



2016

Latin America and the Caribbean in the World Economy

The region amid the tensions of globalization



UNITED NATIONS

ECLAC



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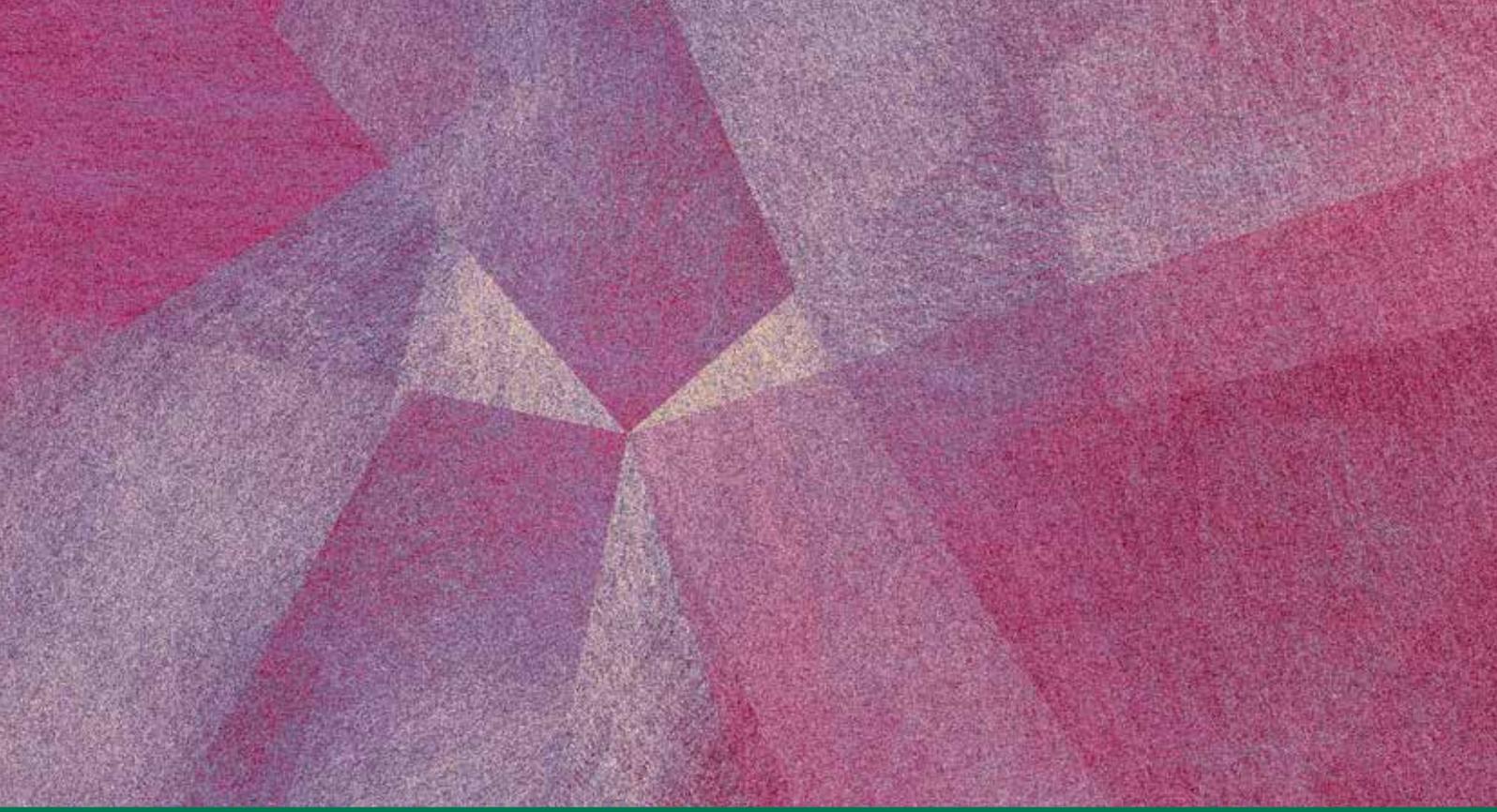
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Foreword

Globalization has become increasingly questioned in the past few years, particularly in the developed countries, as a result of many converging factors. Cross-border trade and financial flows, which expanded rapidly in the 1990s, slowed heavily after the financial crisis of 2008 and 2009. Cross-border digital flows were not affected by the crisis and maintained their exponential growth. The slowdown in trade, foreign direct investment and other financial flows reflects lacklustre global economic growth in the post-crisis period and has led to high unemployment and wage stagnation, particularly in Europe. In addition, income distribution has deteriorated in practically all the advanced economies in the past few decades, and immigration to the United States and Europe has risen steadily. Another source of the mounting discontent in developed countries is the lack of coordination or global public goods capable of mitigating the social and political tensions associated with this phase of hyperglobalization.

The region's participation in the global economy continues to lag: its share in global exports of goods and services remains stagnant and it has lost ground in trade of high-technology goods and modern services. Although the share of Latin America and the Caribbean in global foreign direct investment flows has risen, its low-technology specialization has deepened. The region's participation in global value chains has increased this century, but remains below the global average and consists mainly of providing raw materials for third countries' exports. Poor digital connectivity also hampers the region's capacity to enter new dynamic sectors. Amid still-sluggish regional and global economic growth, the Latin American and Caribbean region's exports and imports will fall for the fourth year running in 2016. Thereafter, a modest upturn is projected in regional trade in 2017-2020.

A landmark event in 2016 was the signing of the Trans-Pacific Partnership (TPP) by 12 countries from Latin America and the Caribbean, North America, Asia and Oceania. TPP could make up the largest free trade area in the world, as measured by its members' combined GDP, and it differs from most previous trade agreements in that it is both plurilateral and interregional, as well as for the breadth of subjects it covers. TPP has a strong regulatory harmonization component in such areas as e-commerce, public procurement and various labour and environmental matters. The agreement has raised great controversy and there is great uncertainty as to whether it will be ratified.

-
- A. Dissatisfaction with hyperglobalization
 - B. Foreign trade by Latin America and the Caribbean:
adverse conditions continue
 - C. The Trans-Pacific Partnership: a preliminary analysis

A. Dissatisfaction with hyperglobalization

From the 1990s onwards, economic relations between countries entered a new phase, known as hyperglobalization, characterized by rapid growth in cross-border flows of goods, services and capital. In addition, since the 2000s there has also been a surge in cross-border data flows. Another trend has been the increase in the proportion of migrants in the population of industrialized countries, even though their share in the world population held steady. Hyperglobalization is also characterized by the low presence of global public goods and international coordination mechanisms that would correct or reduce the tensions associated with this phenomenon.

Dissatisfaction with hyperglobalization has been growing recently in many advanced economies. This is particularly evident in the United Kingdom's decision to vote in favour of leaving the European Union (a process termed "Brexit") in June 2016, the outcome of the presidential elections in the United States in November 2016 and the strengthening of anti-globalization movements in several countries. More generally speaking, broad swathes of the population in these countries are questioning the benefits of trade and investment by foreign companies (see figure 1).

From the 1990s onwards, economic relations between countries entered a new phase, known as hyperglobalization, characterized by rapid growth in cross-border flows of goods, services and capital.

Figure 1
Selected countries: population in agreement with certain statements, 2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Pew Research Center, "Key Advanced Economies Quite Wary of Global Economic Engagement" [online] <http://www.pewglobal.org/2014/09/16/faith-and-skepticism-about-trade-foreign-investment/trade-11/>.

^a Global median excludes the four countries presented individually.

The rising resistance to hyperglobalization stems from different types of tensions. First, a recessionary bias has held back the recovery of the world economy and global trade since the 2008-2009 crisis. The weak economic recovery has led to major social costs, particularly in European countries that have not yet returned to pre-crisis employment levels. Second, despite the reduction in poverty at the global level, income distribution has deteriorated in almost all advanced economies in recent decades. Third, the sustained increase in immigration in the United States and Europe has created tensions that are further exacerbated by weak economic growth.

Recent social and political strains originate from the contradiction between the external balance and governments' welfare goals, on the one hand, and the dynamics of hyperglobalization, on the other. In a highly heterogeneous world, where countries' technological capacities and competitiveness vary greatly, current account imbalances tend to arise and persist. Without coordination mechanisms or global public goods in the international system, deficit countries are forced to reduce their growth, employment levels and social welfare spending in order to avoid deepening their external imbalances. This leads to rising inequality and a recessionary bias whereby social equilibrium is sacrificed to avoid worsening current account imbalances. The decline in aggregate demand and more intense global competition also have an impact on employment and wages in developed countries, especially among less skilled workers, among whom discontent with hyperglobalization has increased most.

One of the ways in which the recessionary bias has manifested itself is in weak trade in recent years (see figure 2). In 2015, the value of world goods trade fell by 14%, while its volume grew by just 2.7%. In 2016, the volume of world goods trade is expected to grow by a mere 1.7%, the weakest expansion since the global economic crisis and the fifth consecutive year of growth below 3%. The only precedent in recent history for the current weakness of global trade was in the 1980s. The value of world services trade also fell in 2015, though less markedly than trade in goods (-6.4%).

Figure 2
Year-on-year changes in
the value of global goods
exports, 2011-2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization, "Short-term Trade Statistics" [online] https://www.wto.org/english/res_e/statis_e/short_term_stats_e.htm.

A number of factors account for the persistent weakness of world trade, including sluggish global demand, slower trade liberalization and slackening global value chain expansion. All this has been compounded by the drop in commodity prices, which has driven down demand for imports from commodity-exporting countries. Lower demand for imports in China has also played an important role in this. No strong recovery in global trade is anticipated in the medium term, as the structural factors that have caused its growth to weaken over recent years are expected to persist.

The recessionary bias of the global economy has lasted longer than anticipated, as demonstrated by the successive downward revisions of growth projections over recent years. The economies of the advanced countries have continued to perform poorly in 2016. In the United States, economic growth was lower than expected in the first

half of this year. The incipient recovery in the European economy will be undermined by the uncertainty surrounding the consequences of Brexit. The Japanese economy stagnated in the second quarter of 2016 after growing by just 0.5% in the first. All the other large emerging economies, except China and India, will grow more slowly in 2016 than in 2015. This is due in part to lower demand in industrialized countries and the decline in commodity prices. The application of restrictive fiscal and monetary policies in a number of developing countries to deal with negative external shocks has further dampened growth.

Global growth has taken longer than expected to recover for several reasons. First, the expansionary monetary policies adopted since the global financial crisis had less of an impact than expected on the largest advanced economies. Monetary policy seems to have exhausted its potential to stimulate aggregate demand. Meanwhile, fiscal policy in the developed countries has turned restrictive after an initial period of expansion in response to the crisis. The ineffectiveness of monetary policy as a tool for reactivating the leading economies has recently led to a reassessment of the role of fiscal policy. For example, the new multi-year stimulus plan announced by the Government of Japan in August 2016 suggests a shift towards a greater role for fiscal policy, breaking with the tendency to take austerity measures at times of crisis.

Second, the expansion of the financial sector has increased disequilibria. This is illustrated by the sharp rise in financial assets: their value rose from rough parity with world GDP in 1980 to over 10 times world GDP by the second half of the 2000s. Another sign of the decoupling of real and financial activity is the slower pace of world trade growth compared with the expansion of cross-border capital flows. Rising global liquidity has led to many emerging economies increasing their external leverage and, with it, their exposure to global liquidity cycles.

Third, China's contribution to growth in global import demand has diminished. Even though its economy is still growing at close to 6.5%, China's demand for imports has fallen as its growth model is transitioning from an economy driven by investment and manufactures exports to one with a greater focus on consumption and services. Furthermore, Chinese manufacturing firms have been reducing the imported content of their production. As a result, the volume of Chinese imports fell year-on-year for six consecutive quarters between the first quarter of 2015 and the second quarter of 2016.

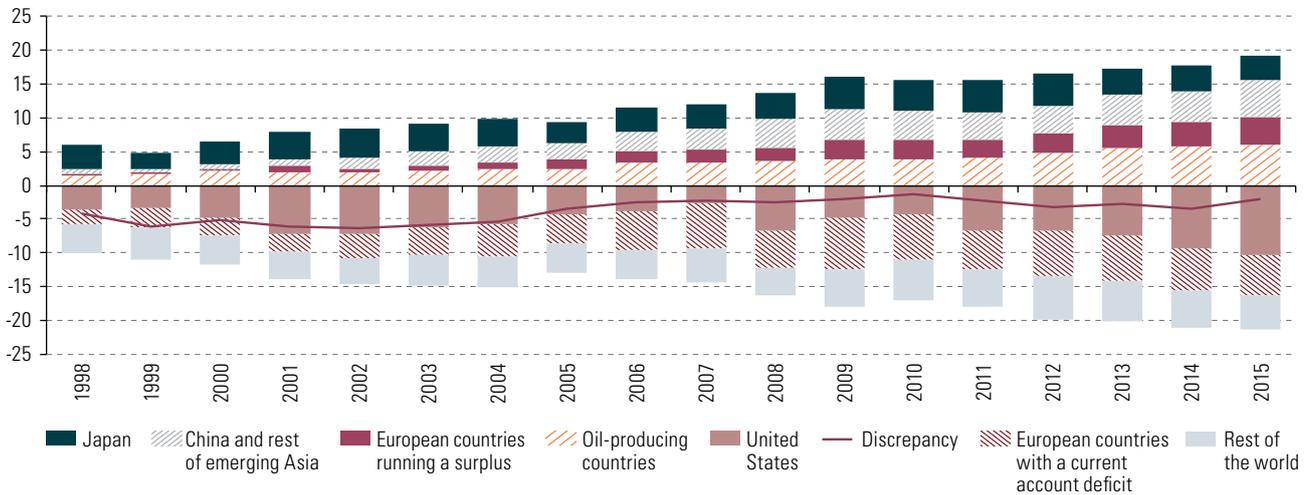
Fourth, the growing disequilibria between the current account balances of the main economies in 2016 have intensified the recessionary bias around the world. Since 2013, current account surpluses have increased in a number of countries, including Germany and other surplus countries in the eurozone, China, Japan and the Republic of Korea. Other than in Japan, these rising current account surpluses are largely accounted for by higher trade surpluses. A lack of import dynamism in the surplus economies has contributed to the stagnation of global demand. The narrowing of current account deficits in a number of countries that have traditionally run them, mainly in the eurozone, has, in turn, also worsened the global recessionary bias.

The heterogeneity of different countries' production structures has been a prime cause of the persistence of current account disequilibria. In particular, there is a strong correlation between different countries' current account balances and their export manufacturing competitiveness. As competitiveness cannot be changed in the short term, surplus and deficit countries tend to maintain their respective positions over a period of years. As a result, deficit countries have taken on more external debt in the last two decades, a situation that could become unsustainable, except for the United States, as the issuer of the leading international reserve currency (see figure 3).

The recessionary bias of the global economy has lasted longer than anticipated, as demonstrated by the successive downward revisions of growth projections over recent years.

Figure 3

Net international debt positions, 1998-2015
(Percentages of world GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2016.

The heterogeneity of production structures is magnified by innovation and the spread of technology. In the context of the current technological revolution, the distance between the leading countries and follower economies has tended to increase, since gaps are harder to close when the international technology frontier is moving quickly. The current digital revolution is generating both fragmentation and concentration in production. On the one hand, there has been a proliferation of small producers using digital platforms to access market niches by meeting local requirements or the demand for personalized products and services. On the other, markets characterized by scale economies are increasingly concentrated in the hands of large firms from developed countries and some emerging Asian economies.

Investments in digital platforms have created innovation ecosystems in all economic activities. Examples include the automotive sector (with the development of autonomous or smart vehicles) and agriculture (the expansion of the industrial Internet with machine-to-machine (M2M) connections). The industrial Internet is turning global value chains into global value platforms. The most radical transformation is due to the digitalization of manufacturing, which is changing how and where production is carried out and redefining the global production dynamic. The trend points to the reshoring of production units to developed countries as a result of the virtualization of processes and services. Automatization is expected to increase highly skilled employment, but will cause a larger fall in jobs in other segments involving routine tasks.

Competitive asymmetries have been increasing exponentially with progress in the new manufacturing age. The mass take-up of digital technologies via the industrial Internet will blur the boundaries between goods and services. This will create scope for greater product differentiation, giving rise to smart, connected products. In this way, manufacturing will continue to play a much more important role in productivity growth and global exports than in relation to value added and employment. The manufacturing sector is responsible for much of the investment in technological research and development (R&D), particularly in pharmaceuticals and chemicals, computing and electronics, aerospace, electricity, automobiles and vehicle parts. It can be, therefore, concluded that the manufacturing sector will continue to play a key role in the processes of structural change.

The heterogeneity of different countries' production structures has been a prime cause of persistent current account disequilibria. In particular, there is a strong correlation between different countries' current account balances and their export manufacturing competitiveness.

The globalization process has helped to reduce global poverty and inequality. For the first time in history, the percentage of the world's population living in extreme poverty could fall below 10%. This decrease is due mainly to the high growth rates of Asian countries, particularly China. These countries have benefited from the opportunities that globalization has opened up and, in turn, China's economic expansion favoured the reduction of poverty in the natural-resource-exporting countries, such as those in South America.

The rapid expansion of trade (up to the global crisis) and swift pace of technological progress have had a significant effect on income distribution. Jobs are redistributed across sectors and regions of the world as countries' competitiveness shifts, manufacturing plants move and production processes evolve. In particular, a significant proportion of manufacturing jobs in advanced economies have moved to developing countries with lower labour costs. The change in demand for skills also modifies the wage premium workers with more years of education and training receive relative to unskilled workers. Meanwhile, the sharp fall in the rate of unionization in developed countries since the 1980s has increased the income share of the wealthiest segments.

An analysis of global income distribution reveals a paradox: in the past three decades, global inequality has decreased, whereas inequality within most countries increased, particularly in the developed part of the world. This situation can be explained in part by a close look at the changes in income by percentile of the world population between 1988 and 2008. Large gains were seen for the seven lowest income deciles of the world's population (reflecting in particular the rise in incomes in China and other emerging economies) and for the world's richest decile, while the incomes of the working class and middle class in developed countries stagnated.

The change in income for each decile of the population between 1998 and 2008 varies between the developed countries, sub-Saharan Africa and China, on the one hand, and Latin America and the Caribbean, on the other. In the first group, the percentage increase in income was greater for the highest deciles. By contrast, in the region the poorest deciles showed larger gains in percentage terms (see figure 4). This difference can be explained by the strong growth in commodity prices towards the end of this period and the adoption, especially in the countries of South America, of redistributive policies favouring lower income segments of the population.

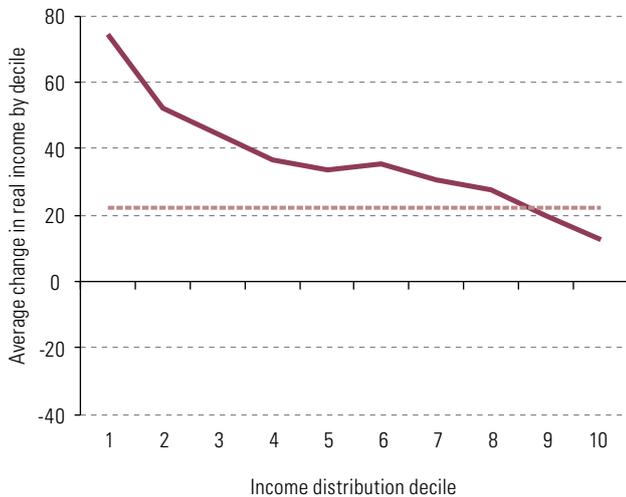
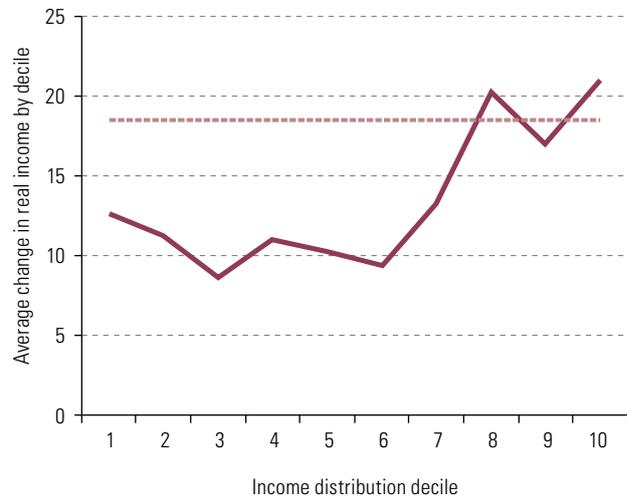
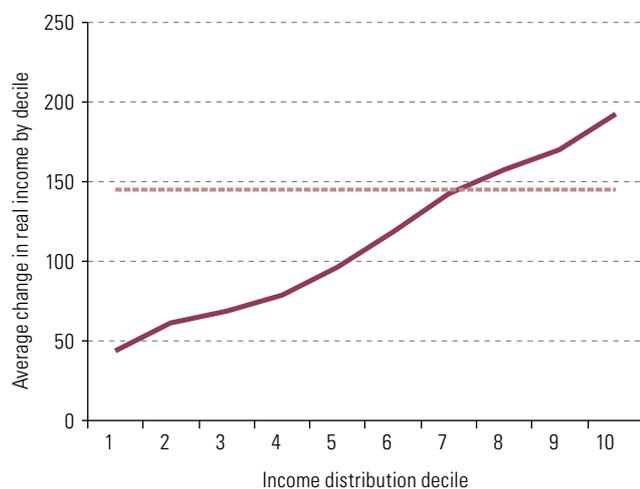
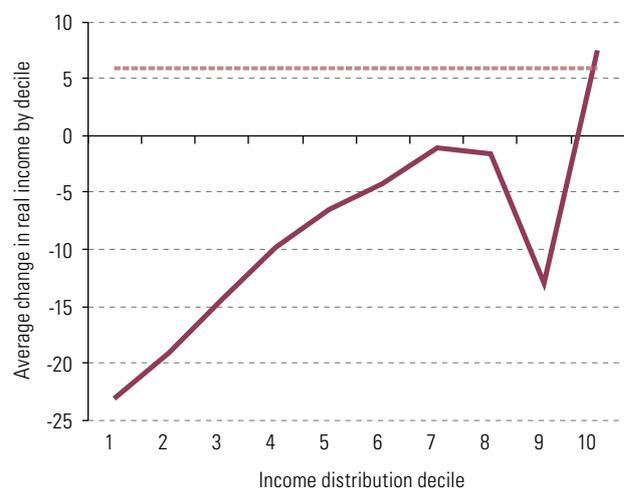
The governance mechanisms of the global economy have not mitigated or solved the problems discussed above because of their partial and fragmented nature and their sluggish response to economic changes and the technological revolution. The challenges are particularly acute in four areas of global governance, namely trade, foreign direct investment (FDI), taxation and financial transactions.

World trade institutions are under intense pressure. Within the multilateral system, developed countries' demands—that developing countries open up further in the areas of manufacturing, services and investment—run counter to developing countries' calls for greater liberalization of agriculture and the movement of labour in Europe and the United States. To overcome these obstacles, current trends within WTO favour sectoral and plurilateral negotiations, led by developed countries, such as those currently under way on environmental goods and services. Another response has been the emergence of a new generation of trade negotiations, known as mega-regional negotiations, which have a strong regulatory harmonization component. One agreement resulting from such negotiations is the Trans-Pacific Partnership (TPP), which is analysed in detail in chapter III. However, opposition to these trade negotiations grows when they touch on domestic public policy matters, such as labour and environmental standards, financial regulation or consumer protection. Questions have also been raised about the contribution of trade agreements to combating the effects of climate change.

Challenges are particularly acute in four areas of global governance, namely trade, foreign direct investment (FDI), taxation and financial transactions.

Figure 4

Changes in real income by population decile, 1998-2008
(Percentages)

A. Latin America and the Caribbean**B. Developed countries****C. China****D. Sub-Saharan Africa**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from C. Lakner and B. Milanovic "World Panel Income Distribution (LM-WPID)" 2013 [online] <http://go.worldbank.org/NWBUK13JP0>.

Note: The dotted red line refers to the average change in per capita income for each country or region in the period under consideration.

Despite various attempts from the 1990s onwards, it has so far proved impossible to establish a multilateral system of governance for FDI. There are currently more than 2,600 treaties in force on investment, resulting in a fragmented international structure, marked by inconsistent or contradictory provisions. The primary criticism of these agreements is that they do not adequately protect the regulatory space for States to carry out their public policy objectives. This situation is exacerbated by the existence of investor-State dispute settlement mechanisms.

The international tax system is similarly fragmented, being made up of more than 3,800 bilateral treaties that regulate the taxation of companies with overseas activities. Their proliferation has led to inconsistencies and legal loopholes that allow multinational companies to channel their profits to jurisdictions with lower tax rates. Against this backdrop, in 2015, more than 80 countries—including eight from the region—agreed on the Action Plan on Base Erosion and Profit Shifting (BEPS) within the framework of the Organization for Economic Cooperation and Development (OECD) and the Group of 20 (G20). The plan establishes actions that seek to minimize inconsistencies between the different national tax rules that allow transnational companies to reduce their tax burden. It was also agreed that a multilateral tax treaty would be negotiated to implement these recommendations and amend bilateral tax treaties.

Before the global crisis of 2008-2009, international financial regulation emphasized compliance with the minimum capital requirements established by the Basel Committee on Banking Supervision (BCBS). These requirements and the lack of quantitative standards for liquidity contributed to the 2008 crisis. In response, Basel III was adopted in September 2010 to limit risks at both the microprudential (individual banks) and macroprudential (systemic risks) levels. This agreement, which will enter into force in January 2019, is insufficient to ensure the stability of the financial system as a whole, as a broader macroprudential regulatory approach is required.

Unlike in developed countries, there has not been strong opposition to globalization in Latin America and the Caribbean to date, owing, in part, to the reduction in poverty and inequality between 2004 and 2013. However, recent slowdowns in the global economy and world trade and falling commodity prices have hit the region hard, especially South America. The sharp slowdown in growth stemmed efforts to improve distribution. The question now is how to avoid a reversal in poverty and inequality reduction, which could lead to political tensions similar to those seen in developed countries.

The loss of momentum has taken place as the region has fallen behind in the technological and production spheres, especially in sectors at the forefront of the new industrial revolution. Latin America and the Caribbean must recognize that the world is going through a disruptive process of technological and economic change. Not recognizing the importance of these changes will hinder the productive restructuring needed to boost growth in the long term, sustain the progress made in reducing poverty and improving income distribution, and promote the transition to a low-carbon growth path. However, the majority of the region's countries have not had an industrial policy, or if they have it has been exclusively defensive and thus unable to adapt to new technology and competition patterns.

