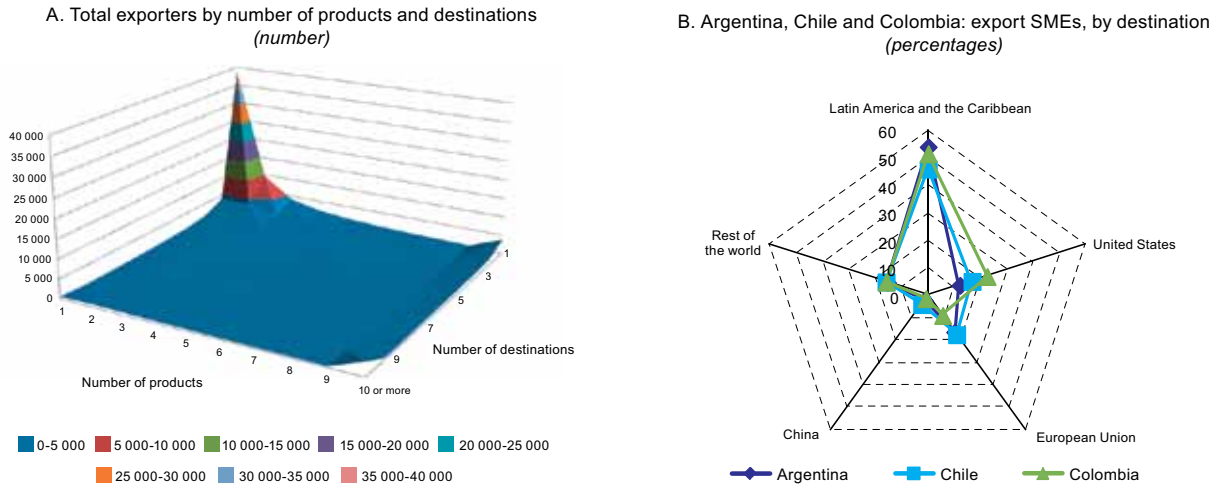
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official customs information and Datasur data [online] <http://www.datasur.com/>.
^a The Bolivarian Republic of Venezuela is not included, in order to avoid the bias arising from its higher export concentration and average amounts compared with the other countries analysed.
^b The Bolivarian Republic of Venezuela and Mexico are not included, in the latter's case because its export pattern differs from those of the other countries analysed owing to its heavy bias towards the United States.

Figure IV.7
LATIN AMERICA AND THE CARIBBEAN (9 COUNTRIES): EXPORT FIRMS BY TECHNOLOGY INTENSITY AND DESTINATION ^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC) estimates on the basis of customs data.
^a Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Paraguay, Panama, Peru and Uruguay.

Figure IV.8
LATIN AMERICA AND THE CARIBBEAN: PRODUCTS AND DESTINATIONS FOR ALL EXPORT FIRMS^a AND DESTINATIONS FOR EXPORT-ORIENTED SMALL AND MEDIUM-SIZED ENTERPRISES^b



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of customs data.

^a Includes exports from Argentina, Brazil, Chile, Colombia, Panama, Paraguay, Peru and Uruguay.

^b SMEs are enterprises with exports of less than US\$ 7.5 million (Argentina and Chile) or less than US\$ 700,000 (Colombia).

In almost all of the countries of Latin America and the Caribbean, most export firms export to elsewhere in the region or to the United States. In Chile, Colombia and Peru, the United States was the individual export destination for the highest number of firms—slightly above neighbouring countries and well above destinations in Asia such as China, the Republic of Korea and Japan.¹⁸ The main reason is that most SMEs target the regional market. In Brazil, for example, most large companies export to Argentina, China, Germany and the United States, whereas most SMEs export to the United States as well as to other MERCOSUR members. Data for Argentina (2008), Chile (2009) and Colombia (2009) show clearly how important the region is as a destination for most export SMEs (see figure IV.8.B). This pattern

holds for nearly all of the countries (except Mexico) and for different definitions of export SMEs.¹⁹

An examination of the number of export firms by destination with relation to firm size and number of products also yields useful information.

- The United States is one of the three extraregional destinations with the lowest concentration (more firms, more products and more SMEs), well below Japan and China.
- Generally speaking, exports to bordering countries stand out more for the number of firms involved and products exported than for the export value.
- Exports to the countries of Asia are highly concentrated (both in products and in firms); the share of SMEs is small.

¹⁸ In 2010, for example, 2,113 export firms in Chile exported 1,423 products to the United States and 2,007 Chilean exporters exported 2,400 products to Peru. Only 714 firms exported to China, with 285 products (based on customs data).