In addition to reactivating and renewing industrial policies, the region must actively contribute to efforts to improve governance of the global economy by creating global public goods. The proposals put forward by ECLAC in this regard are linked to the implementation of the 2030 Agenda for Sustainable Development. Against this backdrop, action must be taken in two key areas. First, the perception must be dispelled that the tensions caused by globalization are other countries' problems and do not impact the region beyond their effects on the prices of the main export products. Second, institutional weaknesses and fragmentation at the national and regional levels must be overcome, as these increase citizens' scepticism about governments' priorities and capacities to take on the challenges of globalization. As the rules of the game are being redefined in the international economy, weak and fragmented efforts at regional integration could put Latin America and the Caribbean at a strategic disadvantage.

B. The region's foreign trade: adverse conditions continue

The region's position in the economic globalization process is vulnerable, as is evident in the stagnation of its share in global exports of goods and services over the past 15 years. In the case of high-technology exports, the region's share has fallen outright. By contrast, over the same period, the developing Asian countries—and China in particular—sharply increased their share of global exports (see table 1).

Table 1

Latin America and the Caribbean, developing Asian countries and China: share in global exports of goods and services, 2000 and 2015
(Percentages)

	Latin America and the Caribbean		Developing Asian countries		China	
	2000	2015	2000	2015	2000	2015
Total goods	5.7	5.5	20.0	25.0	4.0	11.0
High-technology goods	8.0	5.0	30.0	50.0	7.0	33.0
Total services	4.1	3.4	14.0	23.0	0.7	6.0
Modern services ^a	2.4	1.9	6.4	15.9	1.5	6.3

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

^a Modern services correspond to the balance of payments category "other services."

Between 2000 and 2015, the region's share in global foreign direct investment (FDI) inflows almost doubled, rising from 6% to 11%. This is one of the few variables in which the region shows a pattern similar to that of the successful developing Asian economies. The sectoral distribution of the region's FDI inflows shows a predominance of services, followed by manufacturing and natural resources. Most significant among services are investments in telecommunications, the hotel industry and tourism, financial services, retail and transport. The largest FDI flows into manufacturing activities go to the automotive industry, mainly in Brazil and Mexico. Investment in natural-resources-related activities is directed chiefly towards metal mining and the coal, natural gas and oil sector. In the last five years, investment in renewable energies has grown in importance, especially in solar and wind power. Outward investment by Latin America, conversely, despite having risen in the 1990s and 2000s, remains limited to just a few companies headquartered in the region.

The effect of FDI on the region's production patterns and role in globalization has been ambivalent. On the one hand, in countries where FDI is focused on extraction and basic processing of natural resources, it has entrenched the specialization trend and even strengthened low-technology lock-in. On the other hand, FDI has made a substantial contribution to the expansion and modernization of advanced sectors, such as finance, telecommunications and, to a lesser extent, business services.

Although the participation of Latin America and the Caribbean in global value chains has risen during this century, it is smaller than the global average and than that of the United States, the European Union and Asia (see figure 5). Regional specialization is mainly in forward linkages, as a supplier of inputs—mostly commodities—to third-country exports. The region has fewer backward linkages (i.e., the share of foreign value added in the region's exports) than other regions (particularly the European Union and South-East Asia) and their number has been declining.

Within the region, only Mexico and Costa Rica show a high degree of integration into North American value chains. The sectors in which their firms participate most are automobiles, electronics, and medical and telecommunications equipment, in the case of Mexico, and electronics and medical equipment in the case of Costa Rica. The other Central American countries also participate significantly in North American textile and apparel value chains.

Figure 5

Selected regions and countries: participation in global value chains through backward and forward linkages, 2000 and 2011
(Percentages of total gross exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO) Trade in Value Added Database (TIVA). Online: <http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>.

^a The Latin American countries included are Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.

Another area where the region continues to lag behind is digital connectivity. Although the number of households with Internet access almost doubled from 22.4% in 2010 to 43.4% in 2015, a considerable divide remains between the region and the average for the countries of the Organization for Economic Cooperation and Development (OECD), which is 85% of households. Likewise, broadband speed is lower than in other world regions, which limits participation in activities on the technology frontier, such as telemedicine and advanced manufacturing.

The region's delicate international position, as described above, together with slacker global demand in recent years, has adversely affected its foreign trade performance. In 2016, the region will total four consecutive years of falling value for both exports and imports. The global financial crisis of 2008-2009, which produced a sharp drop in export value in 2009, was short-lived by comparison with the steady erosion of export value in recent years, in step with plummeting raw materials prices. In 2016, the regional export price index continued to fall, though at a slower rate (-7.6%).

The value of the region's exports is projected to shrink by 5% in 2016—much less than the 15% drop of 2015—owing to a price drop of 6.7% combined with a volume rise of 1.7%. By subregion, the Caribbean and South America will see the heaviest declines in export value in 2016. By country, only Argentina, Costa Rica, Paraguay and, to a lesser extent, the Dominican Republic, show a rise in their export values. Among the countries whose export values will fall the most are those most reliant on hydrocarbon exports (Bolivarian Republic of Venezuela, Colombia, Ecuador and Plurinational State of Bolivia).

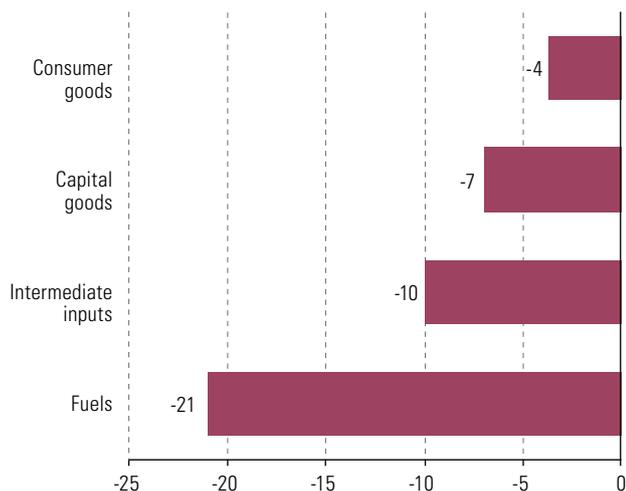
Unlike exports, imports are not yet showing signs of recovery: the projected decrease in their value in 2016 (-9.4%) is similar to that of 2015 (-10%). As in 2014 and 2015, the volume of imports is projected to fall in 2016 amid sluggish aggregate demand in the region, especially in South America. By sector, import volumes will fall the most in capital goods (machinery and equipment) and intermediate inputs (pieces, parts and

semi-processed materials), which reflects weak investment. In terms of import value, the largest drops will occur in fuels and intermediate goods, while capital goods will drop less than the overall figure. These three categories together account for over 80% of the region's total import value (see figure 6).

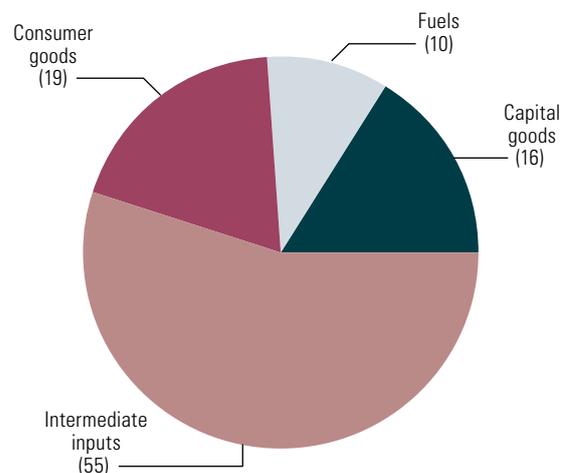
Figure 6

Latin America and the Caribbean: total imports by major economic category
(Percentages)

A. Projected annual rate of variation, 2016



B. Share in total imports, 2015



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

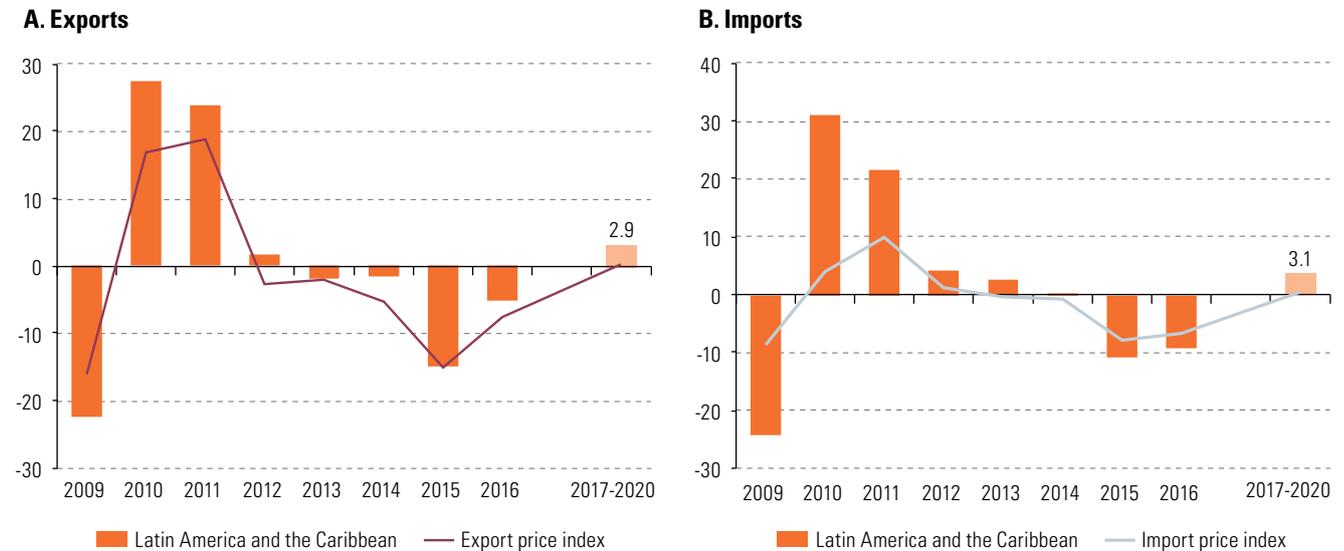
Projections for 2016 show that, as in 2015, intraregional exports will decline much more sharply than exports to the rest of the world (-10%, compared with 4%). This is true of trade in all the subregions and integration schemes, especially in South America. The region will thus mark four consecutive years of declining intraregional trade and the third in which intraregional trade will shrink more than trade with the rest of the world. This pattern will result in the intraregional trade ratio (measured by imports) falling to 15% in 2016, the lowest level in a decade. This trend is of particular concern given that the region's manufacturing exports go chiefly to other countries within the region. Weak intraregional trade thus limits the region's potential to diversify its exports.

ECLAC projections for 2017-2020 suggest a modest recovery in the region's trade, with an average annual growth rate close to 3% for both exports and imports (see figure 7).

Patterns in flows of goods, services and FDI and the digital revolution suggest that the region faces mounting challenges in terms of entering new markets and diversifying its production structure. The region's share in global merchandise trade has stagnated since 2000, while its model of technological specialization has regressed due to the rising weight of natural resources. On the services side, the region has lost ground to its Asian competitors, which is most apparent in more dynamic services as well as in those with high technology content. Finally, as regards FDI, although transnational corporations have driven modern sectors such as telecommunications, investments in smart assets for research and development (R&D) continue to be limited. In general terms, the region's integration in value chains and digital platforms ultimately depends on economic agents based in developed countries, so that recent trends towards growing corporate concentration and the increasing concentration of knowledge generation raise the barriers to the region regaining lost ground.

Figure 7

Latin America and the Caribbean: annual variation of exports and imports of goods, 2009–2016 and 2017–2020^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

^a The variation rates shown for 2016 and 2017–2020 are projections.

China's economic slowdown is set to continue in the next few years, which will hold down commodity demand and prices. This, combined with persistently sluggish global economic conditions, means that the modest projections for regional export growth over the rest of this decade come as no surprise. On the import side, growth over the next few years will be limited by the weak recovery in regional demand. Before the end of the present decade, trade is, in short, unlikely to play such a strong role in the region's economic growth as it did in 2004–2008 and 2010–2011. Accordingly, the region urgently needs public policies and investment projects to foster growth in more sophisticated export sectors that are less prone to price volatility than those of the existing export basket.

By adopting modern trade and industrial policies, the region could become involved in the technological revolution, positioning itself in the world economy on the basis of a more knowledge-intensive and diversified export structure. This requires recognizing the technological changes taking place in value chain structure and the organization of production, fully integrating trends towards advanced manufacturing and the Internet of Things. Many tools of the past, focused on clearly defined sectors, must be replaced by flexible and systemic tools based on the data revolution and analytics.

Finally, the worrying performance of intraregional trade in recent years is evidence of the urgent need to revisit the regional integration agenda with greater conviction, to explore synergies between ongoing initiatives and to overcome political blockages that impede their progress. Doing so would make it possible to achieve economies of scale in sectors that require them, provide proactive responses to the formation of global macroregions, and develop a regional digital market to lay the foundation for creating content search and distribution platforms—as well as social networks—capable of competing more successfully within the regional framework.

C. The Trans-Pacific Partnership: a preliminary analysis

TPP would create the largest free trade area in the world, measured by its members' combined GDP.

On 4 February 2016, 12 countries from Latin America and the Caribbean, North America, Asia and Oceania¹ signed the Trans-Pacific Partnership (TPP), after nearly six years of negotiations. This is the first of a new generation of trade negotiations of vast scope, known as megaregional agreements. TPP would create the largest free trade area in the world, measured by its members' joint GDP, and the second largest, after the European Union, by total trade among its members. Together, its members represent 38% of global GDP and a quarter of global trade. Likewise, in 2015 they received a third of global FDI flows and generated 40% of them.

TPP differs from most previous trade agreements in that it is both plurilateral and interregional, as well as for the breadth of subjects it covers. In addition to the traditional issues of access to goods and services markets, investment and government procurement, it sets rules on matters that the agreements under the World Trade Organization (WTO) have regulated to a limited extent or not at all. This is the case of e-commerce, State enterprises, regulatory coherence and various labour and environmental matters. In these and other areas, such as intellectual property, TPP would encourage regulatory harmonization among its members, despite the fact that they have quite dissimilar levels of economic and institutional development as well as diverse political and legal systems. The rules agreed upon essentially reflect the interests of the United States, the agreement's main proponent. At the same time, some of the provisions of TPP (on labour and environmental issues and in relation to small- and medium-sized enterprises, among others) appear to indicate an effort to achieve greater coherence between international trade governance and the push towards sustainable development, embodied in the recent 2030 Agenda for Sustainable Development.

Underlying TPP negotiations are three strategic aims of the United States: to strengthen its economic and geopolitical presence in Asia and the Pacific (counterbalancing China's growing influence); to write the new rules for global trade and investment over the coming decades; and to modernize the provisions of the North American Free Trade Agreement (NAFTA). In particular, TPP provisions on e-commerce, intellectual property, services and investment are geared towards strengthening United States leadership in the digital economy.

Given the challenges WTO is facing as a forum for negotiating the new rules of global trade, the commitments negotiated within the framework of megaregional agreements such as TPP could well become global standards. The potential significance of TPP is even greater when seen in the current context of weak international trade.

TPP is a trade agreement of a magnitude and complexity rarely seen. This has made it very controversial since its inception, even in the United States. In fact, during his campaign, the country's President-elect declared his opposition to trade agreements signed by prior administrations and to TPP in particular. The future of TPP is thus highly uncertain, given that it must be ratified by at least six of its members, jointly representing at least 85% of the signatories' total GDP, in order to enter into effect. This means that its entry into force is impossible without the ratification of the United States and Japan.

The possible impacts of TPP on Chile, Mexico and Peru may be considered in terms of two basic criteria: the extent to which it can help to diversify their production and exports and how much it may restrict their freedom to steer their public policies according to their own priorities and development strategies. With regard to the first,

¹ Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Viet Nam.

market access benefits for the three Latin American participants at the aggregate level are likely to be minimal. This is unsurprising, given that the three countries had already negotiated individual trade agreements with their main TPP partners.²

Nevertheless, the conditions negotiated under TPP would improve market access for agricultural and agro-industrial exports from Chile, Mexico and Peru, since a broader range of agricultural products are liberalized under TPP than under the agreements these countries have negotiated individually with partners such as Canada and Japan. Additionally, the cumulation of origin allowed between Chile, Mexico and Peru, and between them and other TPP partners, could strengthen their production chains and better integrate them into international value chains. In any event, these are opportunities that will have to be unlocked through industrial, technological and innovation policies. The experience of the region's countries with free trade deals suggests that the entry into force of TPP would not, by itself, be sufficient to trigger production and export diversification.

In terms of restrictions on policy space, the degree of regulatory harmonization driven by TPP will vary from country to country. Generally speaking, it would impose a lighter load of new obligations on the three Latin American members than on other developing member countries. This is mainly because Chile, Mexico and Peru have had agreements in force with the United States for many years, and have thus already taken on commitments in highly sensitive areas that were subsequently reflected in TPP. This is true of provisions on intellectual property, investment (for example, investor-State dispute settlement), services, government procurement and labour and environmental issues. On the other hand, Brunei Darussalam, Malaysia and Viet Nam, which had no pre-existing free trade arrangements with the United States, would have to do more to reform their regulatory frameworks in various areas under TPP.

Assessing the potential impact of TPP on non-member countries in the region is an even more complex task. Some of those countries could see their exports displaced from TPP markets, particularly the United States, as a result of their being excluded from tariff preferences and other benefits enjoyed by TPP members. ECLAC estimates that the value of United States imports from the region would drop by 1% in the first year of the entry into effect of TPP (see table 2). The magnitude and sectoral breakdown of the export diversion would depend on factors such as the weight of TPP markets for each country, the type of products they export to those markets and whether trade agreements exist with other TPP members. On the other hand, the reduction of non-tariff barriers to trade among TPP countries as a result of regulatory harmonization could also favour trade with third countries, including within the region itself. This is because commitments such as the harmonization of technical regulations or of foreign trade documentation, by their very nature, are often applied on a most-favoured-nation (in other words non-preferential) basis.

A clear example of the trade diversion that some of the region's countries could experience from TPP is the case of apparel exports from Central American and Caribbean countries to the United States. These exports already face strong competition in that market from Viet Nam, despite greater geographical proximity and much lower tariffs (see figure 8). This competition will only grow with the tariff reductions that would benefit Viet Nam if TPP enters into effect.

TPP would establish standards on issues not yet covered by WTO.

² Chile has agreements in place with all other TPP members. Mexico has agreements with Canada and the United States (NAFTA), Chile, Japan and Peru, which together accounted for 99% of its export value to TPP members in 2015. Peru has agreements with Canada, Chile, United States, Japan, Mexico and Singapore, which together accounted for 98% of Peruvian export value to TPP countries that same year.

Table 2

United States: projected variation in the value of imports from selected groupings in the first year of the Trans-Pacific Partnership (Percentages)

Sector	Projected variation		Main potential winners (TPP members) ^b	Main potential losers (Latin American and Caribbean countries) ^b
	TPP members	Latin America and the Caribbean ^a		
Agriculture, hunting and fishing	2.2	-0.1	New Zealand, Canada and Viet Nam	Ecuador, Brazil and Guatemala
Oil and mining	7.4	-0.6	Canada	Colombia, Venezuela (Bolivarian Republic of) and Ecuador
Food, beverages and tobacco	4.3	-0.3	Canada, New Zealand and Malaysia	Brazil, Colombia and Argentina
Wood, paper and cardboard	1.6	0	Japan	Brazil
Textiles and apparel	37.1	-1.4	Viet Nam, Malaysia and Japan	Honduras, El Salvador and Guatemala
Leather and footwear	63.1	-0.1	Viet Nam and Malaysia	Brazil, Dominican Republic and Argentina
Chemicals and pharmaceuticals	8.0	-0.7	Viet Nam	Venezuela (Bolivarian Republic of), Brazil and Trinidad and Tobago
Rubber and plastic	15.3	-0.1	Japan, Canada and Mexico	Brazil, Costa Rica and Dominican Republic
Non-metallic minerals	10.2	-0.1	Japan, Canada and Malaysia	Brazil and Colombia
Metals and derivatives	7.3	-0.3	Japan and Viet Nam	Brazil, Trinidad and Tobago and Argentina
Machinery and equipment	13.4	-0.5	Japan, Viet Nam and Malaysia	Brazil, Costa Rica and Dominican Republic
Automobiles and auto parts	6.6	-0.2	Japan, Mexico and Canada	Brazil
Other manufactures	3.2	-0.1	Canada, Mexico and Japan	Brazil, Colombia and Ecuador
Total	9.9	-1.0	Japan, Mexico and Canada	Brazil, Colombia and Venezuela (Bolivarian Republic of)

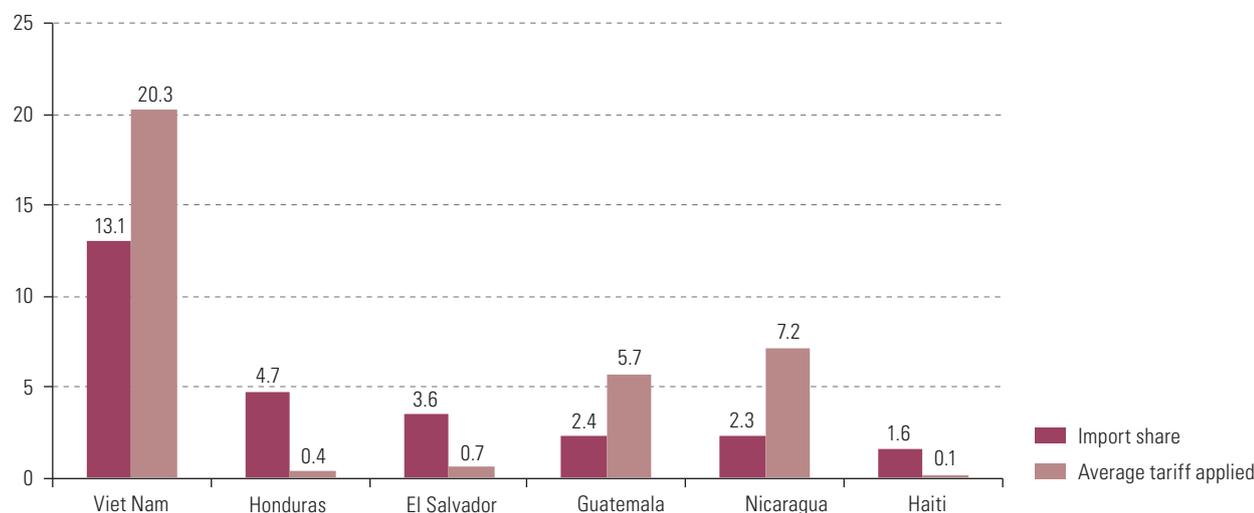
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of a partial equilibrium model.

^a Excluding Chile, Mexico and Peru.

^b The countries are listed in order of the magnitude of their potential gain or loss in each sector.

Figure 8

Selected countries: share in United States imports of knitwear clothing and accessories and average tariff applied, 2015^a (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United States Department of Commerce database.

^a Average tariffs are calculated on the actual tax take on imports from each country.

If it comes into force, TPP will coexist with numerous agreements already in force among its members. Such overlapping of regulations could lead to interpretation conflicts where an issue is bound by the provisions of two or more agreements. This would undermine one of the main advantages TPP is supposed to provide: a common set of rules for trade and investment relations among its members. TPP could (at least initially) thus worsen, rather than improve, issues arising from the proliferation of preferential agreements with mutually inconsistent provisions in trans-Pacific trade relations.

TPP has an accession clause, under which new countries can join once it has entered into force. This would heighten its commercial and strategic value, especially in the case of large economies integrated into Asian value chains, such as the Republic of Korea and Thailand. Both countries have expressed their interest in joining TPP, as have other countries from Latin America and the Caribbean.

In the medium term, TPP could become a building block for a Free Trade Area of the Asia-Pacific (FTAAP) among the 21 economies that make up the Asia-Pacific Economic Cooperation (APEC) forum. This project, which dates back to 2004, attracted renewed interest in 2014, especially from China. Implementing FTAAP would likely require gradual convergence between TPP and other large-scale economic integration projects currently in negotiation in the Asia-Pacific region, particularly the Regional Comprehensive Economic Partnership (RCEP). In any case, any convergence between these two projects would be highly complex, as it would require reconciling the dissimilar positions of the United States and China on trade regulation and foreign investment.

Finally, if it enters into effect, TPP would also have important implications for the future of regional economic integration processes in Latin America and the Caribbean. The three Latin American TPP members are also members of the Pacific Alliance, whose fourth member, Colombia, has also expressed an interest in eventually joining TPP. One hypothetical scenario consists in the Pacific Alliance being absorbed, *de facto*, by TPP, which could complicate its negotiating position *vis-à-vis* possible convergence with MERCOSUR. That would make it more difficult to reach agreements aimed at tapping the potential of an expanded Latin American market, which is crucial in the context of the emergence of megaregional blocs on a global level. Therefore, if TPP enters into force, it is essential that Chile, Mexico and Peru negotiate conditions that would allow the Pacific Alliance to continue fulfilling a constructive role in processes of regional convergence over the coming years.

The value of United States imports from the region would drop by 1% in the first year of TPP.

Dissatisfaction with hyperglobalization

- A. Globalization called into question
 - B. The persistent recessionary bias in the world economy
 - C. The effects of the technological revolution
 - D. Falling poverty and changes in income distribution
 - E. Ineffective global governance
 - F. Conclusions
- Bibliography

A. Globalization called into question

The world is undergoing an intense economic globalization process that has gained momentum since the 1990s, and is characterized by the slashing of barriers to trade in goods and services and to international capital movement, by the development of international production networks led by multinationals and, in the past decade, by a surge in cross-border data flows. Globalization, along with the ongoing digital revolution, has changed the roles that the different regions of the world play in global production, with major consequences in terms of income distribution. Several developing countries, particularly China and other Asian economies, are emerging as winners by increasing their share in production, trade and foreign direct investment (FDI).

In the light of the continued weakness of the global economy following the 2008-2009 crisis, globalization is being increasingly called into question. Although concerns have been voiced more insistently in industrialized countries, the lacklustre economic recovery is also weighing heavily on developing countries, and in the region, particularly on South America, where growth rates have fallen and no further gains have been made in the process of social inclusion and the reduction of inequality achieved between 2004 and 2012. As the Economic Commission for Latin America and the Caribbean (ECLAC) analysed in detail in its position paper for the thirty-sixth session of ECLAC (ECLAC, 2016a), globalization has gone hand in hand with environmentally unsustainable production and consumption patterns. The international community is reacting to the risks that environmental destruction represents for the well-being of future generations; hence the demand for new institutions and agreements to rebuild global governance around the Sustainable Development Goals and the reduction of inequality.

This chapter seeks to develop an understanding of the main determinants of globalization and some of its implications for the global economy and the region. The introduction presents an overview of the main flows associated with globalization since 1990 and identifies the main political tensions arising from the process. Next, concerns about globalization are tied in with the current recessionary bias of the global economy, with shifts in production, technology and income distribution, and with deficiencies in global economic governance.

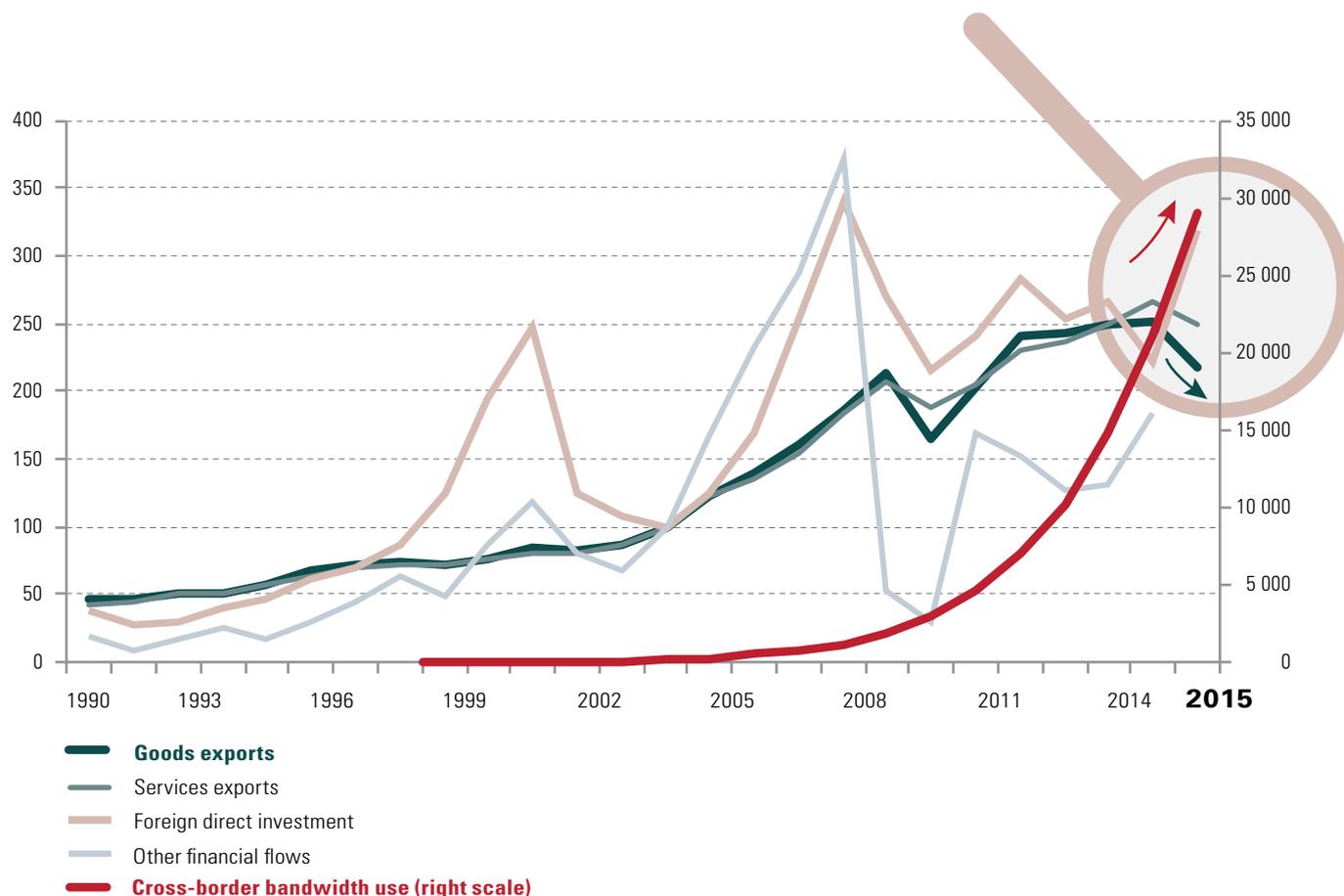
1. Flows of goods, services, investment and data

Economic globalization is characterized by increasing cross-border flows of goods, services, direct investment and financing, as well as digital flows since the expansion of broadband in the mid-2000s. From a medium-term perspective (1990-2015) there were four notable phases (see figure I.1). During the first phase (1990-2000), flows grew faster than the global economy, coinciding with the liberalization of trade in goods and services and of capital flows. Trade was stimulated by the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the creation of the World Trade Organization (WTO), the expansion of the European Single Market and the entry into force of the North American Free Trade Agreement (NAFTA). The Chinese economy also grew rapidly during this period, on the basis of a model focused on manufacturing exports and investment. Meanwhile new digital technology spread rapidly, although not as fast as it did later on.

Figure I.1

Global flows of goods and services, foreign direct investment, other financial flows and cross-border data, 1990-2015
(Index: 2003=100, and terabytes per second)

All cross-border economic flows decelerated after the crisis, except data flows



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Trade Organization (WTO), McKinsey Global Institute and TeleGeography.

During the second phase (2001-2008), the growth rates of all flows doubled compared with the previous decade, with the strongest performances in FDI and financial flows. Digital flows began increasing exponentially from 2005, thanks to the emergence of various global digital platforms. The global financial crisis triggered a third phase of deep economic recession, with sharp declines in all flows in 2009, particularly financial flows. In 2010 and 2011, trade in goods and services returned to pre-crisis levels, but financial operations did not. During this phase, only cross-border data flows were unaffected by the crisis.

During the fourth phase (from 2012) all flows recorded feeble growth or remained flat apart from digital flows, which continued to gain momentum. Between 2013 and 2015, global trade in goods grew less than GDP, while global trade in services also

decelerated and declined in value in 2015. In the meantime, global FDI flows recovered sharply in 2015 after falling between 2012 and 2014. The digital economy is now leading the globalization charge: cross-border digital flows multiplied by a factor of 43 between 2005 and 2014 (McKinsey Global Institute, 2016a).

Cross-border flows of people are also a key aspect of globalization. Although economic motivations are generally behind this phenomenon, political factors such as conflict and deteriorating human rights situations are playing an increasingly important role. Hence, while migration from Mexico, Central America and the Caribbean to the United States is driven mainly by weak job growth in the countries of origin, the recent wave of migration from the Middle East and Africa towards Europe is due primarily to political and humanitarian factors. Against this backdrop, although the number of migrants as a percentage of the global population remained stable at 3% between 1990 and 2015, this figure rose from 7% to 11% in industrialized countries (see figure I.2).

Only developed regions have experienced an increase in the proportion of migrants

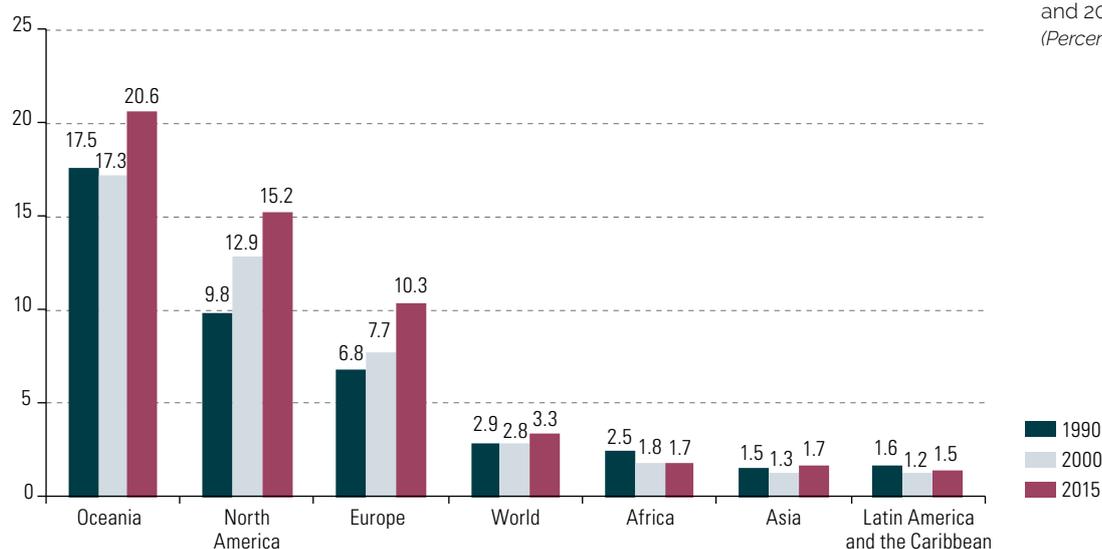


Figure I.2

International migrant stock as a percentage of total population, 1990, 2000 and 2015 (Percentages)

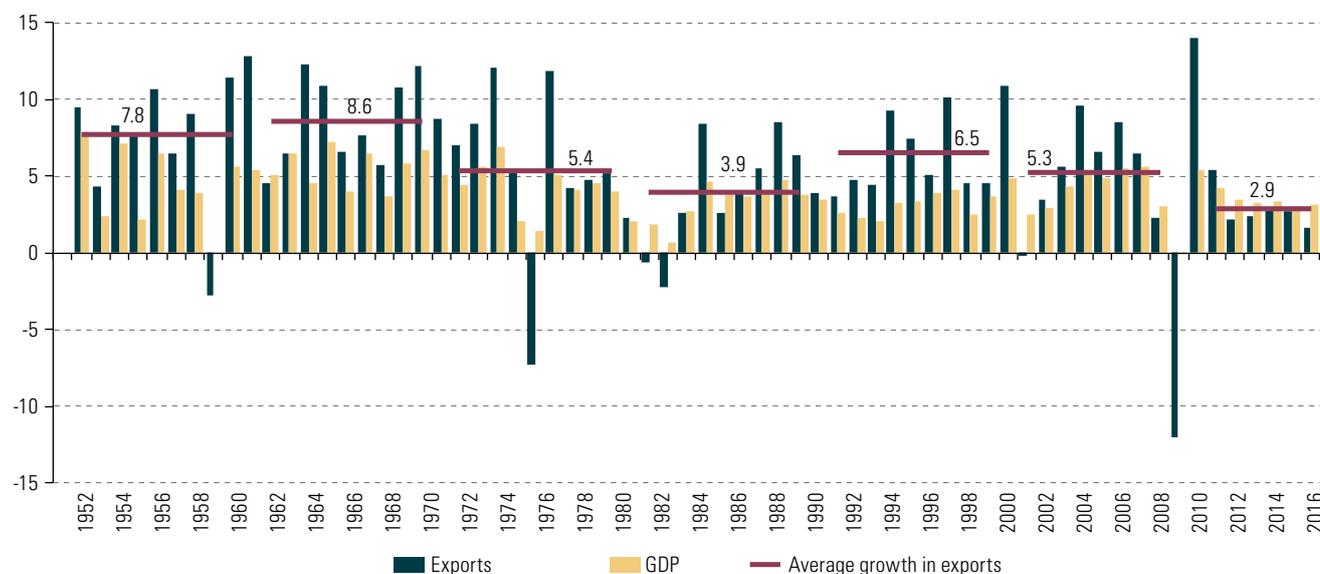
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *Trends in International Migrant Stock: The 2015 Revision* (POP/DB/MIG/Stock/Rev.2015), New York, Department of Economic and Social Affairs.

2. Rising tensions, few solutions

From the 1990s until the outset of the crisis, high levels of GDP growth and trade attenuated the tensions associated with the intense globalization process. Nonetheless, after the crisis, both variables plummeted (see figure I.3) and underlying tensions bubbled to the surface. First, there is growing dissatisfaction with the weak economic recovery and the resulting social costs and employment problems, particularly in European countries that have not yet returned to pre-crisis employment levels and continue to suffer from unemployment rates near 10%.

Figure I.3Growth in global goods exports by volume and GDP, 1952-2016^a

(Percentages)

Growth in global GDP and trade slowed sharply after the crisis

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

^a Figures for 2016 are projections.

Second, despite the reduction in poverty and inequality at the global level (see section D), income distribution has deteriorated in almost all advanced economies at the national level. Growing inequality is reflected in the flat real incomes of the majority of the population, particularly low- and semi-skilled workers. Between 65% and 70% of households in 25 advanced economies—equivalent to about 560 million people—saw their real incomes fall or remain flat between 2005 and 2014, compared with less than 2% between 1993 and 2005 (McKinsey Global Institute, 2016b). Technological advances and growing import competition from developing countries led to a situation in which highly skilled workers in developed countries prospered while those with lower education levels saw their wages remain flat and their employment stability deteriorate (Autor, Dorn and Hanson, 2013).

Third, the sustained increase in immigration in the United States and Europe has exacerbated labour market tensions, particularly in Europe, where the weak economic recovery has undermined job creation. However, tensions associated with migration are not exclusively economic, and also stem from cultural or racial prejudice.

Lastly, there is a growing perception among the citizens of developed countries that the economic and political elites are not paying enough attention to issues such as rising unemployment and wage stagnation. Stiglitz (2016) noted that “globalization’s opponents in the emerging markets and developing countries have been joined by tens of millions in the advanced economies.” The growing discontent with political systems has opened the door to extreme positions, and is behind events such as the United Kingdom’s decision to vote in favour of leaving the European Union (termed “Brexit”) and the strengthening of anti-globalization and anti-immigration political platforms in the United States and some countries in continental Europe.

The problems are not limited to certain social groups in developed countries. In several Latin American countries, particularly those that export raw materials, strong political tensions emerged at the end of the commodities supercycle. The end of the boom halted the progress made in reducing poverty, improving income distribution and boosting the consumption of a large percentage of the previously marginalized population. As a result, social demands have increased and governments' ability to address them has diminished. In some countries in the region, social conflict and political tensions have increased significantly in the past few years, along with citizens' mistrust of the political class.

3. Heterogeneity and global governance: an analytical framework

The tensions arising from globalization are the result of a system in which the relationships between the production structure, technology and global imbalances tend to reinforce each other. The cyclical occurrence of crises of varying magnitudes reflects these endogenous instability mechanisms, as shown in diagram I.1.

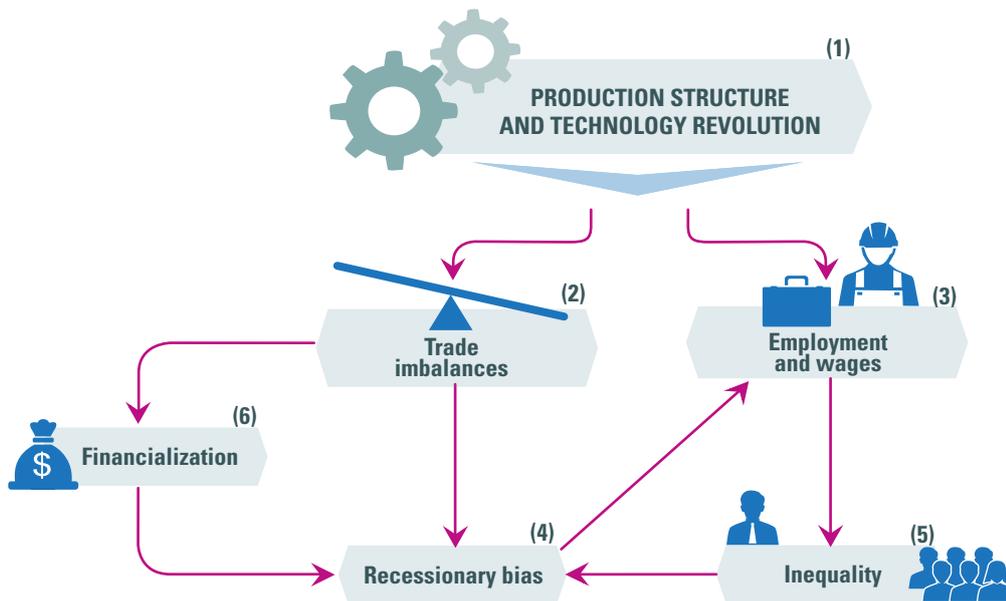


Diagram I.1
Global imbalances and low-growth trap

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

The global economy is made up of countries with very different production structures and technological capacities (1). Technology and production structures interact, as diversified structures favour innovation, which in turn promotes the creation and growth of new sectors, particularly in the framework of the ongoing technology revolution. The heterogeneity of production structures and capacities creates imbalances in international trade (2). Deficit countries react with fiscal austerity and the lowering of real wages, which drives down aggregate demand and explains the recessionary bias of the global economy (4). The fall in employment and wages (3) results in greater inequality (5), which in turn reinforces the recessionary bias, forming a low-growth trap.¹

¹ An example of this dynamic is the Greek economy after the introduction of the euro. The production structures of European Union countries vary significantly, with those in the north being more technologically advanced than those in the south. Once the euro was introduced, these differences resulted in enormous current account deficits in Greece that could not be financed after the 2008-2009 global financial crisis. The fall in employment and the social spending cuts that the government was forced to implement with a view to balancing its accounts led to a drastic decline in aggregate demand. Although Greece's current account is now balanced, the price paid was a deep recession that has spread its deflationary effects across Europe.

There is a financial flip side to external imbalances (6). The accumulation of current account imbalances fuels the issuing of debt securities, which in turn are multiplied by the creation of various financial instruments. This multiplication of financial assets leads to the financialization (6) of the global economy, that is, the growing autonomy of capital flows compared with goods and services flows. Financialization encourages the concentration of income (above all for the wealthiest 1% of the population) but is also stimulated by it, as households turn increasingly to bank loans to sustain their consumption.

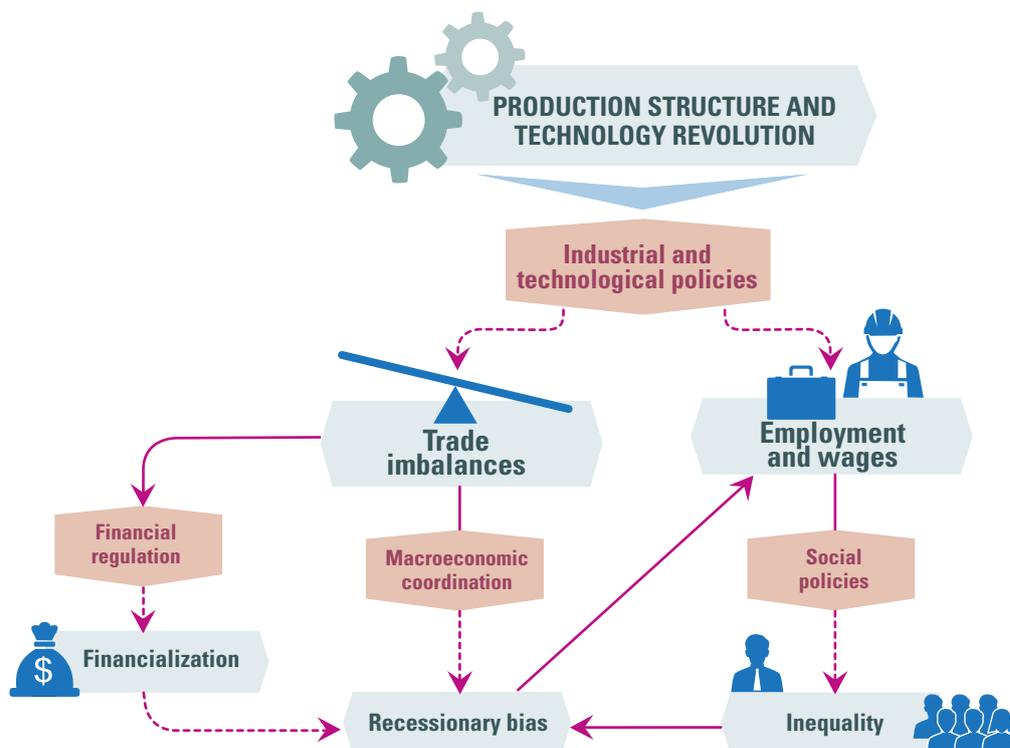
In addition to its effects on the production structure, technology directly affects employment, wages and the qualifications sought on the job market. Here too, are factors that reinforce each other: “skill-biased technical change” favours workers who are more qualified and increases the difference in pay based on years of education. At the international level, as the technology gap associated with the new industrial revolution widens, current account imbalances worsen, especially if technology boosts concentration in markets where returns are very high.

To sum up, left to itself the system generates crises and low-growth traps for GDP and trade. However, it can be stabilized with policies that introduce mechanisms to offset instability and weak growth. Paradoxically, these offsetting mechanisms increase momentum. As Schumpeter observed, motorcars are travelling faster than they otherwise would because they are provided with brakes.

ECLAC (2016a) has emphasized that shifting from an analytical to a regulatory perspective implies identifying global economic governance mechanisms and national policies that could offset mutual reinforcement in the international system. Some policies to correct imbalances aim to create global public goods that require international coordination. Some imbalances also require more active national policies than those seen in the past (see diagram I.2).

Diagram I.2

Global public goods and national policies for escaping the low-growth trap



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

The first global public good is macroeconomic coordination to increase spending in surplus economies and implement Keynesian mechanisms to reduce imbalances. If surplus countries allowed their currencies to appreciate and increased wages and public spending, demand would increase for deficit countries, which would reduce their deficits without limiting growth.

Diagram I.2 does not include the environmental aspect, but this can be easily incorporated into the analysis. Expansionary fiscal policies should take advantage of investment opportunities provided by the transition from current production and consumption patterns to a low-carbon growth path, which ECLAC (2016a) has dubbed the “environmental big push.” Expansionary fiscal policies that aim to build new energy and transport infrastructure and invest in research and development (R&D) and education based on environmental innovation could stimulate aggregate demand with a view to restoring global growth levels while decoupling growth from greenhouse gas emissions. The international community’s efforts to achieve the Sustainable Development Goals and the Paris Agreement, adopted at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in December 2015, are significant steps in this direction.

A second mechanism, which also requires international coordination, is the regulation of financial flows, which should weaken the link between current account imbalances and financialization. Many countries have made progress in this respect, but there is still much to do in order to reduce the significant weight of financial assets in global GDP and their destabilization potential. To this end, steps must be taken to monitor banks’ solvency, and to control capital movements and financial institutions’ influence on purchasing power.

In addition to global public goods, there is a need for domestic policies that correct asymmetries in income distribution and production and technology capacity. On one hand, social policies that lessen inequalities associated with the recessionary bias and with asymmetries in capacity among countries and economic agents are required. These would put a stop to transmission mechanisms from a weaker labour market and higher wage dispersion to greater inequality.

On the other hand, industrial and technology policies must address capacity asymmetries (technology and productivity gaps) that affect growth and distribution. While Keynesian and social policies play an important role in reducing the impact of these imbalances, industrial and technology policies act on their main determinants. A combination of different types of policies is needed for economies to follow an economically sustainable path, with greater stability, and to guarantee growth and improve distribution.

All of these policies require an institutional framework that limits globalization-related tensions in the spheres of production, finance, trade, technology and distribution. Indeed, one of the most successful periods of globalization in the twentieth century (under the Bretton Woods system) included an institutional framework that produced global public goods over a long period of time. Between the end of the 1940s and the mid-1970s, trade and investment posted the strongest growth of the entire period since the end of the Second World War. This solid performance stemmed from policies that helped correct the asymmetries in technology and capital between some advanced economies. The Marshall Plan and Bretton Woods institutions allowed the European economies to recover, despite the scarcity of dollars during the first years of the post-war period.

The tensions arising from globalization are the result of a system in which the relationships between the production structure, technology and global imbalances tend to reinforce each other.

Meanwhile, GATT, as a multilateral institution, provided greater protection for small and medium-sized countries in trade negotiations than they would have had in one-on-one negotiations with larger countries. In parallel, the building of Welfare States provided protection for workers and stimulated effective demand, which in turn helped trade expand. Post-war Keynesian policies were the foundation of the successful globalization and integration movement in Europe, which was supported by the external deficits of the United States and by the closing of the technology gaps between that country and Europe and Japan.

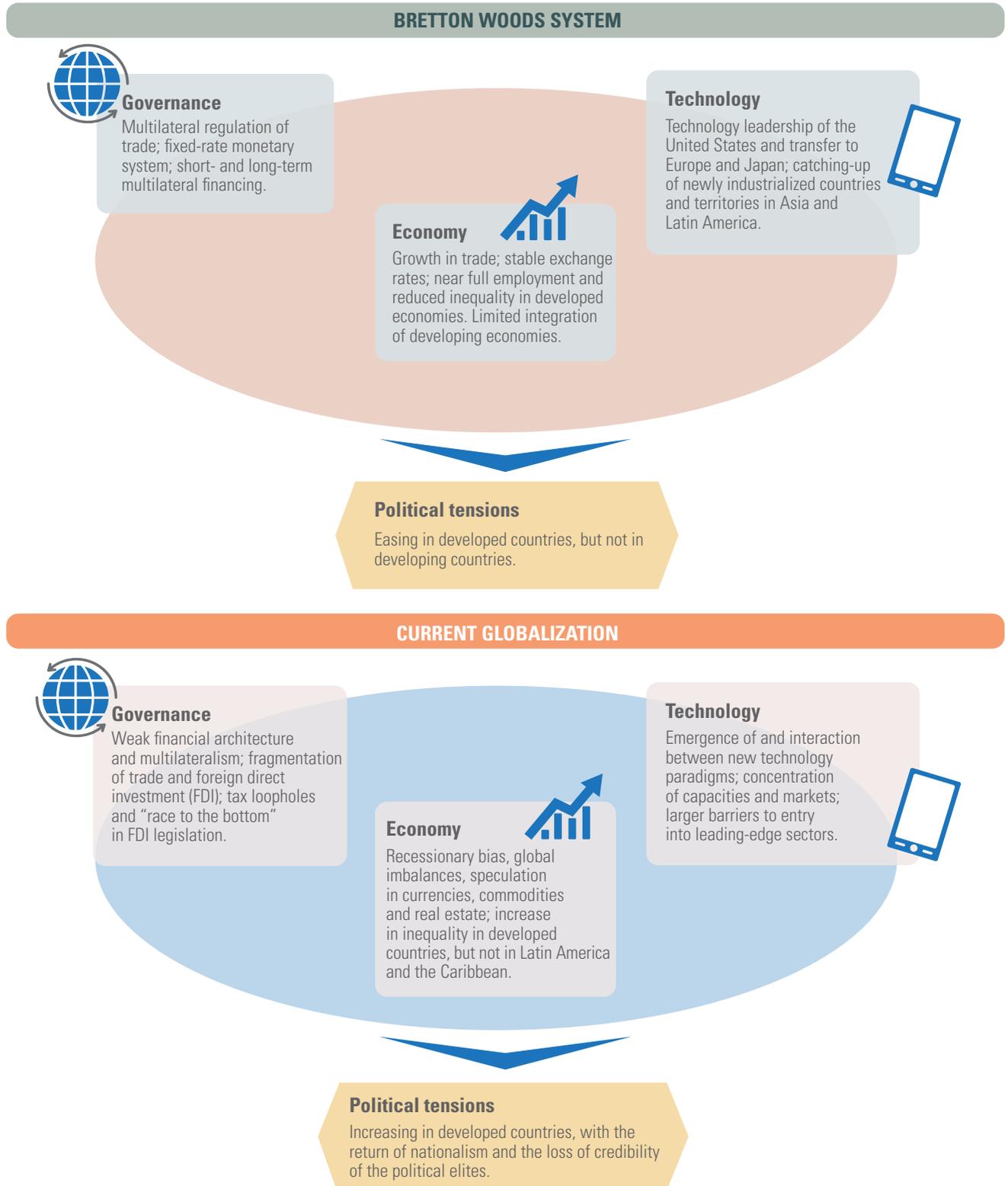
The fact that post-war globalization took place amid the creation of international and national institutions focused on reducing conflict and instability was the result of an analysis of the motives for the Second World War. The protectionist spiral of the 1930s was seen as a key factor in creating the rivalries that led to the confrontation. For this reason, the creation of an open and non-discriminatory multilateral trade system, as well as the European integration process, was intended to eliminate the threat of a new war. The cold war also created a favourable environment for social protection systems in European countries. These policies achieved what Keynes proposed by rethinking economic theory, which was to safeguard and consolidate an international liberal order. In this respect it was successful, although it failed to integrate developing countries into the new international post-war order.