¹⁹ According to a Production Research Centre study, more than 63% of Argentina's export SMEs exported to the region in 2010 (50% in 2005, according to Crespo, 2006). According to a Latin American Integration Association (LAIA) study (May 2012), many export firms (classified as SMEs on the basis of sales volume and number of workers) export to the region, and the number of SMEs exporting to LAIA member countries increased by an annual average of 34% between 2007 and 2011. In Peru, according to data from the Integrated Foreign Trade Information System, most SMEs export to Latin America and the Caribbean or the United States, but the percentage is understated because of the narrower definition of SME.

3. Specificity of export-oriented SMEs

Export SMEs share many of the features and problems seen in the universe of SMEs in Latin America. SMEs make up 58% to 88% of the total number of export firms, depending on the country. They account for some 17% of direct export employment but less than 7% of exports (see table IV.16).²⁰ The region's SMEs are less productive than in the developed countries; they have a higher level of informality, and it is usually harder for them to access credit. Many of them remain in the informal sector because of the expense and paperwork involved in formalization. They are less specialized and encounter more difficulties in entering domestic linkages and global value chains.²¹

The lack of comparable studies and data²² makes it difficult to assess the performance of the region's export SMEs, but at least five conclusions may be reached.

- (i) **SME internationalization is relatively low in Latin America and the Caribbean.** SMEs face substantial human capital constraints, strategic management issues and relatively higher fixed costs for entering external markets. Moreover, they are less able than larger firms to meet destination market requirements (such as quality, sanitary, phytosanitary, and environmental sustainability standards). These hurdles, on top of the export structure of the countries of the region (markedly skewed towards capital-intensive and natural resource-intensive sectors), keep the direct share of SMEs in total export value quite low.
- (ii) **The region's export SMEs, because they are more employment-intensive, generate more jobs per dollar exported than large companies do.** In Costa Rica in 2010, there were 204 jobs for every US\$ 1 million exported by SMEs; the figure for large companies was just eight direct jobs. In Chile in 2008, for every US\$ 1 million exported by SMEs there were 115 direct jobs, versus 18 direct jobs in the case of large companies.²³
- (iii) **The markets of Latin America and the United States are far more important for SMEs than the markets of Asia, to which exports consist mainly of natural resources.**
- (iv) **SMEs contribute substantially to export diversification.** Exports by SMEs in the countries of Latin America and the Caribbean usually span a markedly heterogeneous universe of products. There is a higher percentage of SMEs in the food, beverage and tobacco sector, in the chemicals industry and in the metalworking sector, as well as in services related to the exportation of goods. Most of the indirect jobs generated by exports are concentrated in these sectors.²⁴
- (v) **SME participation in the export sector is enhanced by their indirect contribution.** International trade involves a far higher number of firms than is usually reported in trade statistics. For example, SMEs participate indirectly in foreign trade as suppliers of goods and services to large export companies or by selling their output to traders for subsequent commercialization in the international markets. There is a series of indicators of this, including the number of SMEs that supply direct exporters.²⁵

²⁰ In countries like the United States, SMEs account for half of GDP and employment and less than 30% of export value. In some European countries they make up as much as 50% of export value (see USITC (2010) and ongoing studies by Alexander Hamar and James Stamps for the Organisation for Economic Cooperation and Development (OECD)).

²¹ See, especially, ECLAC (2012), Ferraro and Stumpo (2010) and Ferraro (2011).

²² The varying definitions of SMEs and of export SMEs in particular make it hard to compare the available data. In Argentina, export-oriented manufacturing SMEs are firms with between 10 and 200 workers, whose exports account for more than 5% of total sales revenue (see, for example, Fundación Observatorio Pyme [online] http://www.observatoriopyme.org.ar/informes_especiales.html). In Brazil, export-oriented microenterprises are those that export up to US\$ 120,000, and export-oriented small enterprises export up to US\$ 1.2 million. In Chile, the Export Promotion Bureau (PROCHILE) defines export SMEs as exporters whose total annual sales revenue ranges from US\$ 60,000 to US\$ 7,500,000.

²³ ECLAC estimates based on studies by PROCOMER (2011) and DIRECON (2010b), without considering the firms' export coefficient or export propensity.

²⁴ In Chile, nearly 90% of SME exports are non-traditional products, chiefly medium technology-intensive manufactured goods such as food, metalworking products and garments. Services have also become a major export item for SMEs in countries like Costa Rica, where small and medium-sized enterprises are the principal exporters in this sector.