The discussion above suggests that globalization is not a linear or inevitable process, and that its growth is threatened by the lack of adequate governance (a theme which will be addressed again in section E). Against this backdrop, hyperglobalization is defined as the deepening of globalization without global public goods or coordination and cooperation mechanisms. While Keynesian policies were the foundation of the strong growth in trade and European integration up to the mid-1970s, hyperglobalization (with its related fiscal austerity, dismantling of social welfare systems and weak trade unions) is associated with their deterioration. This is the “globalization backlash” manifested most recently in Brexit. The rise of candidates outside the mainstream political parties points in the same direction, reflecting society’s reaction to the break-up of institutions and existing production and social models.

Diagram I.3 describes the Bretton Woods system and hyperglobalization, drawing comparisons between the two in various areas: international governance, technology, and economic and political dynamics. Although this is a stylized characterization, it covers some key components of both systems. In particular, it shows that in contrast with the current situation, the existence of global public goods under Bretton Woods made the expansion of trade compatible with that of welfare States in developed countries. This was also helped by the spread of technology from the United States to Europe, Japan and later on to various developing economies, particularly in Asia. The dimensions analysed in diagrams I.1 to I.3 will be looked at in detail later in this publication.

Diagram I.3

International governance of globalization and domestic tensions



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

4. Hyperglobalization and recessionary bias

Recent social and political strains originate from the contradiction between governments' external balance and welfare goals, on the one hand, and the dynamics of hyperglobalization, on the other (Rodrik, 2011). The negative effects of hyperglobalization particularly impact lower-skilled segments of the workforce in higher-income countries. These groups have few prospects of adapting to the rapid change in competition conditions resulting from the fragmentation of production processes, the disruptive emergence of China and other Asian economies in the global market, the intensity of technological change and the destabilizing forces of global financial flows. Conversely, economic elites set global strategies and can maximize benefits by exploiting their ability to move resources across borders. When political elites are perceived to be aligning themselves with economic elites, a widening gap opens up between them and a substantial part of the electorate, setting off reactions that polarize the political system.

The changes and political strains triggered by globalization also tend to be intense in developing economies, where disequilibria and external vulnerability are greater than in advanced economies. The scale of these disequilibria is linked to heavy dependence on commodity exports and a lack of economic diversification and technological development in many of these countries. This is where the productive heterogeneity presented in diagram I.1 manifests itself. Research on the tensions between external and domestic dynamics, in particular, has a long history in Latin America. The external constraint and stop-go growth cycles have been a constant in the continent's economic history, giving rise not only to economic fluctuations, but to political upheavals too.

The constraints on national governments' room for manoeuvre as a result of the international mobility of certain factors (particularly capital) have been summarized in the literature in the shape of various trilemmas. A trilemma is a set of three conditions such that any two but never all three can obtain together. The best known is the macroeconomic trilemma whereby a country cannot simultaneously have an independent monetary policy, a fixed exchange rate and a fully open capital account. Rodrik (2011) has proposed a trilemma whereby governments cannot simultaneously retain sovereignty and democracy in a context of hyperglobalization. In this stylized formulation, hyperglobalization in a system of nation States is incompatible with the full exercise of democracy. This is because national governments are forced to adopt policies that differ from their voters' preferences so as not to jeopardize participation in the hyperglobalization process.

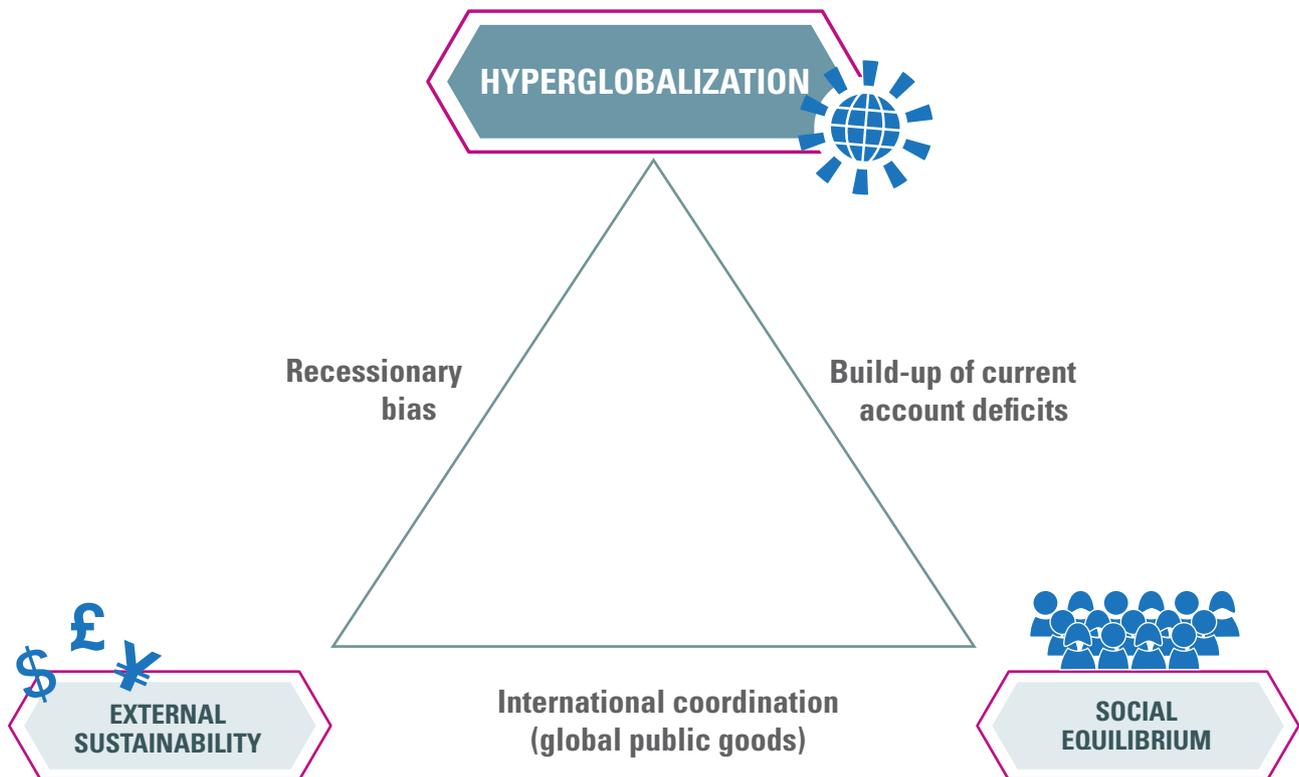
One way of analytically capturing the strains generated by hyperglobalization in a world with marked asymmetries of technology and competitiveness between countries is by another trilemma: when these asymmetries exist, it is not possible to combine simultaneously a national welfare and full employment policy (social equilibrium), a sustainable current account balance (a current account that is in surplus or at least not in deficit) and an international system with full goods and factor mobility. This trilemma restricts the options of developing economies most, but it is also applicable to other economies that are uncompetitive internationally, such as those of the European periphery. The possible combinations are as follows (see diagram I.4):

- Sustainable external balance plus hyperglobalization. If a deficit country decides to give priority to external equilibrium in a context of hyperglobalization, it must do so by making some sacrifice in terms of social equilibrium to do so (by giving up on the goal of full employment and cutting social spending). Since there is no mechanism for encouraging surplus countries to increase their imports from deficit countries, the latter will be forced to adjust through contractionary policies, which generates a recessionary bias.

- Social equilibrium plus hyperglobalization. If the deficit country decides to prioritize social equilibrium in a context of hyperglobalization, its external equilibrium will be compromised. Economies that are uncompetitive internationally build up current account deficits when they apply expansionary fiscal policies to protect employment, social programmes and measures for the enhancement of income distribution.² This build-up is unsustainable, as the rise in the country's borrowing causes inflows of external financing to slow down or go into reverse.
- Social equilibrium plus external sustainability. A country can simultaneously achieve social equilibrium and external sustainability despite asymmetries in capabilities, but only if institutional arrangements are implemented at the global level that are incompatible with hyperglobalization. International macroeconomic coordination means that the adjustment costs of correcting external disequilibria can be shared with surplus countries instead of falling disproportionately on deficit countries. Likewise, public goods for financing and trade need to provide for mechanisms to reduce technological and production asymmetries. Only if this is done and the export basket of less advanced economies is reconfigured will Keynesian policies be of more than limited effectiveness in correcting disequilibria.

Diagram I.4

Hyperglobalization, productive heterogeneity and recessionary bias



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

Of the three possible combinations, the first is politically unstable, the second is economically unsustainable and the third requires a degree of international policy coordination that has proven very hard to achieve. This is demonstrated by Keynes's proposal at the Bretton Woods Conference to create an international clearing union that would penalize

² This is not true of commodity-exporting countries during periods of strong commodity prices, when they may even generate current account surpluses. However, these cycles tend to be short-lived, so the overall argument is not invalidated.

the build-up of both current account deficits and surpluses, thereby ensuring greater trade reciprocity. This in turn would check the recessionary bias of the external disequilibria adjustment process, since struggling economies would adjust through higher exports and not just lower imports. The proposal was not accepted, though, and the system adopted placed the whole burden of adjustment on deficit economies.

The difficulty of coordinating policy internationally can be represented in terms of a classical prisoner's dilemma. Hyperglobalization may be viewed as a non-cooperative game, without international coordination and without global public goods (see box I.1). In this context, each country must decide what strategy to follow: an expansionary Keynesian strategy oriented towards social equilibrium, or an export-oriented strategy that prioritizes the external sector.

Box I.1

The outcomes of a non-cooperative game

In the example presented in the table below, the benefit of country A is represented by the first number in each cell and the benefit of country B by the second. If country A follows the Keynesian strategy in isolation while B follows a strategy that prioritizes exports, country A will increase its imports without obtaining reciprocity from its trading partners, forfeiting some of the increase in effective demand. This strategy is highly favourable to country B and unfavourable to country A (yielding benefits of 4 and 1 that mainly accrue to country B). If it is country B that follows a Keynesian strategy while country A adopts the non-cooperative strategy of pursuing surpluses, then the countries' positions are reversed and it is A that obtains almost all the benefits.

The prisoner's dilemma of macroeconomic coordination

(1=minimum gain; 4=maximum gain)

		Strategy of country B	
		Social equilibrium	External sustainability
Strategy of country A	Social equilibrium	3 and 3 (social equilibrium and external sustainability are compatible)	1 and 4 (Keynesianism in one country)
	External sustainability	4 and 1 (Keynesianism in one country)	2 and 2 (hyperglobalization and recessionary bias)

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

In view of the above, each actor's dominant strategy will be to restrict its own domestic market and increase its exports. For A, this is the strategy that gives the best outcome irrespective of the strategy of B, and vice versa. However, since it is not possible for all actors to improve their trade balance at the same time, countries are trapped in a low-growth equilibrium: the recessionary bias scenario in the bottom right-hand quadrant. Keynesian policy, if adopted in isolation, is the one that offers the worst outcome for the country applying it, but the one that leads to the best overall outcome when adopted in coordination by both actors. For the greatest possible equilibrium to be achieved (upper left-hand quadrant), there need to be institutions and rules of cooperation which ensure that both countries follow Keynesian-type strategies to ensure coordinated expansion and prevent free riding.

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

Throughout their economic history, the Latin American countries have had repeated cycles of rapid growth brought to an end by external crises (Bertola and Ocampo, 2012). The expansionary policies adopted in the region when there is an improvement in the terms of trade (as in the 2000s) or in access to external financing (as in the 1970s and 1990s) are dramatically reversed when international conditions change, owing to the vulnerability of its production structures and exchange-rate appreciation. The difficulties

the Southern Cone economies have recently been going through are an example of this kind of reversal. The Greek experience since monetary union, touched on earlier, is another example, this time in a European context, of the impact of heterogeneity on growth.

There are no endogenous forces capable of bringing about regular, short-lived shuffles in the positions of major trading economies so that disequilibria balance out over time. On the contrary, increasing returns and technological dynamics reinforce Kaldorian cumulative processes. Surplus countries could, in principle, adopt policies that slowed the build-up of reserves. There are no insurmountable constraints preventing these countries from pursuing currency appreciation, higher wages or larger fiscal deficits, but they have no incentive to do so, whether because the build-up of reserves provides them with investment capacity and influence in global financial markets, because they wish to guard against unforeseen trade and financial fluctuations, or because they prefer not to stimulate the domestic market lest this create inflationary pressures.

In parallel with the build-up of disequilibria and recessionary bias, political tensions accumulate. International demands for reciprocity and a rebalancing of the growth model increase. Domestically, the strains derive from unemployment and external crises in the less advanced economies and from migration pressures and rising inequality in a context of pay constraints in the leading economies. The accumulation of these tensions explains the current situation of rising political resistance to hyperglobalization. In this context, greater international coordination and the construction of global public goods would serve both to deal with the recessionary bias in the world economy and to endow globalization with greater political legitimacy.

The difficulty of coordinating policy internationally can be represented in terms of a classical prisoner's dilemma. Hyperglobalization may be viewed as a non-cooperative game, without international coordination and without global public goods.

B. The persistent recessionary bias in the world economy

1. The slowest trade expansion since the crisis

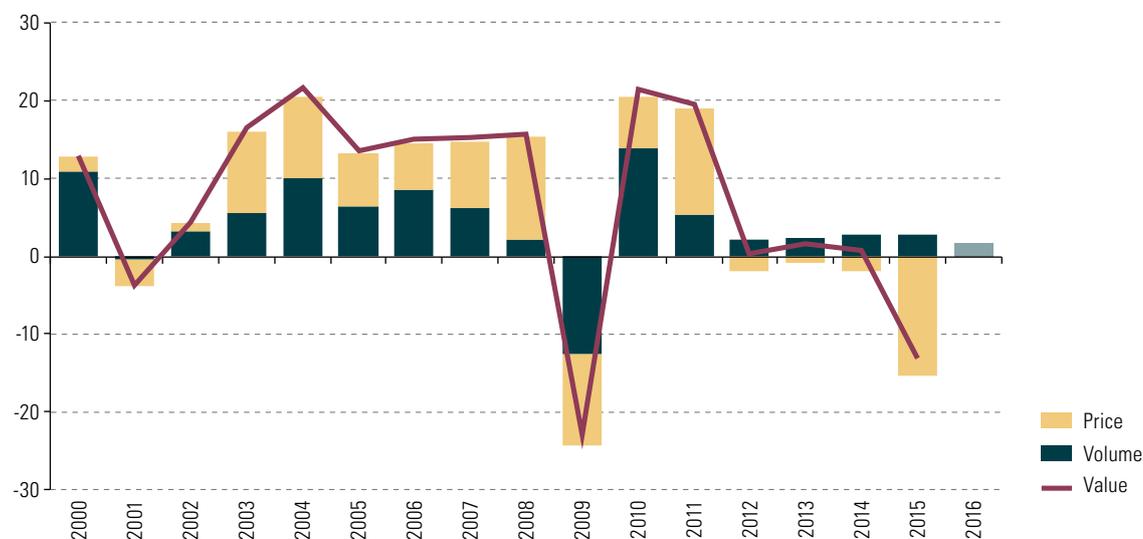
The forces creating a recessionary bias, discussed in the previous section, are expected to carry on operating in the coming years. The effect is to place downward pressure on growth in both trade and global output. The evolution of these two variables, which will now be analysed, confirms the persistence of the recessionary bias.

In 2015, the volume of world goods trade grew by just 2.7%, while its dollar value fell by 14%. This sharp drop was due mainly to the strengthening of the dollar against some of the major global currencies and to lower prices for commodities, particularly fuels, which dropped by 45% in 2015. WTO projections are for the volume of world trade in goods to grow by just 1.7% in 2016, the weakest expansion since the global economic crisis and the fifth consecutive year of growth below 3% (see figure I.4). The only precedent in recent history for the current weakness of global trade was in the 1980s, when volumes grew by less than 3% in five of the six years in the period from 1980 to 1985, actually contracting in two of them (WTO, 2016b).

Global trade in services, whose gross value is just over a fifth of that for global trade in goods and services, also declined in value in 2015, albeit by less than goods trade (-6.4%) (see figure I.4). Trade in transport services was most affected, dropping by almost 10%, with maritime dry bulk cargo transportation rates at historic lows. Trade in other types of services, such as travel and other commercial services, fell by 5.5% (WTO, 2016a).

Figure I.4Annual changes in world goods trade by value, price and volume, 2000-2016^a

(Percentages)

Global trade growth in 2016 will be the slowest since 2009**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the World Trade Organization (WTO).^a Average rates of change in world exports and imports. The 2016 figures are projections.

A number of factors account for the persistent weakness of world trade, including sluggish global demand, slower trade liberalization and slackening global value chain expansion (European Central Bank, 2016b; World Bank, 2016; IMF, 2016c; OECD, 2016). All this has been compounded by the drop in commodity prices, which has driven down demand for imports from commodity-exporting countries. Slower growth in China has played an important role in this.

The persistent weakness of global economic activity, particularly investment (which is more import-intensive than other components of demand), is one of the main factors behind the slowdown in world trade. About 75% of the reduction in global goods import growth between 2003-2007 and 2012-2015 was due to the weakness of economic activity (IMF, 2016c). Estimates by the Organization for Economic Cooperation and Development (OECD) (2016) indicate that low demand growth accounted for about 40% of the reduced dynamism of world trade in 2011-2015, compared with 1991-2007.

By contrast with the pre-crisis period, when trade liberalization and global value chains were strong drivers of world trade growth, these factors have been a drag on this growth in recent years. First, trade liberalization has stalled or even reversed since the crisis, as is suggested by the growing use of trade-restrictive measures and the difficulties being encountered by initiatives such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). More recently, the faltering expansion of global value chains has also contributed to the slowing of world trade growth.³ This could be attributed to chains maturing and shortening (especially in the case of China), as reductions in trade logistics costs, which have a strong influence on flows associated with international value chains, have levelled off. The slower pace of trade liberalization is estimated to account for some 25% of the slowdown in world trade growth in 2011-2015 relative to 1991-2007 (OECD, 2016).

³ Backward participation in global value chains, for which the ratio between intermediate goods imports and domestic final demand at constant prices is a proxy, is estimated to have declined by an average of 1.7% a year since 2011 after growing by an average of 4.0% a year between 1991 and 2011 (OECD, 2016).

No strong recovery in global trade is anticipated in the medium term, as the structural factors that have caused its growth to weaken over recent years are expected to persist. Even if the rate of expansion in the global economy increased significantly, trade would be unlikely to resume its pre-crisis growth rates (IMF, 2016c; European Central Bank, 2016b). The long period of weak economic dynamism appears to have affected countries' growth potential, owing to low investment and the adverse effects that weak trade growth has on productivity. Conversely, the shift in the geographical composition of global trade and GDP towards emerging economies, whose growth is usually less trade-intensive than advanced economies', has reduced the income elasticity of world trade, leaving it at a new normal where it is expected to remain for the medium term (European Central Bank, 2016b).⁴ Against this background, WTO expects a modest recovery in world goods trade in 2017, with volume growth of between 1.8% and 3.1%.

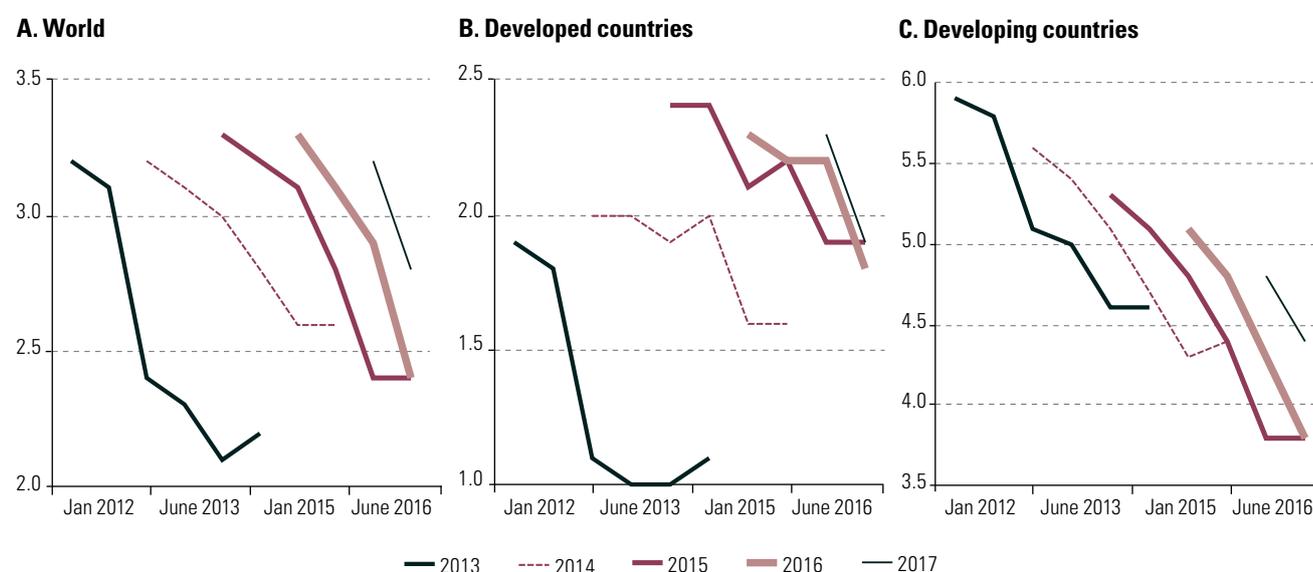
2. Economic recovery keeps being deferred

The recessionary bias of the global economy has lasted longer than anticipated, as demonstrated by the successive downward revisions to growth projections over recent years. Between January 2015 and May 2016, for example, the United Nations cut its 2016 growth projections from 3.3% to 2.4%, after likewise cutting its projections in the three previous years. Although they have been revised downward for both advanced and developing countries, the revision has been greater in absolute terms for the latter (see figure I.5). Other international bodies such as the World Bank and the International Monetary Fund (IMF) have also revised their projections systematically downward.

Figure I.5

Projected GDP growth, 2013-2017
(Percentages)

Global growth has been systematically revised downward since 2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Economic Situation and Prospects (WESP)*, New York, Department of Economic and Social Affairs, various years.

⁴ Excluding the eurozone, the elasticity of world trade is estimated to have fallen from 1.8 in 1995-2007 to 0.9 in 2012-2015 (European Central Bank, 2016b). Much of this drop can be explained by the shifting geographical composition of world trade and GDP.

The economies of the developed countries have continued to perform poorly in 2016. In the United States, economic growth was lower than anticipated in the first half of this year. Private consumption, which represents almost 70% of GDP, was sluggish despite low oil prices. Net export growth was likewise low, in a context of weakening global demand and energy sector investment. As a result of these factors, output growth of about 1.8% is anticipated in 2016 (United Nations, 2016). On the supply side, labour market dynamics have become increasingly disconnected from GDP. While employment continues to rise and the unemployment rate is very low, there are still a great many people outside the workforce who would be willing to work. This could explain why wage pressures have not increased.

Among the leading eurozone economies, Germany and Spain were the most dynamic in 2015 and the first half of 2016, followed by France and Italy. European exports and their contribution to growth increased considerably in 2015, when they were stimulated by the depreciation of the euro. However, this effect tailed off in the first half of 2016. The trade balance of the eurozone countries also improved in this period as the value of imports declined. Consumption has been fairly dynamic, driven by a gradual reduction in the unemployment rate and lower oil prices.

The incipient recovery in the European economy will be affected by uncertainty about the consequences of the future departure of the United Kingdom from the European Union (see box I.2). In this context, the most recent IMF projections, produced in October 2016, put eurozone growth in 2016 and 2017 at 1.7% and 1.5%, respectively, with the United Kingdom economy expected to grow by 1.8% in 2016 but just 1.1% in 2017. The latter figure is half the rate forecast in April 2016 (IMF, 2016c).⁵

Box I.2

The exit of the United Kingdom from the European Union (Brexit) is increasing uncertainty in the global economy

The vote for the United Kingdom to leave the European Union in the June 2016 referendum increased uncertainty in the global economy, reinforcing its recessionary bias. Negotiations to set the terms of the country's relationship with the European Union after departure are expected to begin in the first half of 2017. One of the key issues is whether it will continue to have unfettered access to the European Single Market, which took 47% of its exports in 2014. A number of European countries have made this conditional on the United Kingdom retaining the right for citizens of any European Union member country to reside there. However, greater control over immigration from the European Union and elsewhere was one of the main promises of the pro-Brexit campaign.

Another source of uncertainty is the trade policy that the United Kingdom (which accounted for 3.7% of global imports in 2015) will adopt after leaving the European Union and its common trade policy. A key aspect is its future participation in the numerous trade agreements signed by the grouping with outside countries, including several in Latin America and the Caribbean, and in ongoing trade negotiations, particularly with the United States over the Transatlantic Trade and Investment Partnership (TTIP). In short, the expectation is that the negotiations over the withdrawal of the United Kingdom from the European Union will be very complex both technically and politically and will last for at least two years.

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

The Japanese economy stagnated in the second quarter of 2016 after growing by just 0.5% in the first.⁶ This slowdown is attributed to lower demand for its exports, especially from emerging economies. Private investment has been growing moderately, while consumption has shown signs of weakening. In the year so far, inflation has been slightly negative. Output is projected to grow by between 0.8% and 1.0% in 2016.

⁵ These projections assume that an agreement is reached that retains free access for British firms to the European Single Market. If it is not, the negative impact on growth in both the eurozone and the United Kingdom will be greater.

⁶ See data from Cabinet office, Government of Japan [online] www.esri.cao.go.jp/en/sna/data/sokuhou/files/2016/qe162/pdf/main_1e.pdf.