²⁵ In Peru, it has been estimated that for each export agent an average of 7.4 other firms participate in the export chain. This figure climbs to 11.2 firms in the agricultural, textile and garment-making sectors. In Chile, it has been estimated that for every export firm there are, on average, five suppliers, most of them SMEs (see, among others, DIRECON (2010b) FUNDES (2007) and Moori-Koening and others (2004)).

Table IV.16
LATIN AMERICA (SELECTED COUNTRIES): INDICATIVE DATA FOR EXPORT SMEs

	Argentina 2010	Brazil 2008	Chile 2008	Colombia 2004	Costa Rica 2010	Peru 2010	Mexico 2008
Export firms (<i>number</i>)	13 625	23 032	8 240	11 334	2 897	7 036	35 445
Export SMEs (<i>number</i>)	10 373	14 094	4 800	8 058	1 872	6 192	31 333
Export SMEs as a percentage of total export firms	76.1	61.2	58.3	71.1	64.6	88.0	88.4
SME exports as a percentage of total exports	6	...	7	4.5	16	3.3	4
Main destinations for export SMEs	Latin America	Latin America, European Union	Latin America, United States	United States, Latin America	United States, Central America	Latin America, United States	United States
Main sectors for export SMEs	Manufacturing	Manufacturing	Manufacturing	Manufacturing	Manufacturing, services	Manufacturing	Manufacturing

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data, World Bank and standardized data from official agencies in each country. For Argentina: Production Research Centre (CEP); for Brazil: Centre for Foreign Trade Studies Foundation (FUNCEX)-Brazilian Micro and Small Business Support Service (SEBRAE); for Chile: General Directorate for International Economic Affairs (DIRECON)-Export Promotion Bureau (PROCHILE); for Colombia: Export Promotion Office (PROEXPORT); for Costa Rica: Foreign Trade Corporation of Costa Rica (PROCOMER); for Peru: Integrated Foreign Trade Information System (SIICEX); and for Mexico: Observatorio PyME.

4. Conclusions

The region's export firms have increased in number and average export value, but their growth has been slowing and they still account for a small percentage of all businesses (see table IV.17). The percentage of firms that export is still very low in the region compared with the figure for a number of developed countries (such as Germany, at 10%; France, 5%; the United States, 4.5%; and Spain, 3.4%) and the emerging economies of Asia, where the proportion of export firms is at least twice the average for Latin America and the Caribbean.²⁶ And the total number of export firms for the region as a whole is similar to the number in individual countries like Spain and France.²⁷

Export firms in the region are very heterogeneous and are subject to high turnover (especially the small ones). The percentage of exporters is higher among large companies than among small firms, and a very high portion of total export value is concentrated in large companies. As a result, the structure of export firms is more concentrated than for all companies taken as a whole.

Large companies account for a very large share of export value, but they do not necessarily generate the most jobs. The correlation between export growth and total employment is smaller when exports are highly concentrated, which usually coincides with a relatively less developed manufacturing sector. Therefore, decreasing export and agent concentration should be key for diversifying exports and decreasing structural heterogeneity.

²⁶ In Taiwan Province of China and in Singapore, more than 40% of the firms are exporters (see [online] <http://www.oecd.org/trade/internationaltradeandbalanceofpaymentsstatistics/47014723.pdf>).

²⁷ Export growth in Spain over the past decade drove the number of export firms up to more than 109,000 in 2010. France had more than 100,000 export firms in the early 2000s. In Germany, export-oriented manufacturing firms alone number more than 45,000 (see [online] www.oecd.org/trade and Wagner, 2011, among others).

Table IV.17
SELECTED COUNTRIES: INDICATORS OF EXPORT PERFORMANCE AND SUPPORT FOR SMEs
(Percentages, dollars and number)

Country	Export firms as a percentage of all firms, 2010	Export employment as a percentage of total employment, 2005	Jobs per US\$ 1 million exported, 2005	Support for SMEs (percentages of GDP)
Argentina	...	15.1	27	...
Brazil	0.5	14.5	101	0.085
Chile	0.8	24.1	53	0.03
Colombia	0.4	12.2	97	0.008
Mexico	0.7	13.4	27	0.015
Uruguay	1.6	18	56	0.024
Belgium	5.8	...	...	...
Spain	3.4	14.1 (direct)	10 (direct)	0.41
Republic of Korea	2.7	21.2	17	0.27

Source: Economic Commission for Latin America and the Caribbean (ECLAC) estimates on the basis of official data from the countries (input-output tables and information from customs and government agencies supporting SMEs).

The increase in export concentration in terms of firms that is taking place in some countries is related to the rising price of commodities discussed in chapter II. Falling prices for some of the region's key commodities in 2012 and, potentially, in 2013, would therefore have a positive effect by reversing the trend towards higher concentration of export firms in recent years.²⁸

The type of international integration affects the equation between destinations, firms and employment. Exports to neighbouring countries and, to a lesser extent, to the United States tend to involve a larger number of agents, both in job generation and in number of firms (including SMEs). Exports to these destinations generate more jobs (direct and indirect) than exports to Asia do. For the six

²⁸ Preliminary data for the first half of 2012 show that the concentration of exports in the top one percentile of firms dropped to 70% in Chile. The trend seems to be similar in other countries with substantial mining exports.

countries examined using input-output tables, between 82 and 93 jobs were generated for every US\$ 1 million in exports to Latin America and the Caribbean or the United States. By contrast, US\$ 1 million in exports to China generated only between 30 and 64 jobs (depending on

whether they were mining products or agricultural ones).²⁹ In Mexico (2003), the relationship is similar, although the figures differ: every US\$ 1 million in exports to the United States generated 27 jobs, whereas for China the figure was 16 jobs.

F. A few strategic guidelines

1. The regional market needs to be strengthened

The background information set out in this chapter highlights the need for Latin America and the Caribbean to step up efforts to strengthen the regional market. As shown above, the regional market is important for high value-added and knowledge- and employment-intensive exports. It also tends to be crucial for export-oriented manufacturing firms and SMEs. For this reason, intraregional trade contributes to inclusive development that is based on the creation of dynamic competitive advantages (as opposed to the region's traditional static comparative advantages associated with its abundant natural resources and relatively low labour costs). The regional market is also made more attractive by the burgeoning middle class in Latin America and the Caribbean over the past two decades (Franco, Hopenhayn and León, 2011). In an international environment marked by slack growth prospects in the industrialized countries over the next few years, the regional market should be able to absorb part of the drops in demand for the region's exports in those markets. This has not been the case in the past two decades, however. During that time, intraregional trade has behaved procyclically, amplifying regional GDP fluctuations and showing greater volatility than exports outside the region (see figure IV.9).

The global economy is increasingly structured around macro-regions, as only a few national markets are large enough to be attractive on their own, separate from their regional context. In today's globalized economy, competitiveness depends more and more on regional factors such as adequate infrastructure, efficient transport systems, telecommunications connectivity and simple and streamlined customs procedures. In all these areas, coordinated action among governments would

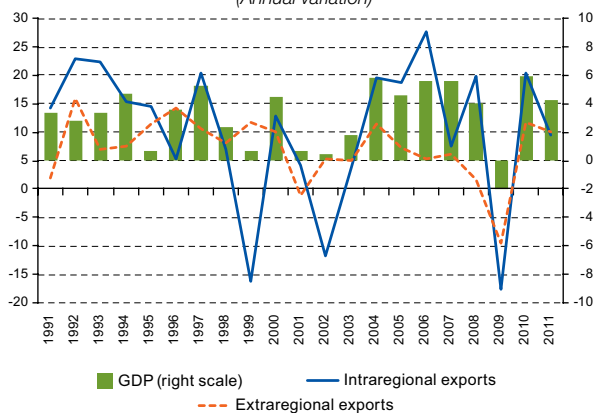
be more fruitful than isolated national efforts.³⁰ Deep integration can provide regional public goods that neither national markets nor national governments alone can provide successfully.

The region continues to exhibit low levels of intraregional trade and production integration. While more than 50% of the exports of intermediate goods from Latin America and the Caribbean (excluding Mexico) go to the region itself, they make up just 10% of total intraregional exports. For most of the countries of the region, the most immediate opportunities for entering value chains lie in the regional market itself because of its higher trade density in manufactured goods. Headway therefore needs to be made in creating an environment that is conducive to greater production integration among the economies of the region. This calls for progress in addressing the regulatory dimension of integration and closing the physical infrastructure gaps that limit regional connectivity (and with it the possibility of balanced territorial development).

²⁹ Comparing Chile with Brazil highlights this difference. Chile's exports to China account for more than 20% of total export value but involve just 6% of the export firms and 1.4% of export-oriented SMEs, while the proportion of jobs associated with this destination is very low (5.5%). In Brazil, the indicators for China as a destination are more balanced, with 5.7% of exports, 8.7% of the total number of firms and 8.1% of jobs, because of the larger percentage of agricultural exports (ECLAC estimates; the figures for exports and number of firms are from 2009-2010, and employment figures are from 2003 for Chile and 2005 in Brazil).

³⁰ For instance, the possibility of using free trade agreements with what are called "mega-markets" (including the United States, the European Union and China) as an export platform for several neighbouring countries requires integrated infrastructure, logistics, customs facilities, quality standards and other requirements. All of these rely on competitiveness levels being similar in neighbouring economies.