In the industrialized countries, the recessionary bias mainly reflects excess savings and a lack of productive investment opportunities to absorb it (Bernanke, 2015). Similarly, Summers (2016) describes the problem as one of an increased propensity to save combined with a reduced propensity to invest. In all the main industrialized economies, gross fixed capital formation as a share of GDP is lower now than in the immediate run-up to the crisis (see figure I.6). It should be borne in mind that investment responds to growth expectations, which largely determine predicted returns. These expectations are not favourable in most sectors, the exceptions being those where technical change is most intensive and the potential for productivity growth greatest.

Investment has lost dynamism in the industrialized countries

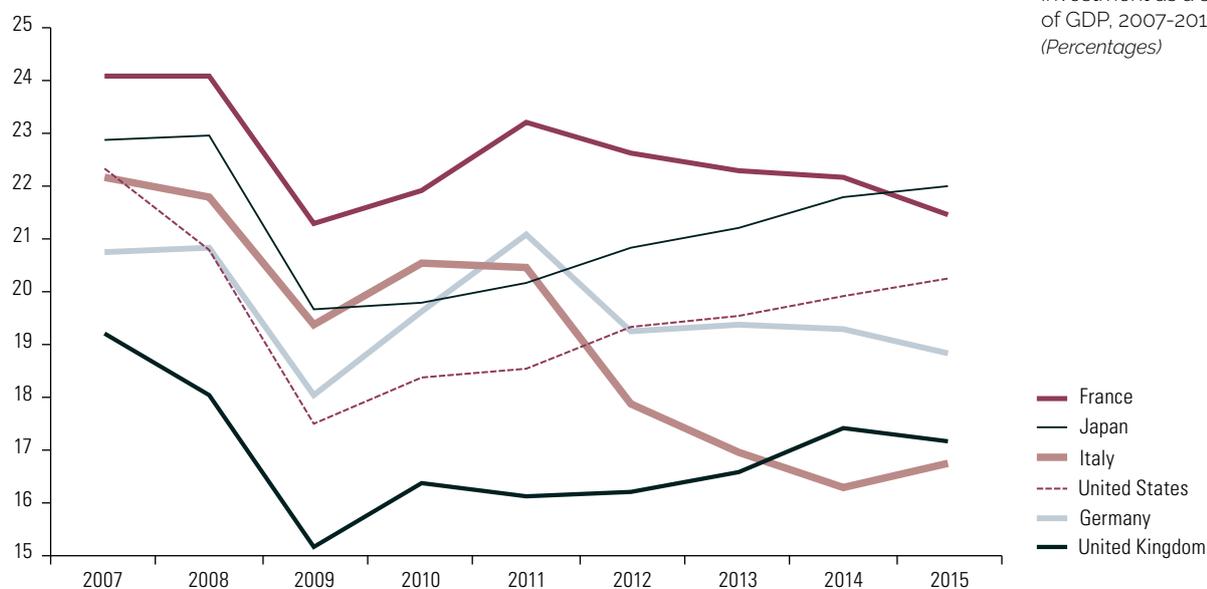


Figure I.6

Selected countries:
investment as a share
of GDP, 2007-2015
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, October 2016.

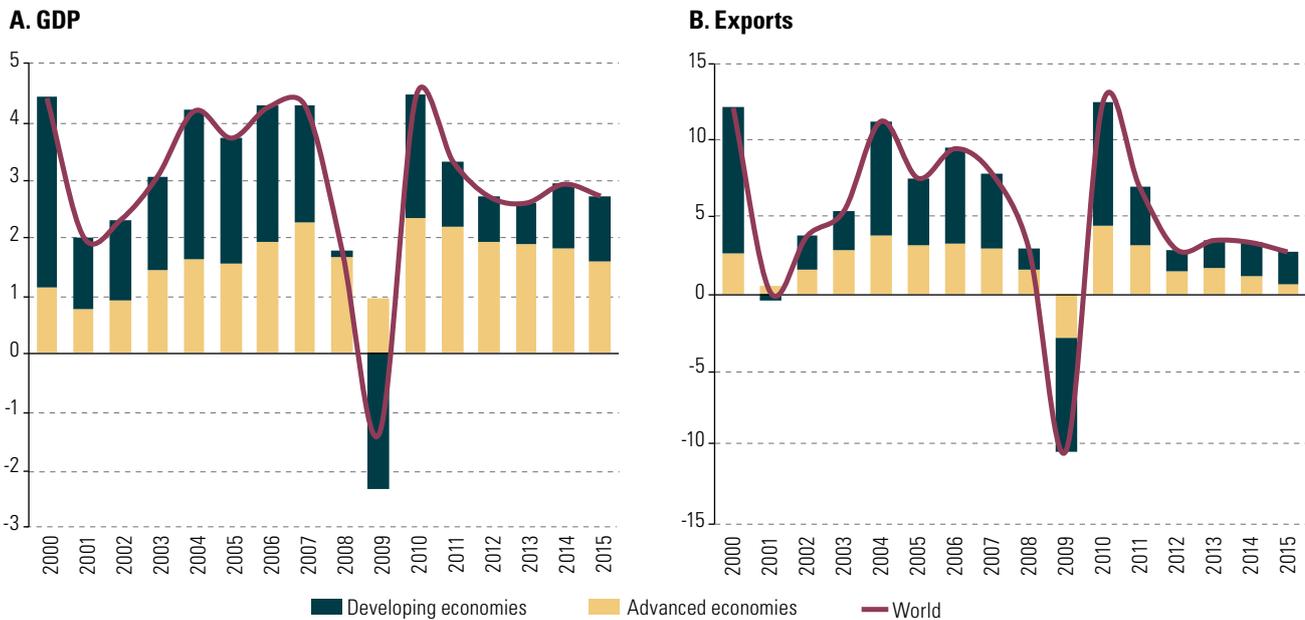
The increased propensity to save in the industrialized countries has originated in a combination of factors, such as rising inequality (high-income individuals tend to save proportionally more), greater life expectancy and uncertainty about conditions after retirement, ongoing financial deleveraging in the wake of the crisis and greater difficulty in accessing credit, among other things. The reduced propensity to invest is the result of the demand factors already mentioned (which lower the expected returns on investment) and supply factors such as lower growth in the active population, reduced capital intensity in the new digital industries and falling prices for capital goods (Summers, 2016).

The reduced dynamism of the developed countries is affecting the performance of developing countries, whose growth dropped from 4.6% in 2013 to 4.4% in 2014 and 3.8% in 2015. Growth in 2016 is projected to be similar to the previous year's (United Nations, 2016). Meanwhile, the contribution of this group to global growth fell from two thirds in 2012 and 2013 to just half in 2014 and 2015. Its contribution to global export growth also contracted, from half between 2011 and 2013 to a third in 2014 and a quarter in 2015 (see figure I.7).

Figure I.7

Contribution to world GDP growth and export volume, 2000-2015
(Percentages)

Developing countries' contribution to global output and trade has been decreasing



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2016.

Lower growth in developing regions has been due in part to reduced demand from the industrialized countries and to falling commodity prices. The application of restrictive fiscal and monetary policies in a number of developing countries to deal with negative external shocks has further cramped growth, while the recessions in Brazil and the Russian Federation have been deeper and longer-lasting than anticipated and had major effects on their respective regions.

The decline in Chinese imports largely explains the reduction in developing countries' contribution to world import growth, even though China's economy has slowed less in 2016 than anticipated. In the first half of 2016, GDP growth held steady at an annualized rate of 6.7%, which was due in part to growth in lending and in public infrastructure investment. This contributed to a 41% rise in property sales in the first 10 months of 2016 relative to the same period the year before, according to the National Bureau of Statistics of China. At the same time, fiscal spending between January and September 2016 was up 12.5% on the same period the year before, while private investment was 2.9% higher between January and October, a much more moderate rise than in 2015, when it was over 10%. These stimuli offset the impact of the recent slackening in the manufacturing sector.

The Chinese economy is faced with major structural challenges, such as overcapacity in a number of industrial sectors and in construction and a high level of public and private debt, this being estimated to have grown from 160% of GDP in 2005 to 247% in 2015. The category that grew most was corporate debt, which rose from 105% to 165% of

GDP over the period.⁷ Corporate borrowing has continued to rise in 2016 because of an increased flow of lending to traditional sectors (especially for infrastructure development) at a time when consumption and services are still not making enough of a contribution to GDP growth. The increasing unsustainability of this debt is manifested in a historically large non-performing loan portfolio, the equivalent of 7% of GDP in 2015. Another concern is that over half the debt is held by State enterprises, whose revenues and earnings have been dropping since 2015. Also troubling is the sharp drop in investment returns: in 2009, it took 1 yuan of additional lending to raise GDP by 1 yuan, but by 2015 an estimated 4 yuan were required to generate the same increase (IMF, 2016a).

All the other large emerging economies except India will grow by less in 2016 than in 2015. Growth in commodity-exporting economies in particular has declined because of lower commodity prices. Combined with the resulting depreciation of their currencies, this has cut their demand for imports, contributing to the persistent lack of dynamism in world trade.

In summary, eight years on from the start of the crisis, the global economy seems to be mired in low growth that is expected to last at least until the end of this decade. The different political and structural factors that have contributed to this long period of stagnation will now be analysed.

3. Monetary policy exhaustion and the lack of fiscal stimulus

Despite the expansionary monetary policies adopted since the global financial crisis, growth in the developed countries has taken longer than expected to recover. A number of these countries have lowered their interest rates to near zero or even below it in recent years. Furthermore, their central banks have made massive purchases of debt securities, both sovereign and private, to reduce the interest rates charged by banks and thus stimulate consumption and investment.

In the United States, the Federal Reserve has decided to delay raising the interest rate in 2016 in view of the weakness of the global economy, inflation expectations that have been persistently below the 2% target, low private-sector fixed investment and financial market volatility (Federal Reserve, 2016). Similarly, the European Central Bank has kept its policy interest rates unchanged and stated that its extraordinary quantitative easing measures will remain in place until March 2017 or as long as necessary for the inflation target to be met (European Central Bank, 2016a). The Bank of England, expecting the economy to weaken because of the United Kingdom's exit from the European Union, decided to cut the policy interest rate in August 2016. The Bank of Japan, lastly, has announced that its package of quantitative and qualitative easing with a negative interest rate will continue.

Negative monetary policy rates in Japan and the eurozone have not as yet had the desired effect of stimulating consumption and investment. At the same time, this policy could have negative externalities, for example by eroding bank profitability and encouraging excessive investment risk-taking, thereby causing further instability. In a number of developed countries, meanwhile, there is little evidence that quantitative easing has had a positive effect on credit growth and investment, owing to the limited pass-through effects of low monetary policy interest rates on market lending rates (United Nations, 2016).

⁷ See Bloomberg [online] <http://www.bloomberg.com/news/articles/2016-08-28/digging-into-china-s-growing-mountain-of-debt>.

To sum up, monetary policy seems to have exhausted its potential to stimulate aggregate demand in developed countries. Even if the United States Federal Reserve policy interest rate does rise, interest rates are expected to remain at historically low levels in the medium term, reducing the scope for reacting to any economic crisis (Yellen, 2016). This would reaffirm a situation in which excess liquidity or a liquidity trap does not translate into productive investment (Krugman, 2016; ECLAC, 2015b).

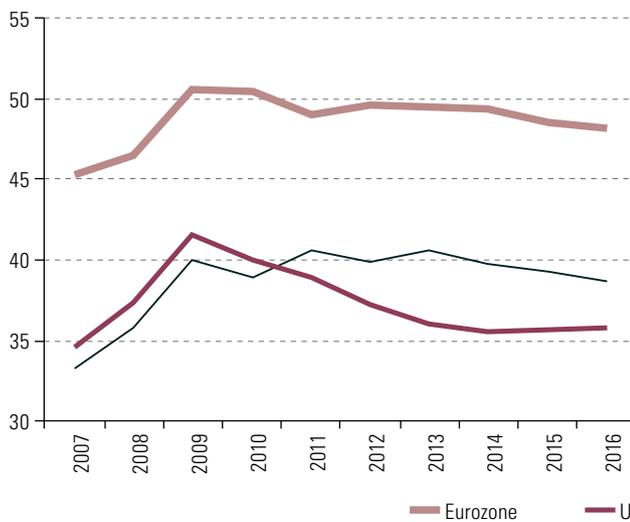
Meanwhile, fiscal policy in the developed countries turned restrictive after an initial period of expansion in response to the crisis. These countries built up a growing public debt during that stage, with the monetary authorities making large bond purchases. Fiscal consolidation policies subsequently prevailed (see figure I.8), as it was feared that the debt build-up would negatively affect medium-run growth (Van Riet, 2010). Some policymakers adopted the theory that fiscal austerity would bring about such a large shift in expectations that the effect of austerity on investment and aggregate demand would be positive by the end of the adjustment process (contrary to what traditional Keynesian theory suggests). This theory was not borne out, with the result that the recovery in Europe has been slower and weaker than would have been possible had the usual countercyclical remedies been adopted.

Figure I.8

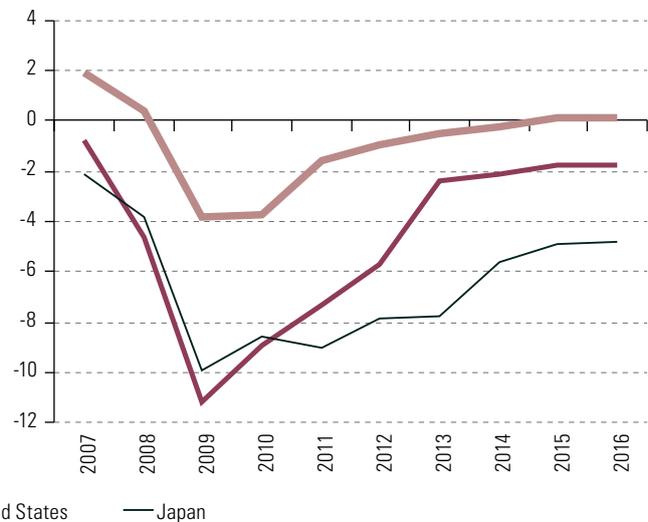
Eurozone, Japan and United States: general government fiscal spending and deficits, 2007-2016^a
(Percentages of GDP)

Fiscal consolidation has prevailed in developed countries

A. Primary fiscal spending



B. Primary deficit



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook (WEO) Database, April 2016.

^a Figures for 2016 are projections.

The ineffectiveness of monetary policy as a tool for reactivating the leading economies has recently led to a reassessment of the role of fiscal policy. Thus, some analysts have concluded that there are few benefits to reducing public debt, especially in developed countries with a tradition of fiscal prudence, and that the costs of fiscal consolidation in terms of increased unemployment and inequity are high (Ostry, Loungani and Furceri, 2016). Furthermore, it has been argued that public investment is particularly effective in low interest-rate situations (United Nations, 2016). The point has likewise been made that a reduction in interest rates like that seen since the crisis would have been more effective if it had been accompanied by an expansionary fiscal policy (Sims, 2016).

The President of the United States Federal Reserve System recently highlighted the usefulness of fiscal policy at times of crisis to help normalize the business cycle, and emphasized the role of automatic fiscal stabilizers and subsidies to local governments at times of recession (Yellen, 2016). Also in the United States, Summers (2016) has proposed an ambitious programme of public infrastructure investment to support recovery. IMF has also recently pointed to the role of fiscal policy and public investment in particular in revitalizing growth in the Group of 20 (G20) countries (IMF, 2016b). In this context, the new multi-year stimulus plan announced by the Government of Japan in August 2016 suggests a shift towards a greater role for fiscal policy, breaking with the tendency to take austerity measures at times of crisis (Posen, 2016). This plan is expected to include early implementation of infrastructure projects such as the magnetic levitation train between Tokyo and Osaka, together with support for SMEs and subsidies for lower-income individuals.

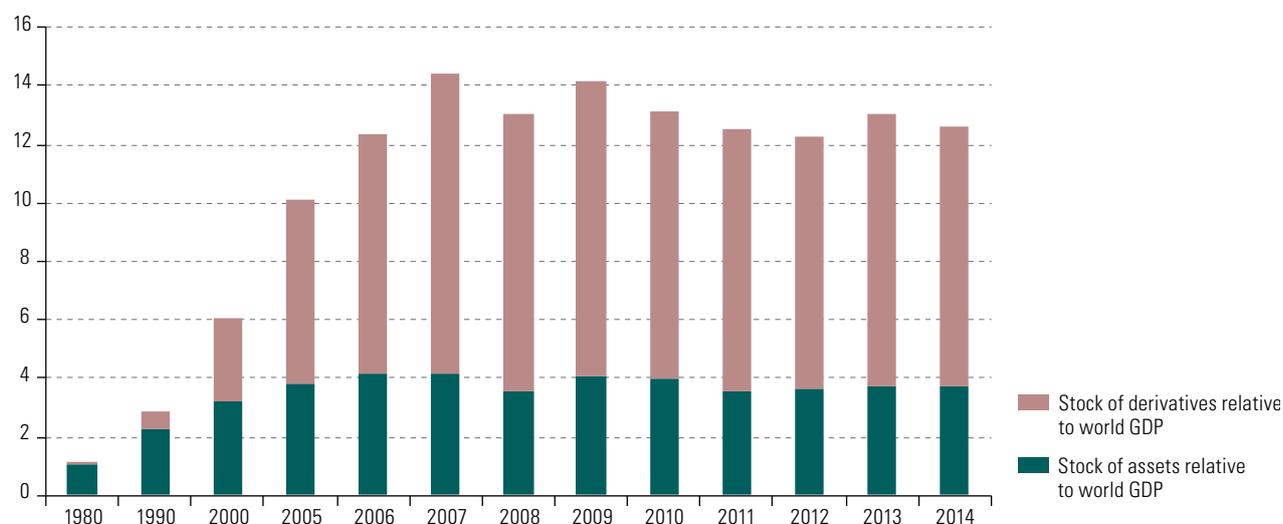
4. Financial expansion has increased disequilibria

One effect of monetary policy in the industrialized countries since the crisis has been to speed up the unprecedented expansion of the financial sector that had been gestating for three decades. This has been manifested, in particular, in a rise in financial assets that has far outstripped the growth of real activity. Between 1980 and 2014, the global stock of assets (excluding derivatives) expanded from US\$ 12 trillion to US\$ 294 trillion, equivalent to 1.1 and 3.8 times world GDP, respectively. In the same period, the value of derivatives contracts grew exponentially, rising from US\$ 1 trillion to US\$ 692 trillion. Thus, the whole stock of financial assets rose from rough parity with world GDP in 1980 to over 10 times world GDP by the second half of the 2000s (see figure I.9).

Figure I.9

Stocks of financial assets and derivatives relative to world GDP, 1980–2014
(Multiples of GDP)

Financial-sector expansion has not reversed since the crisis



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of McKinsey, *Investing in Growth: Europe's next challenge*, McKinsey Global Institute (MGI), 2012; McKinsey, *Mapping Global Capital Markets*, McKinsey Global Institute (MGI), 2011; Deutsche Bank, *The Random Walk. Mapping the World's Financial Markets 2014*, 2015; Bank for International Settlements (BIS), "Statistical Release. OTC derivatives", 2015; and World Bank, *World Development Indicators*, 2015.

Transaction volumes are now far larger in the financial sector than in the real economy. The sector is led by large and complex financial institutions that tend to be highly interconnected and concentrated and have a liability structure skewed towards procyclical leverage (ECLAC, 2016a). Another manifestation of the decoupling of real and financial activity is the divergence between growth rates of world trade and cross-border capital flows, especially since central banks in the developed countries implemented their quantitative easing plans (see figure I.10).

Figure I.10

Volumes of international trade and cross-border financial flows, 2000–2015^a
(Index: 2000=100)

Financial flows have been growing more quickly than trade



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Netherlands Bureau for Economic Policy Analysis (CPB) and the Bank for International Settlements (BIS).

^a Dollar-denominated lending from the United States to the rest of the world is one of the global liquidity benchmarks used by BIS and is taken here as a proxy for cross-border financial flows.

The power of global financial markets to mobilize resources and create leverage makes it extremely hard for governments to act to prevent bubbles emerging, control currency and commodity speculation and limit non-bank borrowing and shadow banking systems. Part of the behaviour of activities and variables that was traditionally ascribed to real factors is now due to financial factors as well. A clear example is the commodity market. Commodities have become a financial asset, since their prices increasingly respond more to changes in expectations of future conditions than to the current state of the market and of supply and demand. In short, the world economy is undergoing financialization, defined as a process in which financial markets, institutions and elites become increasingly important to the workings of economies and their governance institutions at both the national and the international levels (Epstein, 2006).

Specifically, where global disequilibria are concerned (see subsection 5), the proliferation of financial assets is increasing the risk of crises in deficit economies. For one thing, it encourages public and private borrowing during upturns, for example, by lowering interest rates. For another, whenever there is a shock that depresses growth expectations and solvency in debtor countries, large-scale outflows of assets worsen the contraction and make it harder to implement stabilization and growth policies. Indeed, non-financial-sector debt globally is at a historic high, equivalent to 225% of world GDP (IMF, 2016d). Two thirds of debt is in the private sector of developed countries and some of the major emerging economies. The build-up of private sector debt could trigger a financial crisis if today's economic stagnation persists, becoming a further risk factor for the world economy.

Rising global liquidity has led to many emerging economies increasing their external leverage and, with it, their exposure to global liquidity cycles. As Turner (2016) observes, leverage does not disappear but simply moves elsewhere. The empirical evidence from the period subsequent to the subprime mortgage crisis once again confirms that the direction and size of capital flows are essentially determined by liquidity conditions in the major financial centres and, to a lesser extent, by structural factors in the recipient countries on the periphery (Aizenmann, Binici and Hutchison, 2014; Eichengreen and Gupta, 2014). This dynamic is particularly in evidence in Latin America, where cross-border capital flows are less regulated than in any other region except Eastern Europe (see figure I.11). In the aggregate, while the countries of Latin America have intervened more in cross-border capital movements over recent years, they still do so much less than Asian economies or the countries of the BRICS grouping (Brazil, the Russian Federation, India, China and South Africa).

Figure I.11
Regulation of cross-border capital flows, 2000-2013^a

Capital flows are lightly regulated in the region



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Fernández and others, “Capital control measures: A new dataset”, *NBER Working Paper*, No. 20970, National Bureau of Economic Research (NBER), 2015.

^a This is a de jure indicator of 32 positions potentially subject to regulation (16 relating to capital inflows and 16 to outflows). Each position (for example, shares, bonds and property) scores 1 if there is some type of regulation and 0 if there is none. The indicator is constructed by calculating the average for the 32 positions. The closer to 1 the indicator value is, the greater the level of regulation.

Greater regulation of cross-border capital flows would give recipient countries more room for macroeconomic manoeuvre. Erten and Ocampo (2013) have observed that regulating cross-border capital flows not only reduces exposure to currency strains but increases the independence of monetary policy. Capital flow regulation can be seen, then, as indispensable to ensure local macroeconomic and financial stability. The combination of permissive financial integration plus cross-border capital flows and excess liquidity in global financial markets has enabled regions with current account deficits, such as Latin America and Eastern Europe, to borrow on a scale that may have sustained growth but has entailed a rise in external debt. As figure I.12 shows, this debt has increased steadily in Latin America, essentially in the private sector, since the central countries implemented their expansionary monetary policies. This implies that, notwithstanding the build-up of reserves by the region’s central banks, its countries are still vulnerable to a possible downturn in the global financial cycle.

Figure I.12

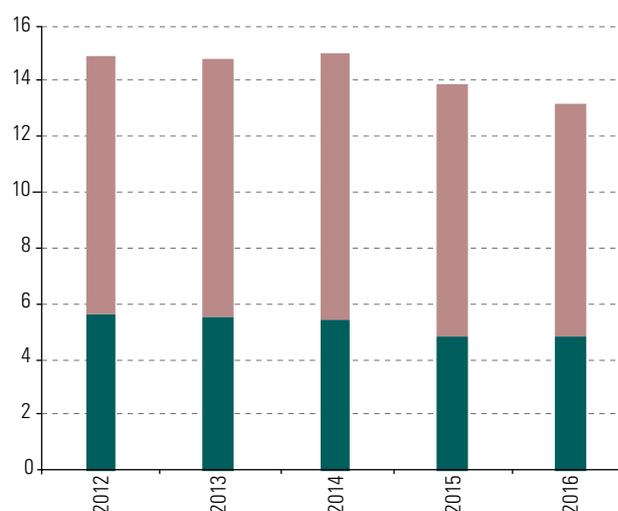
Public and private external borrowing
(Percentages of GDP)

External debt has been growing in Latin America

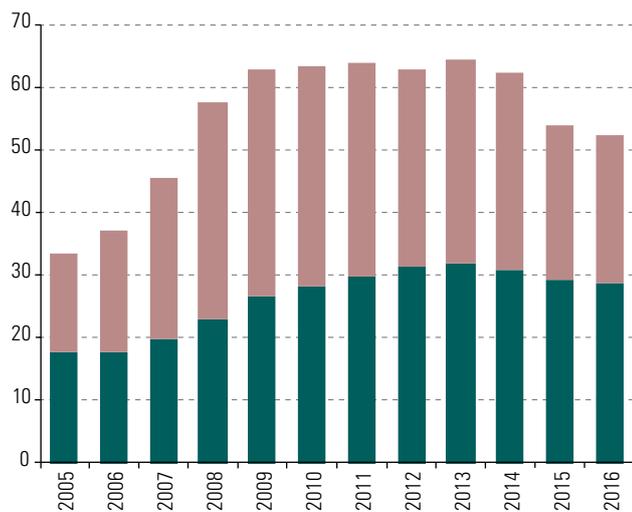
A. Latin America, 2003-2016



B. Emerging Asia, 2012-2016



C. Eastern Europe, 2005-2016



D. Middle East and North Africa, 2004-2016



External private debt External public debt

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Joint External Debt Hub of the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Organization for Economic Cooperation and Development (OECD) and the World Bank.

The gross amounts of external liabilities and their degree of liquidity are among the new manifestations of external vulnerability (Akyüz, 2014; Kaltenbrunner and Painceira, 2016). As a result, the traditional criteria for determining the optimum level of reserves have been redefined. For example, the measure proposed by IMF (2011, 2013) distinguishes different sources of pressure on reserves. They include

not just debt, but also shares, monetary aggregates (reflecting residents' ability to transfer capital abroad) and exports (to include the contingency where a drop in external demand or a terms-of-trade shock reduces currency inflows into the country).

Just as developed countries now seem to have less room for manoeuvre in stimulating their economies (essentially because interest rates cannot be cut below their present levels), there seems to be only limited scope in Latin America for deploying expansionary policies to return to a path of sustained growth, but for different reasons (Abeles and Valdecantos, 2016). The region's countries exhibit greater external vulnerability, reflected in a general deterioration of current account balances. The persistence of financial inflows has spared them the need for large-scale recessionary fiscal adjustments. The corollary of this, however, has been an increase in external borrowing whose highly liquid character represents a latent threat to the region's macrofinancial stability.