Figure IV.9
**LATIN AMERICA AND THE CARIBBEAN: GDP VOLUMES
 AND INTRAREGIONAL AND EXTRAREGIONAL
 EXPORTS, 1991-2011**
(Annual variation)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) and official information.

Creating an integrated economic space on a regional scale is an ambitious project and as such must be tackled gradually. An important first step would be to expedite the cumulation of origin among the region's economies. This would enable producers in each country to access a broader pool of regional suppliers of inputs and intermediate goods without losing their eligibility for preferred status negotiated under existing trade agreements.³¹ Progress would also have to be made in the gradual harmonization of regulatory issues in spheres like services, investment, incentive policies and government procurement, in the light of the positive link between such standardization and the development of regional value chains. On a more demanding level (both technically and politically) would come discussions seeking convergence among existing integration schemes.

It is also important to make joint progress in other areas, such as infrastructure development, reduction of asymmetries and innovation. Progress in these areas would not only help increase the entire region's international competitiveness but would also further more balanced territorial development with increased social cohesion. Here, regional and subregional institutional arrangements, such as the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), the

Mesoamerica Project (both in the area of infrastructure) and the MERCOSUR Structural Convergence Fund (in reducing development asymmetries), have shown their value and should be deepened and extended to other areas in which regional public goods can be created.

The region's infrastructure deficit is a substantial barrier to greater production integration. Redressing this deficiency will take time and substantial investments. Nevertheless, significant efficiency gains can be reaped over shorter time frames and at a lower cost by rationalizing customs and other procedures that affect merchandise trade at national borders. Examples include reforms aimed at introducing single windows for foreign trade and programmes for authorized economic operators. The implementation of reforms such as those described falls mainly within the purview of national governments, as does closer coordination among agencies (such as customs and health and migration services). However, regional or subregional coordination of national efforts can create significant synergies. One example of this is integrated border control and standardized procedures and formalities, which can help to reduce overlap and cost and smooth the movement of goods across borders.

If the countries of the region make progress in innovation, competitiveness, business internationalization and greater participation in global and regional value chains, job quality and wages will improve. Combining these efforts with forceful policies geared towards bringing SMEs into the mix will make it possible to tackle the challenges of growth, equality and international insertion as well. This last point represents a two-pronged challenge. On the one hand, a strategic vision is needed to pair policies geared towards export promotion and diversification, innovation and technology dissemination, attraction of FDI and skills development. On the other, public-private alliances must be promoted to support both the setting of objectives on a mutually agreed basis and concerted work to accomplish them. This would enable the region to emulate—with the necessary adaptations to different national situations—the experiences of several countries in Europe, Asia and Oceania that have positioned themselves successfully in the world economy (Devlin and Moguillansky, 2010).

Public policies aimed at promoting SME exports must be enhanced. This can be done directly by encouraging new SMEs to export or ensuring that more SMEs who are occasional exporters continue to export (essentially, by diversifying their exports to include more than one product and more than one market). This same objective can be pursued indirectly through clusters and domestic production linkages in which SMEs supply larger, direct exporters. Doing so will call for more ambitious

³¹ Cumulation of origin is also an option for countries in the region that have signed trade agreements with the same extraregional partner. Jara (2011) examined the potential for cumulation of origin among a number of countries and groupings in the region that have agreements in place with the European Union (Chile, Colombia, Mexico, Peru, the countries of Central America and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM)), concluding that cumulation would bring substantial benefits.

training, quality certification, partnership and other programmes. To this end, closer coordination between production development and trade policies is essential.

The current phase of the global economy underlines the continuing relevance of the concept of open regionalism proposed by ECLAC almost 20 years ago. The aim of open regionalism is for explicit integration policies to be compatible with and complement policies aimed at increasing international competitiveness. In other words, the objective is to develop regional strengths in order to better tackle global challenges. As integration deepens in a framework of open regionalism, it acts as a factor of competitiveness by complementing integration in the main international

markets with a boost to intraregional trade. This then encourages intra-industry trade, export diversification and a greater presence of SMEs in export flows. The larger scale provided by an integrated regional market would not only spur trade within the region but would also attract more foreign direct investment and help to form and strengthen trans-Latin enterprises. The regional framework would, as well, provide an enabling setting for incipient regional production chains and for sharing and leveraging innovation. Equality too would benefit from increased internationalization of SMEs and job creation in more value- and knowledge-intensive activities than those usually typical of Latin American and Caribbean exports to extraregional markets.

2. Ties to Asia and other developing regions must be enhanced

The profound transformations taking place in the world economy challenge the region to rethink its international position and its global alliances.

The developing economies' share of global economic aggregates is growing, and this trend is being reinforced by a combination of slow growth and high uncertainty in the United States and Europe that is likely to last for several years. Faced with these changes, Latin America and the Caribbean should continue to forge closer ties with other developing regions, particularly Asia-Pacific as the main hub of global economic growth. Economic growth in Asia (and especially China) has given the region the opportunity to build up its resilience and growth capacity. This process brings major issues of its own by, for example, favouring the entrenchment of an export pattern based on unprocessed natural resources (in the case of South America) and the displacement of Mexican and Central American manufacturing exports in the United States market. The region therefore should seek integration in the world economy in a way that optimizes the benefits of its growing links with Asia and other developing regions while reducing the cost.

The time has come for a quality leap in the relationship with China. China's investments abroad, while growing, are still relatively low. Trans-Latin companies are farther along the international learning curve than many Chinese firms are, especially in banking, financial and business services, energy, mining and the agro-food sector. These spheres therefore hold considerable potential for building Sino-Latin American business partnerships.

China's substantial surplus savings could help fund infrastructure, energy, transport and logistics initiatives

in Latin America and the Caribbean, especially in view of the low interest rates and slow growth projected for the industrialized economies over the next five years. The challenge for the region lies in identifying a portfolio of projects where Chinese investment would be most useful in speeding execution. Infrastructure projects falling under the umbrella of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Mesoamerica Project are natural candidates.

For the region as a whole to become a relevant economic and trade partner for China, it must urgently combine national efforts and agree on a regional agenda of priorities. This means giving preference to plurinational approaches over unilateral initiatives. So far, however, it has been China that has taken the initiative in bolstering relations with Latin America and the Caribbean. This can be seen in the set of proposals put forth by China's Premier, Wen Jiabao, during his June 2012 visit to the region (see box IV.3). The time seems to have come for the region to pull together and work as one in responding appropriately to the many substantial initiatives that China has brought to the table. Here, there should be a pivotal role for the newly created Community of Latin American and Caribbean States (CELAC), on the strength of its inclusive nature. Falling into this context is the CELAC troika's 9 August 2012 visit to Beijing, during which it was agreed to set up a mechanism for regular dialogue between China and CELAC at the foreign minister level.³²

³² See the official press release on the visit [online] http://www.minrel.gob.cl/prontus_minrel/site/artic/20120809/asocfile/20120809124029/comunicado_de_prensa_china_celac.pdf (date of reference: 13 August 2012).

Box IV.3

PROPOSALS PUT FORTH BY CHINA'S PREMIER FOR FORGING CLOSER TIES WITH LATIN AMERICA AND THE CARIBBEAN

During his recent visit to four countries of the region (Argentina, Brazil, Chile and Uruguay), on 26 June 2012 China's Premier, Wen Jiabao, delivered an address at ECLAC headquarters on relations with Latin America and the Caribbean. He highlighted the growing economic and political ties and cooperation between the region and China over the past few years, recalling that as long ago as 2008 the Chinese government issued China's policy paper on Latin America and the Caribbean. The paper proposed the building of a full partnership based on equality, mutual benefit and joint development. The address laid out a number of proposals aimed at bolstering this relationship by pursuing the following four objectives:

1. **Deepen strategic cooperation between China and the region on the basis of mutual political trust.** The Premier proposed setting up a mechanism for regular dialogue at the foreign minister level between China and the CELAC trioka. He also indicated China's readiness to explore the possibility of establishing, at an appropriate time, a similar mechanism at the level of Heads of State and Government. And he proposed launching a cooperation forum between China and Latin America and the Caribbean as a platform for enhancing overall cooperation between the two sides.
2. **Expand the common interests of China and the region, with a focus on economic and trade cooperation.** The

Chinese Premier proposed increasing trade with the region from US\$ 234 billion in 2011 to US\$ 400 billion in the next five years. He said that China wants to import more manufactured and high value-added goods from the region so as to achieve balanced and sustainable trade, and he called on the sides to oppose trade protectionism and to open their markets to each other. The Premier announced the creation of a special US\$ 10 billion credit facility for joint infrastructure development projects in the region, as well as the creation of a China-Latin America and the Caribbean Cooperation Fund with a first tranche of US\$ 5 billion to be contributed by Chinese financial institutions.