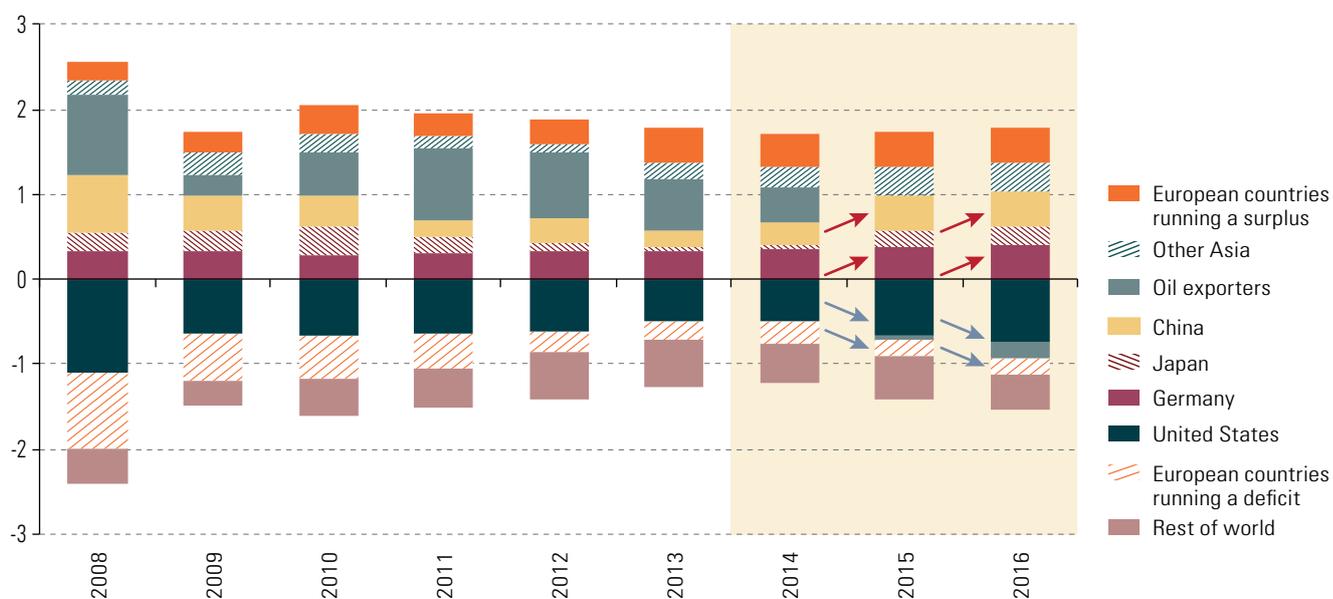
5. Disequilibria, productive heterogeneity and lack of macroeconomic coordination

The disequilibria between the current account balances of the main economies have contributed to the persistence of recessionary bias around the world. In 2016, these disequilibria have increased modestly and changed in composition (see figure I.13). There has been a continuation of the trend towards rising current account surpluses seen since 2013 in a number of countries, including Germany and other surplus countries in the eurozone, China, Japan and the Republic of Korea. In the case of Germany, the positive balance of the current account was 8.5% of GDP in 2015.

Figure I.13

Current account balances, 2008-2016^a
(Percentages of global GDP)

The eurozone and Asia are expected to have slightly higher current account surpluses in 2016



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook (WEO) Database, April 2016.

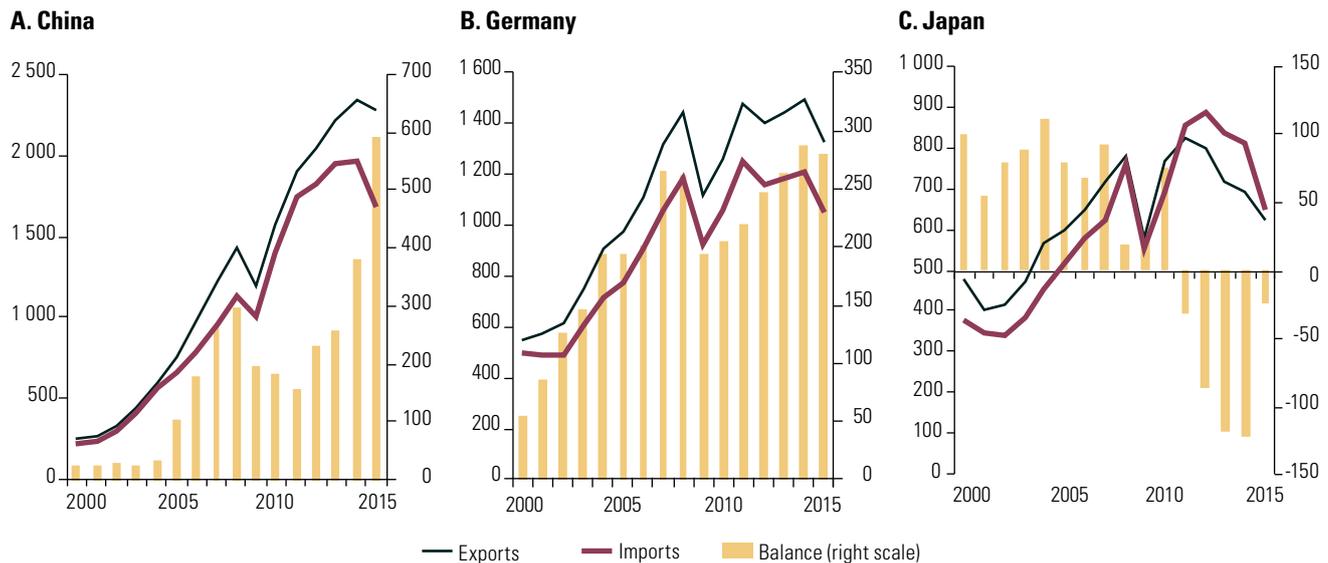
^a Figures for 2016 are projections.

Other than in Japan, rising current account surpluses are largely accounted for by higher trade surpluses (see figure I.14). A lack of import dynamism in the surplus economies has contributed to the stagnation of global demand.⁸ These countries could have stimulated domestic demand more, for example through increased fiscal spending, currency appreciation or higher wages, to promote growth and raise imports. Instead, in a context of low domestic dynamism, they set out to dynamize their exports and improve their current account balances yet further through policies that have contributed to depreciation of their currencies. This strategy has made it harder for deficit countries to adjust their economies by raising exports rather than drastically cutting imports. The situation is being compounded in the case of China by the negative effect on imports of the ongoing rebalancing in the economy and import substitution measures in a number of industries.

Figure I.14

China, Germany and Japan: exports, imports and trade balances, 2000–2015
(Billions of dollars)

The trade surpluses of China and Germany have grown substantially this decade



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

The narrowing of deficits in a number of countries that have traditionally run them, mainly in the eurozone, has also worsened the global recessionary bias (see figure I.15). By applying adjustment policies designed to reduce their fiscal deficits, deficit countries on the European periphery have lowered fiscal and consumer spending while raising taxes. This has led to a sharp contraction in demand that has in turn cut imports and current account deficits, with heavy economic and social costs.

⁸ Conversely, the surpluses of countries that export oil and other commodities gradually vanished between 2013 and 2015 as their prices fell. In 2016, the group of oil-exporting countries recorded its first deficit since 1998. Meanwhile, Asian countries that are oil importers increased their surpluses between 2012 and 2016.

The growing current account surplus of the eurozone is the result of a strong recessionary bias

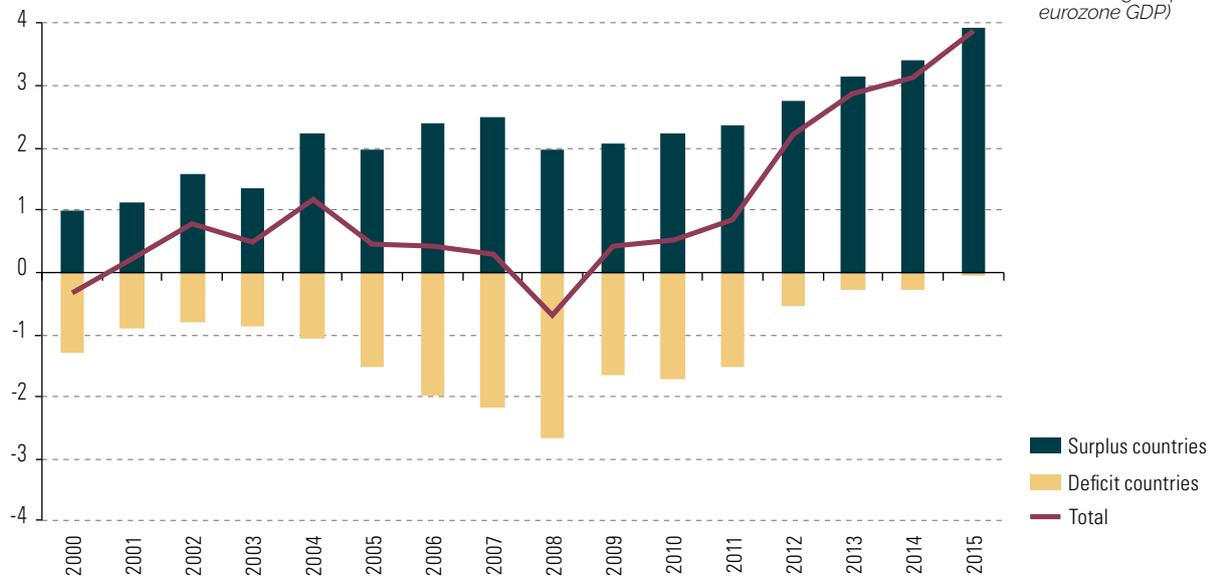


Figure 1.15

Eurozone countries:
current account
balances, 2000-2015
(Percentages of
eurozone GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook (WEO) Database, April 2016.

Some of the factors that have prolonged the current recessionary bias cannot be easily altered in the short term. In particular, as the previous section highlighted, the heterogeneity of production structures has been a prime cause of the emergence and persistence of disequilibria. The strong correlation between different countries' current account balances and their manufacturing competitiveness implies that surplus and deficit countries will probably tend to maintain their respective positions in the medium run. In particular, the current account position is strongly associated with competitiveness in the capital goods segment (see box I.3). The United States is a special case because, as the issuer of the leading international reserve currency, it is under less pressure to adjust despite its large deficits, providing liquidity to the rest of the world.

In summary, surplus countries should pursue currency appreciation and stimulate aggregate demand to relieve recessionary pressures in deficit economies. Fiscal policy has a key role to play, especially in a global context of near-zero interest rates in a number of the main surplus countries. The resultant outflow of capital from these economies has caused their currencies to depreciate, making imports more expensive and the recessionary bias even more acute (Caballero, Farhi and Gourinchas, 2016). Quantitative easing has had further effects in Latin America, as the region's economies have taken on more and more external debt. This borrowing has negatively affected the region's ability to use fiscal policy as a countercyclical instrument, a subject that is analysed below.

Box I.3

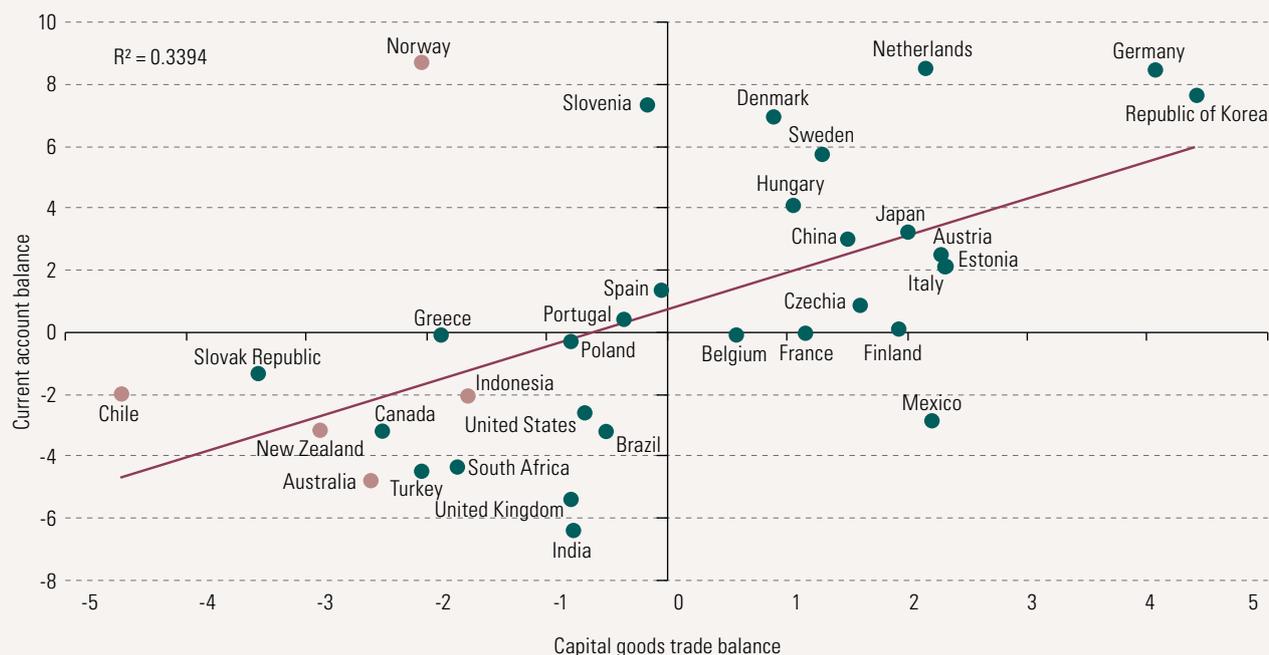
The strong correlation between current account balances and capital goods export competitiveness

The literature has identified a number of factors affecting current account balances. They include demographics, per capita GDP growth levels and rates, the oil price and net trade balance, the net international investment position at the outset, the general government budget balance, the extent of trade liberalization, and financial market openness and depth (Barnes, Lawson and Radziwill, 2010).

A clear empirical correlation exists between current account balances and export manufacturing competitiveness, especially in capital goods. The positive current account balances of China and the eurozone in recent years can be explained in part by their specialization in the production and export of this type of goods. The following chart shows this relationship for a large group of countries. The apparent correlation between the two variables is even stronger when countries with plentiful natural resources (Australia, Canada, Chile, Indonesia, Norway and South Africa) are excluded. The capital goods trade balance shows a greater correlation with the current account position than the trade balance in manufacturing as a whole (Grömling, 2014).

Capital goods trade balance and current account balance, 2015

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, Commodity Trade Statistics Database (COMTRADE), and International Monetary Fund (IMF), World Economic Outlook (WEO) Database, April 2016.

To produce capital goods, technological capabilities have to be built up over a long period. This suggests that countries which are already highly competitive as producers of these goods will maintain their surpluses in the medium run, while countries that do not invest enough in developing these capabilities will continue to run deficits.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Organization for Economic Cooperation and Development (OECD); M. Grömling, "A supply-side explanation for current account imbalances", *Intereconomics*, vol. 49, No. 1, January 2014; and S. Barnes, J. Lawson and A. Radziwill, "Current account imbalances in the Euro Area: a comparative perspective", *Economics Department Working Paper*, No. 826, Paris, Organization for Economic Cooperation and Development (OECD), 2010.

6. China's contribution to global trade dynamism has diminished

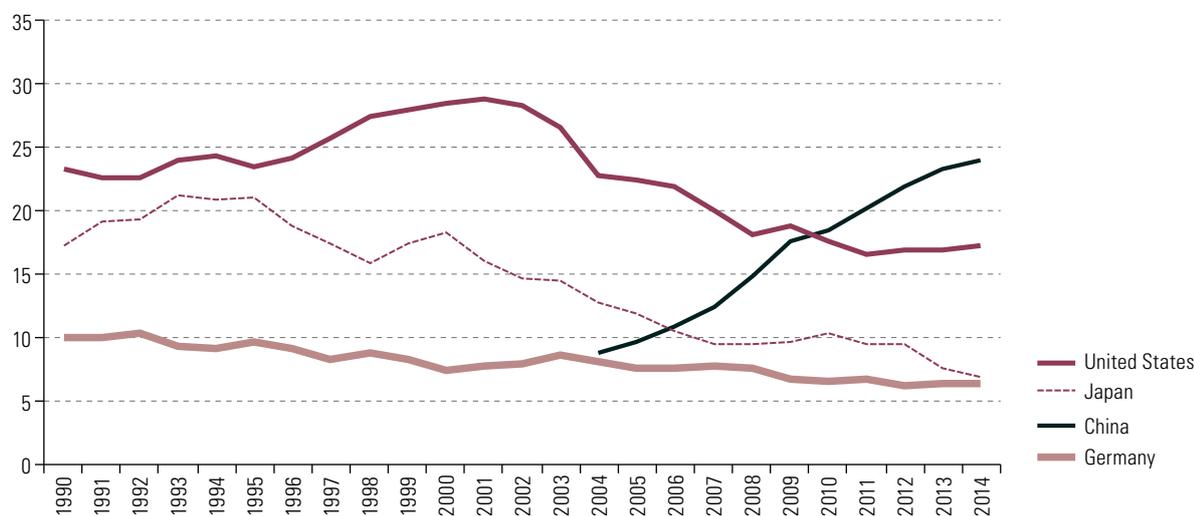
One unexpected result of the transformations associated with globalization was the resurgence of China as a global economic power, a position it had held until the eighteenth century. The country grew by an average of 10% a year in the three decades that followed the start of economic reforms in 1978 and accounted for a quarter of the world economy's growth between 2000 and 2014. With an export-oriented model, its economy has been successful in adapting technologies and know-how and incorporating them into exports, and at orchestrating structural shifts towards higher-productivity sectors. Its rate of expansion has recently slowed to a range of 6% to 7%, but remains one of the highest in the world.

China has become a key player in global production and trade thanks to large investment by transnational enterprises, the incorporation and adaptation of technological change, and effective industrial policies. In 2015, it was the world's largest producer of manufactures (see figure I.16), its largest exporter of goods and its second-largest importer of goods and services. It now accounts for a quarter of the world's production of manufactured goods. In a number of sectors, such as mobile phones and air conditioning appliances, its global share is close to two thirds. China has also become a major consumer and importer of raw materials. In 2013, it accounted for almost half the world's aluminium, copper and zinc consumption and almost 30% of its soya consumption (ECLAC, 2016a).

Figure I.16

Selected countries: shares of world manufacturing output, 1990-2014
(Percentages)

China became the world's largest industrial producer in a decade



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, National Accounts Main Aggregates Database [online] <http://unstats.un.org/unsd/snaama/Introduction.asp>.

The country has expanded by creating competitive advantages in sectors of the global economy that are dynamic in terms of both demand and the incorporation of technical progress. In 2011, China displaced the United States as the country where most patent applications are submitted, a position that it maintains to this day and that would have been unthinkable in the early part of this century. The movement of people and labour from the countryside to cities, to be employed essentially in manufacturing, has created scope for productivity and learning gains that have made it the world leader in manufacturing. Furthermore, it has implemented a strong import substitution policy, in the iron and steel industry for example, that has increased the domestic value added contents of its exports.

China's success is not only the outcome of its integration into world trade, but the effect of this integration combined with policies to diversify the economy. Although China's scale makes it exceptional, smaller Asian countries such as the Republic of Korea and, more recently, Malaysia and Viet Nam have also managed to use industrial and technological policies to engage dynamically with the globalized economy.

Over the course of this decade, the Chinese Government has tried to reorient the growth model in two respects. On the supply side, it aims to reduce the share of the manufacturing sector in the economy and increase that of services. After peaking in 2011, the GDP share of industry began to decline in nominal terms from 2012, largely because of falling prices in the sector. This trend is similar to that observed in a number of industrialized countries, where the drop in prices has been followed by the reallocation of factors of production (IMF, 2016a). The employment share of the industrial sector has also been declining since 2013.

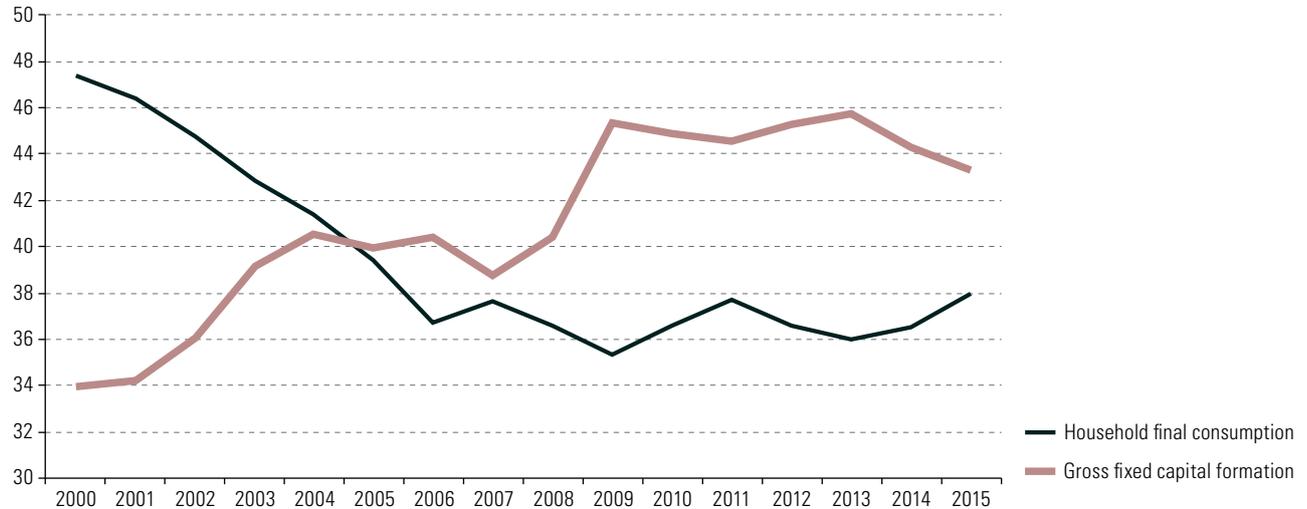
Despite the progress made, the authorities remain somewhat reluctant to deal with overcapacity in a number of manufacturing sectors such as aluminium, cement, coal, glass production, refined oil and steel. For example, according to figures from the China Iron and Steel Association (CISA), installed capacity utilization rates in iron and steel industries in 2015 were 67% and 71%, respectively. However, steel production was higher between March and July 2016 than in the same period of 2015. Because the country accounts for over half the world's steel and aluminium output, higher production there is still depressing global prices for these products, at a time when global demand is weak. More generally, overcapacity in the economy is a large part of the reason why the producer price index has fallen for more than 57 months in a row since 2011. Although the government is seeking to cut capacity by cancelling or delaying new investment and closing inefficient and highly polluting plants, progress in this direction has been slow.

On the demand side, the Chinese authorities are seeking a transition from an economy strongly driven by investment and exports to one in which consumption plays a larger role (ECLAC, 2015). There has been progress in this direction since 2013 (see figure I.17). Nonetheless, gross fixed capital formation as a share of GDP, at 43%, remains much higher in China than in other economies such as those in Europe, Japan or the United States, where this variable typically represents between 15% and 25% of GDP. In turn, consumption remains a small share of China's economy (38% of GDP) by the standards of these other countries, where it represents over 60% of total demand.

Figure I.17

China: consumption and gross fixed capital formation as shares of GDP, 2000-2015
(Percentages)

The rebalancing of the Chinese economy is proceeding slowly



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators, and data from the National Bureau of Statistics of China.

The weakness of consumption as a new driver of growth is negatively affecting Chinese imports, whose volume fell year-on-year for six consecutive quarters between the first quarter of 2015 and the second quarter of 2016 (see figure I.18). On top of this, Chinese firms have for some years been reducing the imported content of their exports, especially in the case of medium- and high-technology manufactures (ECLAC, 2015).

Figure I.18

China: year-on-year changes in total exports and imports by volume, first quarter of 2006 to second quarter of 2016
(Percentages)

Chinese import volumes have contracted since the first quarter of 2015



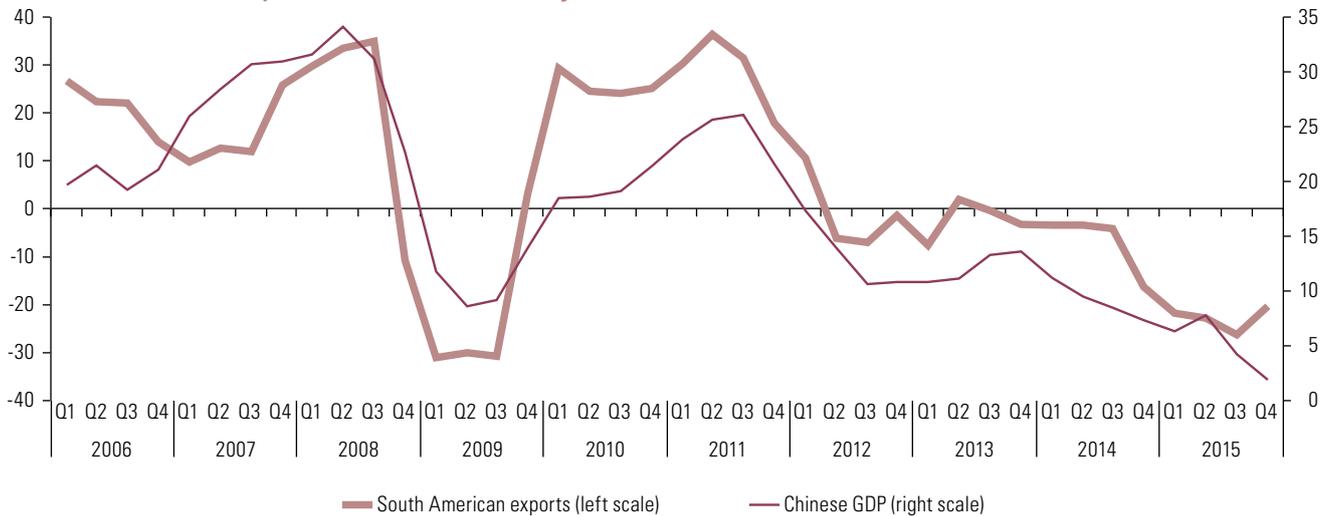
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Trade Organization (WTO).

In recent years, the drop in Chinese import demand has affected the prices and volumes of the country's raw material imports, sharply impacting countries in the region that export these products, mainly in South America. China accounted for about 15% of this subregion's total exports in 2014 and over 20% of the increase in worldwide shipments between 2000 and 2014. Indeed, there is a strong correlation between the evolution of nominal Chinese GDP and South American exports (see figure I.19).

Figure I.19

Year-on-changes in total South American exports and Chinese GDP, 2006-2015
(Percentages, at current prices)

South American exports correlate closely with Chinese GDP



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Trade Organization (WTO) and the National Bureau of Statistics of China.

A further factor behind the fall-off in Chinese import dynamism recently has been the effort to replace imported inputs with locally produced ones that has been under way in the country for a number of years as part of a deliberate policy to create production and technological capabilities. This import substitution has taken place as certain industries such as electronics have gradually built up networks of local suppliers (OECD, 2016; Kee and Tang, 2016).

C. The effects of the technological revolution

1. The digital revolution: global platforms and employment

A key variable in the analytical framework summarized in diagram I.1 is the technological revolution, which widened the gap between leading and laggard economies, thus re-creating the heterogeneity of production structures in the global economy. The technological revolution and structural heterogeneity are shown combined in the upper part of the diagram. Innovation and the spread of technology have given rise to competitive asymmetries and, with them, persistent trade disequilibria.

In a context of technological revolution that has created scope for large jumps in productivity and quality via innovation within the new technological paradigms, the distance between the leading and follower economies tended to increase. Gaps are harder to close when the international technology frontier is moving quickly. One example of this dynamic can be seen in digital technologies, which now underpin communication, the generation of information, entertainment, commerce, the provision of education, health and government services and the implementation of new cyberphysical production systems. The continuous development of high-speed Internet connections, ubiquity in access with multiple devices, cloud computing and the explosion of data generated by people, machines and objects via the Internet of Things have turned these technologies into the platform for the global economy, giving rise to new patterns of consumption and production: the global economy today is a digital economy.⁹

The mass take-up of digital technologies has substantially increased the digital component of cross-border flows of goods, services and financial assets. Today, all these transactions have a digital component (McKinsey Global Institute, 2016a). Digitalization has transformed these flows by reducing transaction costs and marginal production and distribution costs. This effect has been brought about in three ways: by creating digital goods and services, adding value by incorporating digital features into goods and services that are in principle not digital, and developing production, exchange and consumption platforms (ECLAC, 2016a).

The digital revolution is generating opposing tendencies: fragmentation and concentration. On the one hand, there has been a proliferation of small producers using digital platforms to access market niches by meeting local requirements or the demand for personalized products and services. On the other, there has been an increase in the concentration of large firms with a global presence in markets characterized by scale economies, usually in countries at the technology frontier, and acting as platforms for trade, production and innovation.

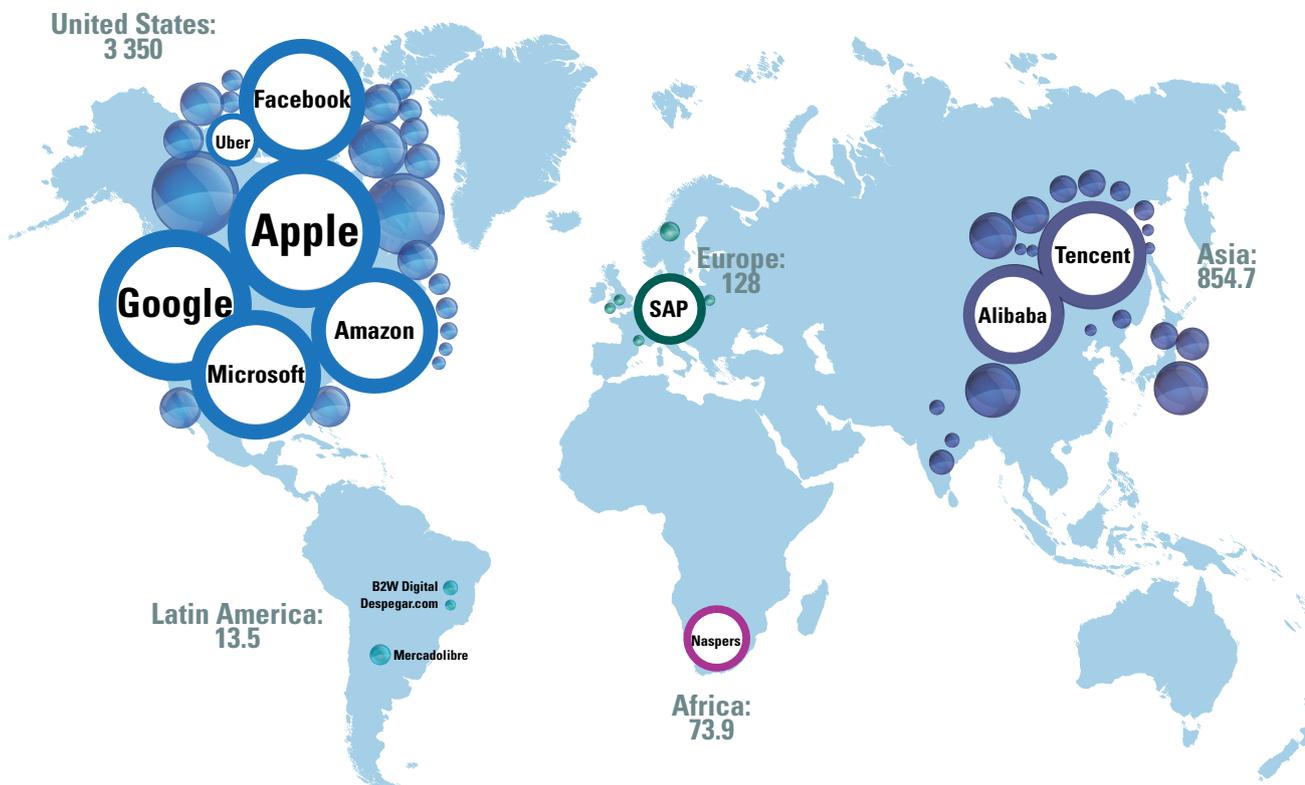
Digital platforms generate value through network effects on the demand side, in a context of multi-sided markets. This business model enables them to grow quickly from local ventures into global enterprises, achieving scales that make it hard for new competitors to emerge. First mover advantages and differences in access to network and scale economies, particularly when it comes to data accumulation, explain the geographical heterogeneity of the platforms that have appeared and the distribution of the revenues they produce. The United States has the largest number of digital platforms (led by Apple, Google, Facebook, Amazon, Microsoft and Uber), with a market capitalization of US\$ 3.35 trillion (see map I.1).¹⁰

⁹ As of 2015, there were 4.7 billion individual mobile phone subscribers, 3.174 billion individual Internet users (43% of the global population) and over 4.2 billion fixed and mobile broadband subscriptions, while monthly IP traffic was 72,500 petabytes and 179.6 billion applications had been downloaded, i.e., some 25 per person (ECLAC, 2016c).

¹⁰ Asia has the second-largest concentration, with platforms valued at US\$ 854 billion, predominant among them being the Chinese firms Alibaba (commerce) and Tencent (an investment holding company focused on Internet services). Europe has platforms valued at US\$ 128 billion, led by SAP, a German multinational that designs business management software. Further behind is Africa, with platforms valued at US\$ 74 billion, the leader being Naspers, a South African multinational providing entertainment and Internet services. Platforms based in Latin America are valued at US\$ 13.5 billion, the most prominent being Mercado Libre (an Argentine online marketplace), B2W Digital (a Brazilian online retail firm) and Despegar.com (an online travel agency founded in Argentina).

Map I.1

Market capitalization of digital platforms by region, 2015^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Evans, “Emerging Platform Economy. Global Platform Survey”, presentation at the Massachusetts Institute of Technology (MIT) Platform Strategy Summit, Cambridge, Massachusetts, 15 June 2016; and data from Fortune and Bloomberg.

Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

^a Includes only platforms with a market value of over US\$ 5 billion in the United States, US\$ 2 billion in Asia and Europe, and US\$ 1 billion in Latin America and Africa.

The diversification of technological investments by digital platforms has been creating innovation ecosystems in industrial and services activities (see the example of Google in diagram I.5). A notable case is the automotive sector, where a great deal of investment is going into the development of autonomous or smart vehicles. Although the partnership between Google and Tesla is the best known, over 30 tie-ups between producers and technology giants are investing heavily in driverless vehicle research and development.

Similarly, agriculture has become one of the greatest growth areas for the industrial Internet with machine-to-machine (M2M) connections, since analysing the data generated by these technologies provides a very effective basis for efficient resource use and conservation. One example is the announcement that Monsanto, through Climate Corporation, which it acquired in 2013, is building a network of sensors on the ground to expand the reach of data on soil, climate and other variables generated by its digital agriculture tools with the goal of increasing crop yields and cutting costs. Climate Corporation will open up its software infrastructure to third parties so that they can create applications to improve on current data services.

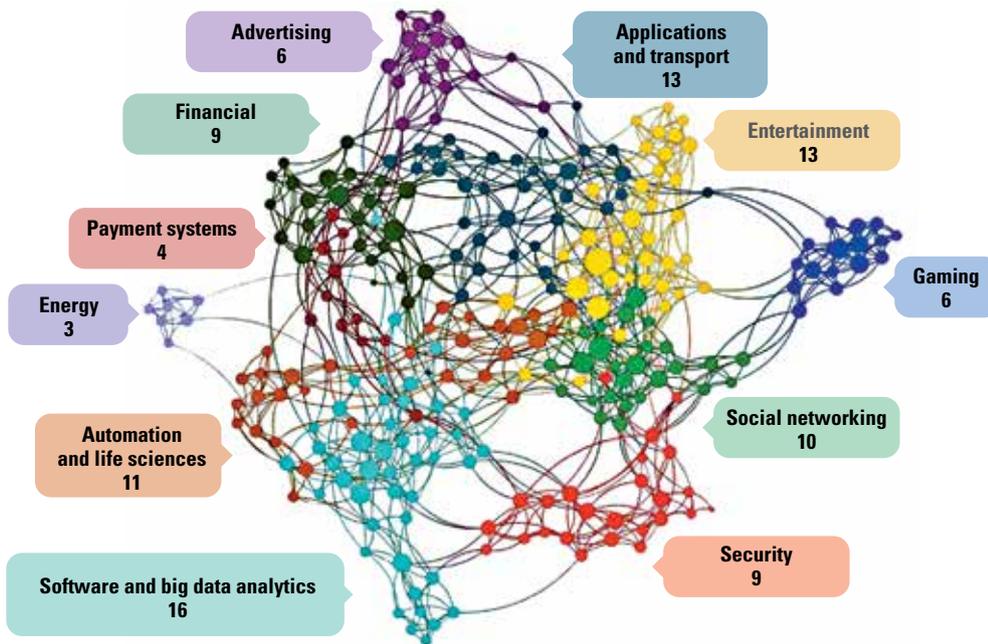


Diagram I.5

Areas of investment by Google,^a 2005-2014 (Percentages)

Source: Peter C. Evans, "Emerging Platform Economy. Global Platform Survey", presentation at the Massachusetts Institute of Technology (MIT) Platform Strategy Summit, Cambridge, Massachusetts, 15 June 2016.

^a Sample of 275 companies that received funds from Google, Google Ventures or Google Capital.

The industrial Internet is turning global value chains into global value platforms. Progress with digitalization has renewed the management, marketing and distribution of products and services and propelled new business models. The most radical transformation is due to the digitalization of manufacturing, resulting from advances in robotics, the proliferation of online communities and the mass take-up of personal fabrication technologies,¹¹ which are changing how and where production is carried out and redefining the global production dynamic. The trend is to onshore production units in developed countries by virtualizing processes and services.

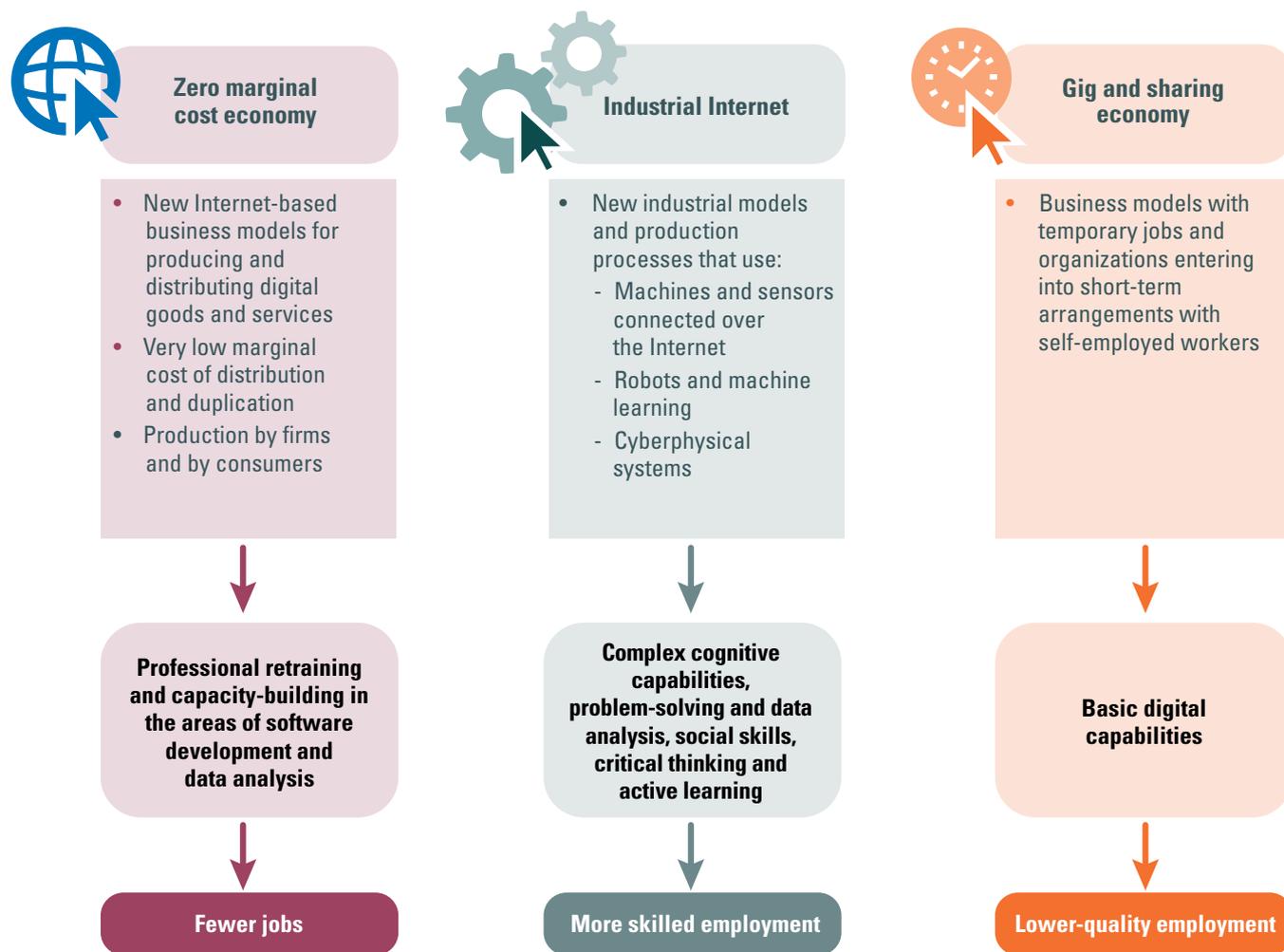
The digital revolution is also transforming the structure of world trade. Traditional trade agreements are proving increasingly inadequate as physical goods are digitalized and become intangible and as digital flows account for a growing share of international transactions. Intellectual property rights and rules on cross-border data flows and cybersecurity are now among the main issues confronting the digital economy. In this context, it is understandable for the United States, the world leader in digital platforms, to be pursuing new trade mega-agreements to regulate these matters, particularly the TPP and the TTIP. The regulations and standards defined in these agreements could become the global regulatory benchmark for the new digital industrial revolution, which would favour countries with bargaining power that are part of these agreements over those left out (Valladao, 2014). It is no coincidence that the scope of these agreements matches the concentration of the largest digital platforms, as mentioned earlier, and the participation of the leading actors in negotiations over digital standards, particularly for the Internet of Things.

¹¹ Personal fabrication technologies use the same manufacturing methods as industrial technologies but are smaller, less expensive and easier to use. These technologies include 3D printers, desktop moulding and milling machines, laser cutters and programmable sewing and knitting machines, as well as design and modelling software.

The increase in digitalization has been fostering disruptive innovations that are giving rise to new production and consumption models: the zero marginal cost economy, the industrial Internet and the sharing or gig economy. These new models have implications not only for productivity, production patterns and business and organizational models, but also for employment in the medium and long run (see diagram I.6). This has been a huge factor in the rejection of globalization by workers.

Diagram I.6

The new industrial revolution and the new employment context



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

Progress with the Internet of Things and artificial intelligence is speeding up the development of robotics: robots are increasingly smart, flexible, suitable for multiple tasks and industries, affordable and efficient. The economic implication of the automation of manufacturing is that labour costs become a smaller share of the total. The most industrialized countries, which are now manufacturing abroad to take advantage of cheaper labour, are reviewing their decisions about offshoring and comparing this benefit with the transport costs involved and the coordination failures resulting from the separation of research, technological development, design and production.

In this context, employment in highly skilled jobs is expected to rise, but these may be a relatively small share of the total and too few to absorb losses in other segments of the labour market. In the most developed countries, the expectation on current trends is of a net loss of more than 5.1 million jobs between 2015 and 2020, the result of a destruction of 7.1 million jobs (two thirds of them in administrative and office activities) and the creation of 2 million new positions in other job families (World Economic Forum, 2016). Far fewer jobs are expected to be created in the sectors where employment rises (commercial and financial operations, administration, information technology and mathematics) than are lost in the areas affected adversely (administration and management, manufacturing and production). These outcomes are likely to be particularly negative for the middle class and women, as they are heavily represented in administrative positions.

By 2020, on average, over a third of the basic skills required in most occupations will consist of capabilities that today are not considered crucial for work. This scenario is particularly problematic for developing countries, where most population increase is going to occur. While advanced economies will be faced with a structural labour shortage because of low birth rates and population ageing, the labour supply will continue to grow quickly in Africa and South Asia in particular.

Creating jobs for the young in the context of the technological revolution will prove particularly difficult. The countries with the highest population growth lack the skills for the new tasks, and they do not have the appropriate institutional framework for an urgent response. Basic and secondary education is not a solution in itself, as it would not correct the lack of capabilities of the generation already entering labour markets. Thus, developing countries may have to cope simultaneously with labour shortages in areas related to new technologies and with youth unemployment. Despite these problems, greater demand for creative jobs should open up a significant opportunity for the young if the right policies are implemented to give them the necessary skills, supplementing their basic education with training.

Looking beyond formal employment, countries need to prepare new labour regulations fit for a world where most new jobs will be in the gig economy or other kinds of economic structures that cannot be predicted at present. Against this backdrop, rapid and early access to digital technologies is essential.

2. The continuing importance of manufacturing

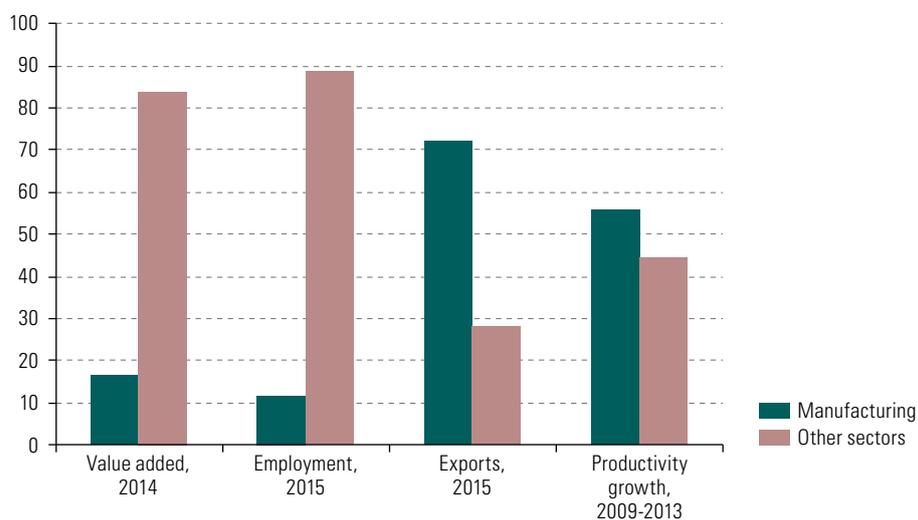
Manufacturing has played a key role in globalization, one of whose main drivers has been the offshoring of physical production from the developed countries to countries with low labour costs.

For all the progress of the service economy, and the digital economy in particular, the manufacturing sector has remained a major source of global economic dynamism. This is reflected in its high share of productivity growth and global exports, far outstripping its impact on value added and employment (see figure I.20). However, its larger share of the former shows that manufacturing productivity remains above the average for the economy. Although the industrial sector's share of global employment fell from 14.4% in 1991 to 11.5% in 2014 (UNIDO, 2016), it is the economic sector with the greatest productive linkages and capacity to create indirect employment (Lavopa and Szirmai, 2012).

Figure I.20

Manufacturing share of selected economic variables globally, 2009-2015 (Percentages)

Manufacturing industry accounts for over 70% of global exports



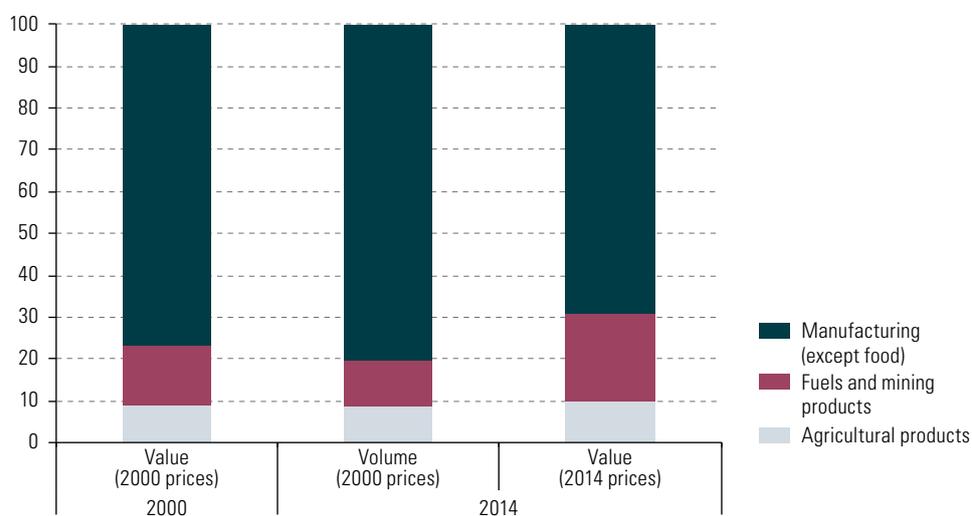
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the United Nations Conference on Trade and Development (UNCTAD) (value added and exports), the International Labour Organization (ILO) (employment, with data for 53 economies) and the Organization for Economic Cooperation and Development (OECD) (productivity growth).

Manufactures have continued to account for the bulk of world trade in goods over the last decade, despite the commodity price boom. Between 2000 and 2014, the share of commodities (agricultural products, fuels, metals and minerals) rose from 24% to 31% of global imports measured at current prices, whereas this share dropped from 24% to 20% when measured at constant prices (see figure I.21).

Figure I.21

Composition of global imports by major categories, 2000 and 2014 (Percentages)

Manufactures still account for the bulk of world trade



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

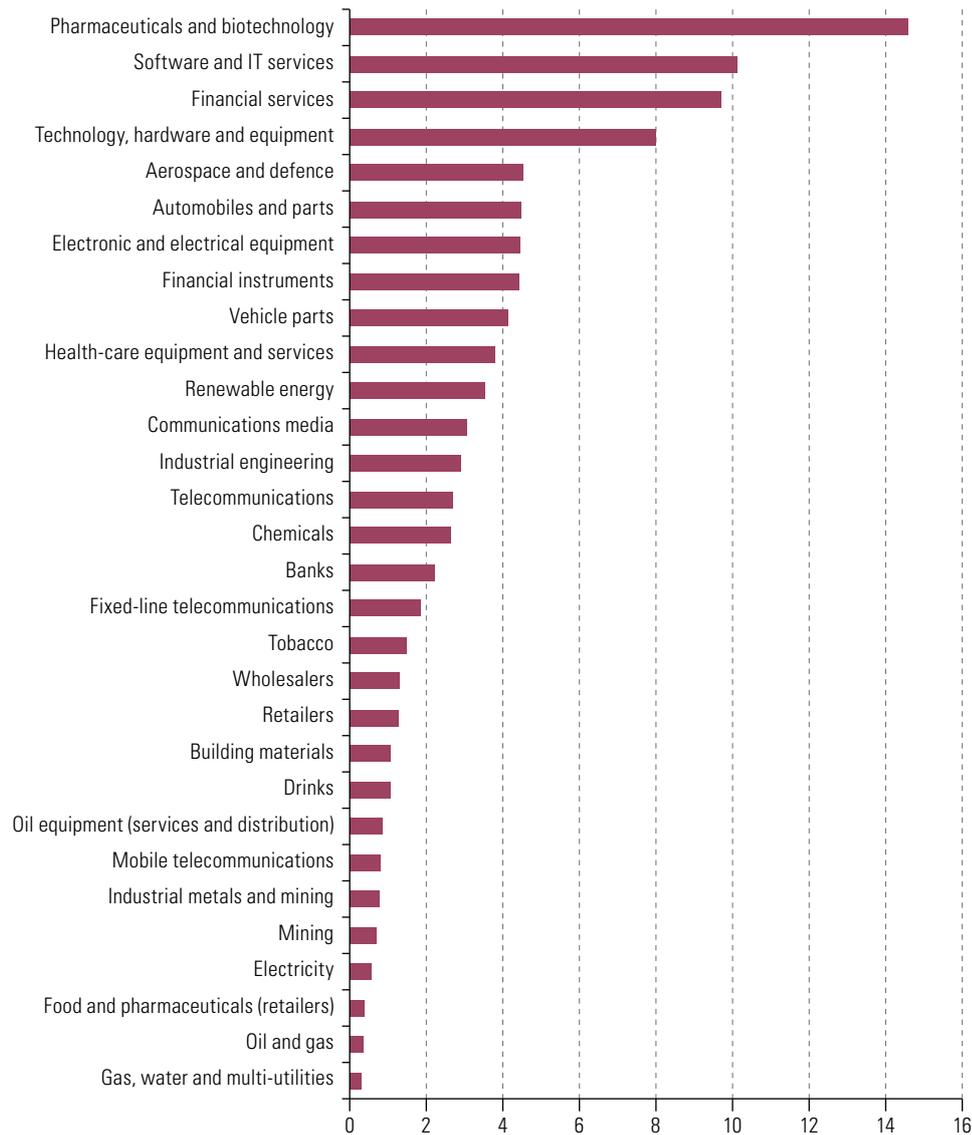
The manufacturing sector accounts for most investment in technological R&D, particularly in chemicals and pharmaceuticals, computing and electronics, aerospace, electricity, automobiles and vehicle parts (see figure I.22). In the United States,

manufacturing industry carries out more than two thirds of all private sector R&D, and over 90% of new patents come from that sector and allied engineering and technology-intensive services (ECLAC, 2016b).