3. **Safeguard food security in China and the region through agricultural cooperation.** Wen Jiabao highlighted the complementarity between the region's unique advantages for agricultural production and China's strong demand for agro-food imports. He proposed launching a China-Latin America and the Caribbean Agricultural Ministers' Forum, with the first meeting to be held in China in 2013. He proposed putting in place a 500,000-ton emergency food reserve for disaster response and humanitarian relief. The Premier also announced that the Chinese government will contribute US\$ 50 million to set up a special fund for promoting agricultural cooperation

between China and the region and that China intends to establish five to eight agricultural science and technology research and development centres. He indicated that efforts would be made for trade in agricultural products to top US\$ 40 billion in five years' time and that the two sides will exchange 500 agricultural experts and technicians.

4. **Enhance people-to-people friendship between China and the region.** The Chinese government will support setting up Chinese cultural centres in the region and will offer 5,000 scholarships to students from Latin America and the Caribbean over the next five years. The Premier proposed launching a China-Latin America and the Caribbean Scientific and Technological Innovation Forum for stronger cooperation in space and aviation, new energy, resources and the environment, ocean, and polar science research. He called for putting in place, as quickly as possible, a mechanism for promoting tourism between China and the region, and he indicated China's support for holding a China-Latin America and the Caribbean young political leaders' forum.

During his visit, Wen Jiabao proposed to the presidents of the MERCOSUR member countries that China and MERCOSUR explore together the possibility of opening negotiations for a free trade agreement. The proposal is currently under study at MERCOSUR.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of "Trusted friends forever", address by Premier Wen Jiabao at the Economic Commission for Latin America and the Caribbean (ECLAC) [online] http://english.gov.cn/2012-06/27/content_2171455.htm.

Economic relations between Latin America and the Caribbean and India are incipient but expanding rapidly, especially in the trade arena (see figure IV.10). As is usually the case in trade with Asia, the region's exports to India are, predominantly, natural resource-based manufactured goods; its imports consist primarily of natural resource-based and low-, medium- and high-technology manufactures. Given the inter-industry nature of this trade, the region should seek for Latin American and Caribbean businesses to partner with successful Indian ones in order to gain access to supply chains that produce more complex and more technologically sophisticated inputs and services for production units. The best strategy might be to build alliances around chains so as to boost the sophistication level of the natural resource-based manufactures that the region exports to India.

In its trade with India, Latin America should make optimal use of its natural resources (food, mining and energy), which are of great interest to India because of the latter's shortage of many of them, its

large population and its rapid economic growth and urbanization. Among the instruments to be explored to this end are long-term contracts, investment agreements and technology partnerships in the natural resources sector. Strategic partnerships should also be established to boost value added throughout the production and commercialization chain, as well as mutually beneficial technology partnerships (for example, to apply advances in biotechnology to agribusiness, mining, forestry and fishing). Another sphere where strategic partnerships should be explored is trade in services, where India has positioned itself as one of the main actors worldwide.

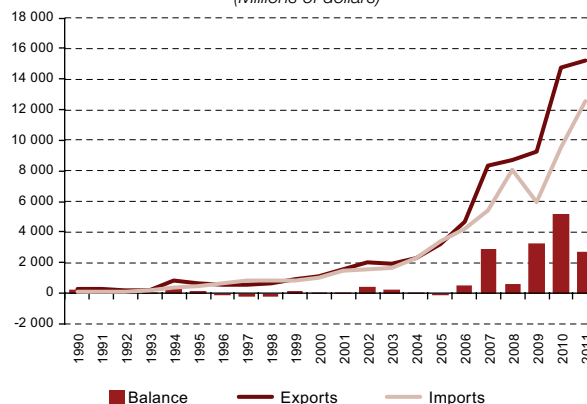
The first meeting of the India-CELAC Troika Foreign Ministers, held in New Delhi in August 2012, was a significant step towards concerted rapprochement between the region and India. The sides agreed on initiatives for expanding trade and investment relations as well as cooperation in the spheres of energy, mining and agriculture, science and technology, education and culture. They agreed to work together to address global

challenges such as climate change and reforming the United Nations system and the international financial system.³³

The Association of Southeast Asian Nations (ASEAN) is a third key actor in the region's strategy for rapprochement with Asia and the Pacific, for many reasons. First, the ten members of this grouping make up an integrated market whose population of 600 million is comparable in size to that of the region and whose economy is growing briskly (see table IV.18). Second, the ASEAN economies are an essential component of "Factory Asia", the system of industrial production networks that has emerged around China. Deeper links with ASEAN could therefore make it easier for Latin American and Caribbean businesses to enter those chains, either through trade or through direct investments. Third, ASEAN is a hub in the new architecture of economic integration that is emerging in East and South-East Asia thanks to projects like ASEAN+3 (with China, Japan and the Republic of Korea) and ASEAN+6 (adding Australia, India and New Zealand). Fourth, ASEAN is a grouping of countries with vast potential for South-South cooperation and for seeking shared positions on global agenda issues. Noteworthy

in this regard is the first meeting of the ASEAN Latin Business Forum 2012, held in July 2012 (see box IV.4).

Figure IV.10
LATIN AMERICA AND THE CARIBBEAN:
GOODS TRADE WITH INDIA, 1990-2011
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), United Nations Conference on Trade and Development (UNCTAD) and Foreign Trade Data Bank for Latin America and the Caribbean (BADECEL).

Table IV.18
LATIN AMERICA AND THE CARIBBEAN AND ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN):
POPULATION AND SELECTED ECONOMIC VARIABLES, 2011
(Millions of inhabitants, billions of dollars and percentages)

Grouping	GDP (billions of dollars)	GDP growth ^a (Percentages)		Population (millions of inhabitants)	Exports	Imports	FDI inflows ^b	FDI outflows ^b
		2011	2012					
ASEAN	2 153.9	4.4	5.2	598.9	1 216.0	1 155.8	116.5	59.9
Latin America and the Caribbean	5 613.5	4.3	3.7	596.6	1 061.9	1 011.2	155.9	32.7
Share of global aggregates (percentages)								
ASEAN	3.1			8.6	6.8	6.4	7.6	3.5
Latin America and the Caribbean	8.1			8.6	6.0	5.6	10.2	1.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of, for GDP: International Monetary Fund (IMF), World Economic Outlook Database, April 2012; for population: United Nations, World Population Prospects, 2010 Revision [online] <http://esa.un.org/unpd/wpp/Excel-Data/population.htm>; for GDP growth: Economic Commission for Latin America and the Caribbean (ECLAC) and Economic and Social Commission for Asia and the Pacific (CESPAP); for exports and imports: United Nations Commodity Trade Statistics Database (COMTRADE); and for FDI: United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2012: Towards a New Generation of Investment Policies (UNCTAD/WIR/2012), Geneva, July, 2012. United Nations publication, Sales No. E.12.II.D.3.

^a The figures for GDP growth in Latin America and the Caribbean and in ASEAN are ECLAC and ESCAP projections, respectively.

^b Foreign direct investment figures for Latin America and the Caribbean do not include financial centres in the Caribbean.

Box IV.4 FIRST ASEAN LATIN BUSINESS FORUM 2012

The ASEAN Latin Business Forum was held in Jakarta on 9-10 July 2012. The objective of the forum, organized by the ASEAN Foundation in conjunction with the Inter-American Development Bank (IDB) and the Government of Indonesia, was to enhance trade, investment and economic ties between the two regions. These ties are still incipient compared with those that link Latin America and the Caribbean with China, Japan and the Republic of Korea. The

ten members of ASEAN accounted for only 2% of the region's exports and 3.5% of its imports in 2010, and biregional foreign direct investment flows are very small.

The forum was opened by the President of Indonesia, Susilo Bambang Yudhoyono, who stressed the need for the two regions to strengthen their economic ties in view of the rapid expansion of their economies over the past few years. Also attending the meeting were the Minister of Development,

Industry and Foreign Trade of Brazil, the Minister of Foreign Trade and Tourism of Peru and the Secretary of Economy of Mexico, among other high-level authorities from Latin America, ministerial authorities from the ASEAN member States and business leaders from both regions. The issues discussed included possible actions for promoting trade and investment, sustainable development, connectivity, infrastructure and food and energy security.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of ASEAN Latin Business Forum 2012 [online] <http://www.asean-latin2012.com> [date of reference: 9 July 2012].

³³ See the joint statement on the meeting [online] <http://meaindia.nic.in/mystart.php?id=100019836&pid=2746>.

All in all, the main challenge lying ahead for Latin America and the Caribbean is internal: how to link the regional innovation and competitiveness agenda to the current economic relationship with the Asia-Pacific region? For example, avoiding excessive reprimarization of exports requires boosting their innovation and knowledge content. Doing so calls for forceful production development policies geared towards improving productivity, innovation, infrastructure, transport, logistics, and workforce skills. In each of these spheres there is space for building a regional cooperation agenda with China and other key actors in Asia and the Pacific.

More and better regional cooperation and integration would be very useful in this regard.

Regional and subregional joint initiatives for innovation, infrastructure and sustainability, including fighting climate change, would complement national public policies. Active use of these spaces by the countries of Latin America and the Caribbean would generate attractive trade and investment opportunities with China and Asia and the Pacific as a whole. There are substantial synergies between the two strategic guidelines put forth herein: enhancing regional integration and strengthening ties with other developing regions.

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