Figure I.22

Ratio of research and development (R&D) spending to global sales, by industry, 2014
(Percentages)

A number of industrial sectors are research-and-development-intensive



Source: European Commission, “European Innovation Scoreboard” 2015 [online] http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en.

The mass take-up of digital technologies in manufacturing via the industrial Internet will blur the boundaries between goods and services. This will create scope for greater product differentiation, giving rise to smart, connected products (Porter and Heppelmann, 2014). In this way, the manufacturing industry will remain crucial for technical progress and productivity growth over the coming years.

In sum, the potential for competitive asymmetries has been increasing exponentially with progress in the new manufacturing age. This context makes it both more necessary and more difficult to mitigate the strength of cumulative technological and production differentiation processes by means of industrial and technology policy (as suggested in diagram I.2).

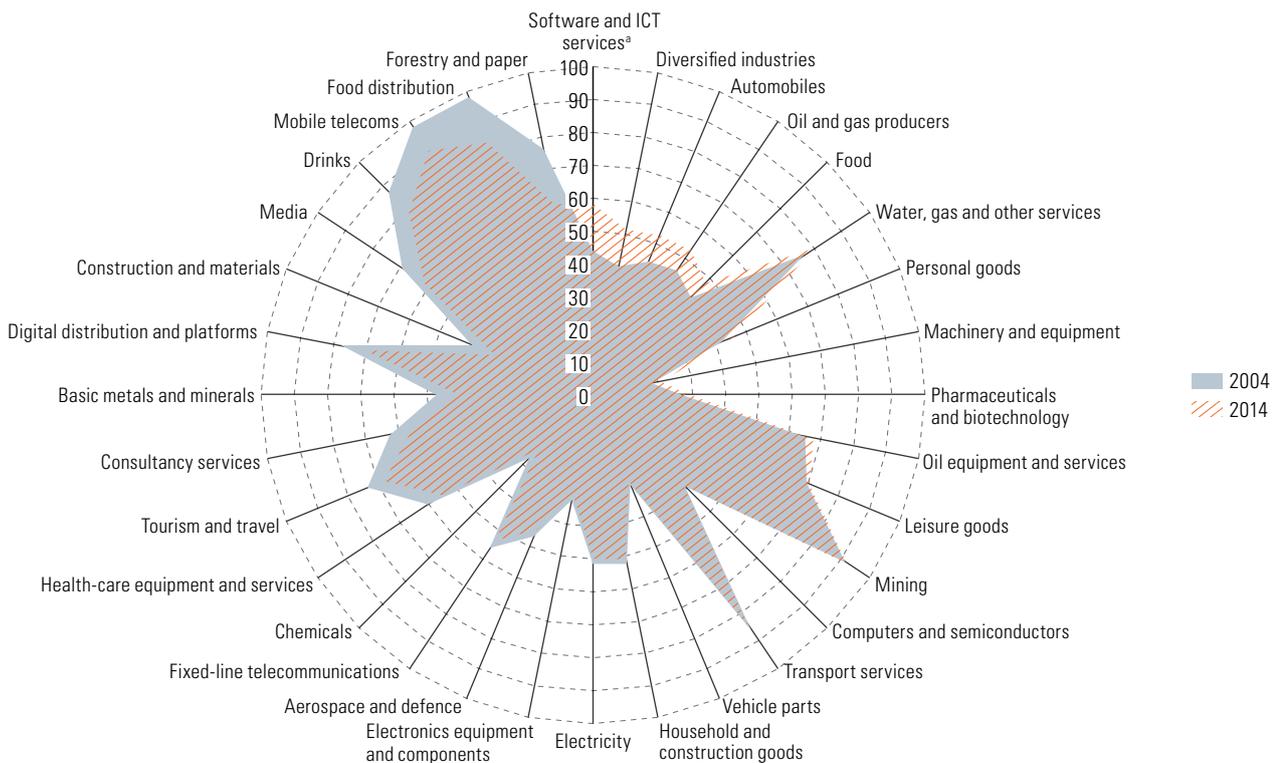
3. Rising concentration in dynamic markets

There is a marked trend at the global level towards rising corporate concentration in a number of industries and increasing concentration of knowledge creation in a limited group of countries.

Figure II.23 presents the evolution of global sales concentration indices for the four leading firms in a wide range of sectors between 2004 and 2014, taking information on the 2,500 firms around the world that invest most in R&D. Most sectors evidence increasing concentration, except for certain traditional industries that account for a great deal of employment, such as food and automobiles, and dynamic industries such as software. The four largest firms' share of total sales increased in 21 out of 35 sectors. A recent study in the United States yielded a similar finding for the 50 largest firms in 8 of the 13 industries analysed over the period from 2002 to 2012 (Council of Economic Advisers of the Office of the President of the United States, 2016). In the area of digital technologies, concentration has increased to the benefit of large global platforms such as Amazon, Apple, Facebook and Google. For example, Google had 73% of the global search engine market as of July 2016. Facebook received 44% of visits in the United States in February that year, followed by YouTube (owned by Google) with 22%.

Figure I.23
Global sales share of the four largest firms, by industry, 2004 and 2014 (Percentages)

Concentration has increased in most sectors over the last decade



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of European Commission, "The EU Industrial R&D Investment Scoreboard", 2006 and 2015 [online] <http://iri.jrc.ec.europa.eu/scoreboard.html>.

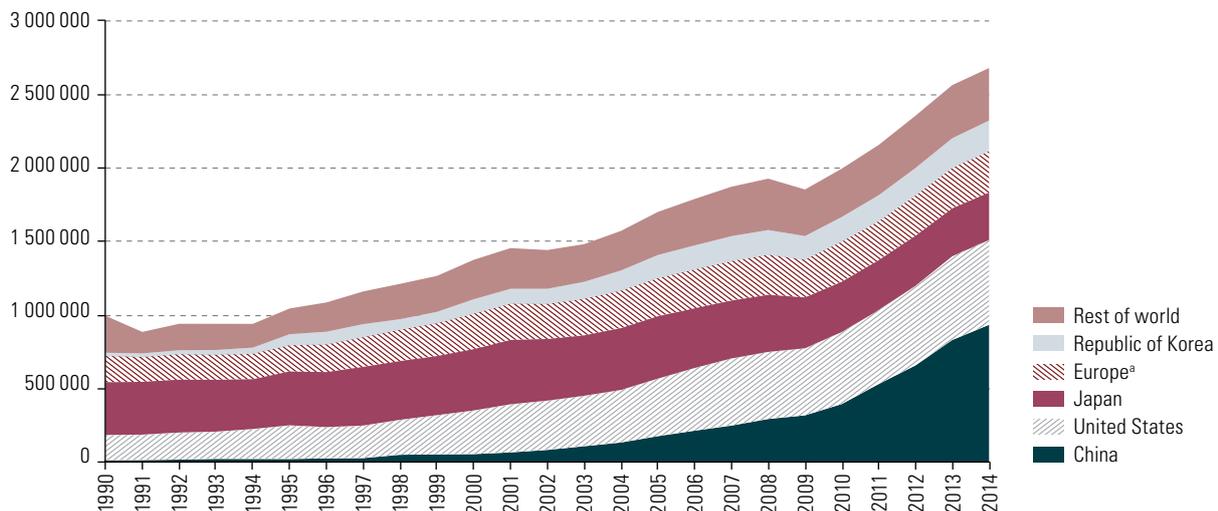
^a Information and communications technologies.

The causes of growing business concentration are still being debated. Nonetheless, some possible explanations are: (i) the rise in mergers and acquisitions, driven by excess liquidity in the post-crisis period, (ii) patent hoarding as a competitive strategy, (iii) exploitation of network economies, which are particularly important to the growth of global digital platforms, and (iv) the difficulty of adapting competition policy to the challenges created by new technologies and business models.

Another manifestation of economic concentration can be seen in the generation of patentable knowledge, which is increasingly confined to just a few countries. In 2014, China, the European Patent Office (EPO) and 10 or so European countries, Japan, the Republic of Korea and the United States accounted for 87% of the world's patent applications. This is a sharp rise on their combined share of 75% in 1990 (see figure II.24). Conversely, the region as a whole accounted for just 2.4% of global patent applications in 2014, which is clear evidence that it is lagging technologically. Furthermore, information from the European Commission (2015) shows that the patents granted are concentrated in the most advanced manufactures, that is, those that fully incorporate digital technology.

Figure I.24

Patent applications, 1990-2014



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the World Intellectual Property Organization (WIPO) [online] <http://www.wipo.int/ipstats/en/>.

^a This includes applications presented to the European Patent Office and the national offices of Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Sweden, Switzerland and the United Kingdom.

All these indicators suggest that the dominance of large firms in developed countries and a few emerging Asian ones in the most knowledge- and innovation-intensive activities has been maintained or even increased. Their profits have grown far faster than the average firm's, and this situation is tending to persist over time (*The Economist*, 2016a). This has reinforced negative trends in the wage share of output, with the resultant worsening of distribution. Although the crisis weakened some of these firms and countries, it did not alter the correlation of international economic forces, while digital technologies seem to have consolidated this predominance.

D. Falling poverty and changes in income distribution

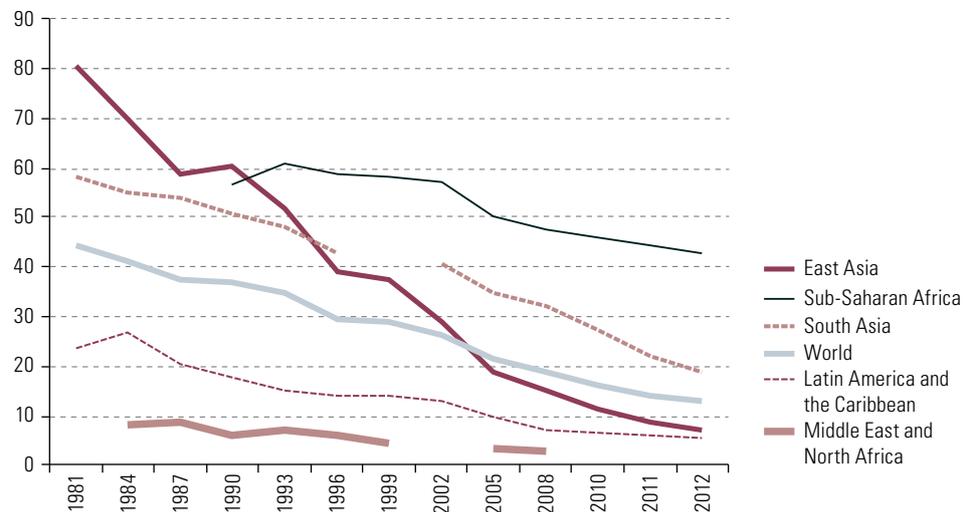
1. The lowest poverty level in history

The spread of globalization has gone hand in hand with a drop in global poverty levels, which are at an all-time historical low. The percentage of the world's population living in extreme poverty —defined as a daily income of less than US\$ 1.90, based on purchasing power parity (PPP)— decreased from 44% in 1981 to 13% in 2012 (Ferreira and others, 2015). This means that there were 896 million people living in poverty in 2012, down from 2 billion in 1981. According to World Bank projections, the proportion of people living in extreme poverty could fall to 9.6% of the world's population in 2015, dipping below 10% for the first time in history (Cruz and others, 2015). This decrease is due mainly to the marked reduction in poverty in Asian countries, especially in China (see figure I.25).

Figure I.25

Extreme poverty rate, 1981-2012
(Percentage of the population living on less than US\$ 1.90 a day)^a

The reduction in global poverty has been widespread and particularly marked in East Asia



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

^a Calculated in purchasing power parity (PPP) terms.

China's economic expansion helped to reduce poverty levels in the last decade in those South American countries that export natural resources. China's growing demand for raw materials and the resulting improvement in the terms of trade eased external constraints and pushed up growth rates and tax revenues, allowing the scope of social and redistributive programmes to be expanded. While the progress made in Asian countries was underpinned by structural changes, this has not been the case in the countries of the region, where these changes have yet to take place, making their progress extremely sensitive to fluctuations in external conditions. Therefore, the different implications in each region of greater integration into the global economy must be clearly identified, depending on the macroeconomic and industrial policies adopted in each case.

2. Diverging trends in income distribution

The rapid expansion of trade and swift pace of technological progress have also had a significant effect on income distribution. Jobs are redistributed across economic sectors and regions of the world as countries' competitiveness shifts, manufacturing plants move and production processes evolve. Greater demand for skills also means a wider wage gap between workers who are better trained or more highly educated, and unskilled workers.

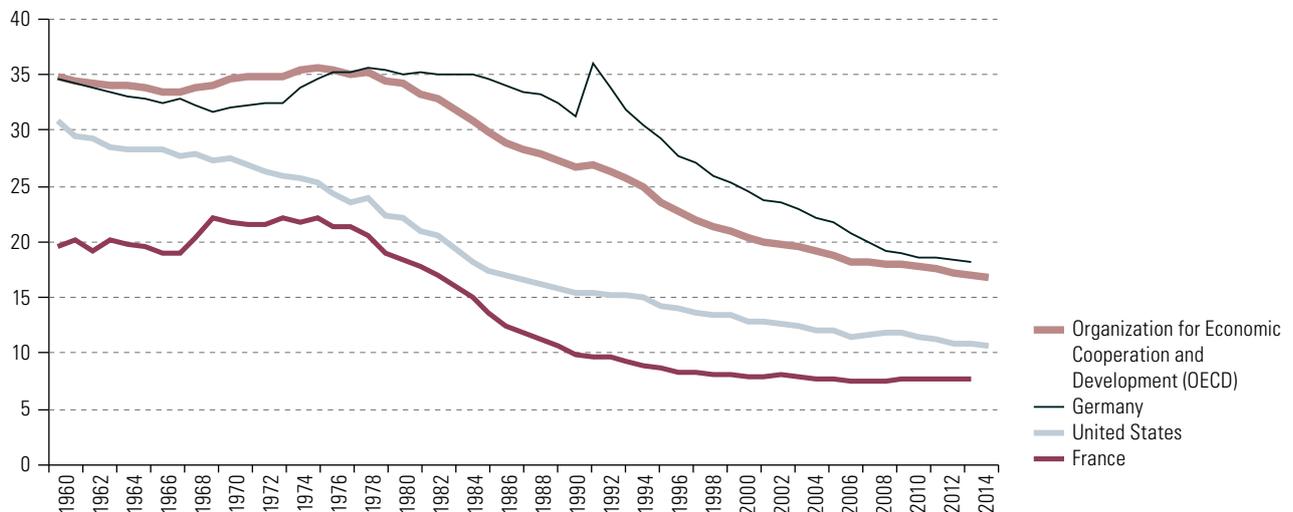
Developments in technology and trade are not the only factors that influence income distribution patterns: labour market institutions and tax systems also play an important role. Minimum wages, unionization, social benefits, such as pensions, and instruments, such as taxes and transfers, are all mechanisms that can alter the impact of market forces on income distribution.¹²

Trade growth and foreign direct investment can benefit everyone, as long as the winners compensate the losers. However, a number of countries that underwent economic liberalization did not offer such redress. In addition to economic advantages, the winners accumulated political power, which made it difficult to implement a truly redistributive system of taxes and transfers.

This has been the dominant trend since the 1980s: greater integration into global trade and into financial and investment flows was linked to weaker redistributive systems, especially in several developed countries. At the same time, there was a sharp fall in the rate of unionization in those countries (see figure I.26). This is connected with income redistribution within companies in favour of shareholders and executives and workers' limited ability to turn productivity gains into higher real wages. Jaumotte and Osorio (2015) found that the decline in the unionization rate in a group of developed countries since the 1980s is related to the increase in the income share of the wealthiest between 1980 and 2010, while the erosion of minimum wages is correlated with considerable increases in overall inequality in those countries.

Figure I.26
Unionization rate, 1960-2014
(Percentages)

Unionization rates have fallen sharply in developed countries



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Organization for Economic Cooperation and Development (OECD), OECDStat.

¹² The redistributive effect of fiscal policies varies greatly among countries. At one extreme are the Scandinavian countries, which have highly redistributive tax systems. At the other end of the scale are most of the Latin American and Caribbean countries, where transfers and, more particularly, taxes have less of an impact on inequality. The Gini coefficient of a group of 17 Latin American countries decreased by only 3 percentage points after direct taxes and cash transfers, while the coefficient for the OECD countries as a whole fell by 17 percentage points (ECLAC/IEF, 2014).

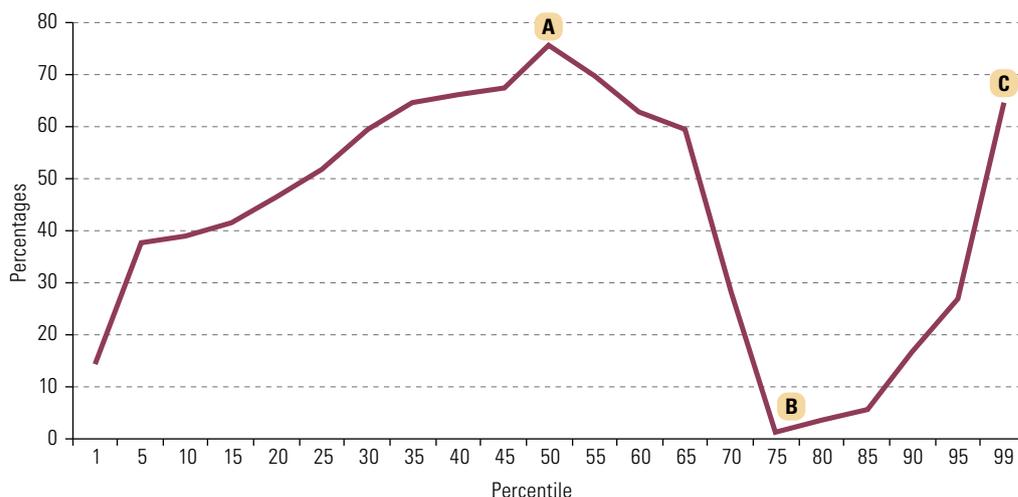
Analysis of global income distribution reveals a paradox: in the past three decades, global inequality has decreased, while inequality within most countries, particularly developed countries, has increased (Bourguignon, 2015). Global income distribution among countries improved as a result of the fall in poverty in the major economies, which had very low levels of income in the late 1980s, especially China and India. At the same time, the income share of the richest 10% of the population of all OECD member States has increased steadily over the past four decades: in the 1980s they earned 7.0 times more than the poorest 10%, while in 2014 they earned 9.6 times more (OECD, 2015a).

The drop in global inequality in income distribution can be partly explained by the movement of manufacturing jobs from advanced countries to developing ones. Between 2000 and 2010, almost 10 million manufacturing jobs were lost in the United States and Europe alone, more than a quarter of the total. Over the same period, China created more than 45 million jobs in the same sector, while Latin America generated 4 million.¹³

In the two decades prior to the crisis, income growth varied greatly by percentile of the world population. As shown in figure I.27, the global growth incidence curve compares the income of each percentile of the world population in 1988 with its income in 2008 (Lakner and Milanovic, 2013a). While the income of all percentiles increased, incomes grew in percentage terms up to point A, mainly as a result of the strong income growth of workers in China and other Asian countries. Point B represents the middle class of developed countries, whose incomes stagnated in the period under consideration and, in percentage terms, achieved below average growth. Lastly, point C indicates the richest 1%, which has taken an ever larger share of world income in recent decades.¹⁴

Figure I.27
Changes in real income
by percentile of the world
population, 1988-2008
(Percentages)

There is a polarization of the benefits of globalization



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from C. Lakner and B. Milanovic "World Panel Income Distribution (LM-WPID)" 2013 [online] <http://go.worldbank.org/NWBUK13JP0>.

¹³ See "Groningen Growth and Development Center (GGDC) 10-Sector Database" [online] <http://www.rug.nl/research/ggdc/data/10-sector-database>.

¹⁴ The data used by Lakner and Milanovic are based on household surveys, which often do not capture the income or assets of the so-called "super rich". Thus, the income of this group may have increased even more than shown in figure I.27.

Overall, in the 20 years before the crisis, the incomes of the first seven deciles of the world's population rose considerably in percentage terms. By contrast, the percentage increase in the income of less skilled workers in developed countries was below average. However, while the global growth incidence curve shows larger gains around the global income distribution median, these are expressed in terms of the income of each percentile in 1988. Given the extreme inequality in global income distribution, absolute gains are much greater among the top percentiles, even though they are lower in percentage terms.¹⁵ There is therefore a polarization of the benefits of globalization, a situation that reflects the social malaise and political tensions seen in developed countries.

Figure I.27 has provoked much discussion.¹⁶ It compares the relative income of the deciles, even though those deciles may be composed of different people from different countries in 1988 and 2008. For example, in 1988, the 75th to 80th percentiles of the global income distribution were composed mainly of middle-class Latin Americans and Europeans and North Americans from the lowest social strata. However, by 2008, members of the tenth decile of the Chinese population had entered this bracket of the global income distribution, making it difficult to draw definitive conclusions about winners and losers. The analysis is also complicated by problems linked to the availability of data (different countries are included in the database for 1988 and for 2008) and demographic factors, as faster population growth in the lowest income brackets automatically pushes those above them further up the global distribution scale, even if the incomes of those groups have not increased. Despite this, the results strongly suggest that the most disadvantaged groups live in mature economies.¹⁷

This analysis can be extended by measuring the change in the income distribution by decile within each country. Figure I.28 sets out the changes that occurred between 1990 and the early years of the current decade in China, France, the United States and Latin America, and thus accounts for the effects of the global crisis. The patterns seen in France¹⁸ and the United States are very similar: only the richest decile improved its relative position, while all the others lost ground or stagnated. A similar trend was seen in China, although the polarization is less marked. The top decile gains the most, but the share of the total income of the seventh decile and above has also increased. In the same period, the pattern in Latin America differs from that of three aforementioned countries. The share of the total income of the nine poorest deciles, especially deciles 5, 6, 7 and 8, increased and only the share of richest 10% decreased (by almost 4 percentage points). Although the income of the two poorest deciles grew the most in percentage terms, their share of the total income increased only a little because they account for a small proportion of it.

¹⁵ For example, between 1988 and 2008 per capita income of the 90th to 95th percentiles grew by US\$ 2,150 (measured in terms of purchasing power parity), while the income of the fifth decile rose by around US\$ 400, and the income of the lowest decile increased by just US\$ 50.

¹⁶ See, for example, *The Economist* (2016b).

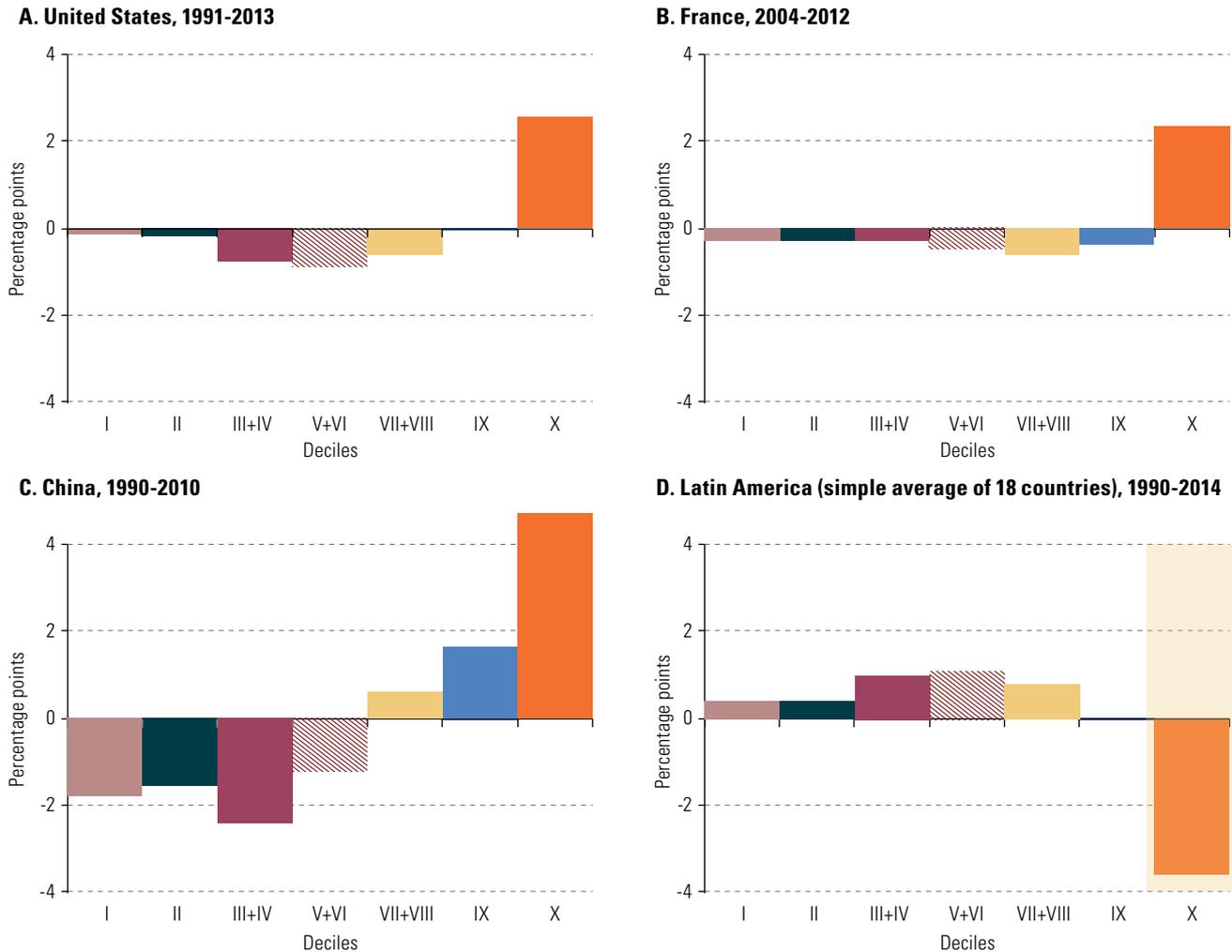
¹⁷ As Lakner and Milanovic (2013) note, some examples with particularly low real growth rates among rich economies include almost the entire lower halves of the income distributions in Germany, Austria, Denmark, Greece and the United States. They all had overall 20-year growth rates of less than 20% which translates, at best, as 0.9% per capita annually.

¹⁸ The earliest available data for France date from 2004, which makes the change in distribution even more striking.

Figure I.28

Selected countries and regions: change in income distribution by decile
(Percentage points)

Between 1990 and 2014 the region underwent a process of income redistribution



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank data, World Development Indicators for China, France and the United States of America, and CEPALStat for Latin America, household surveys of urban areas.

Recent trends in income distribution in the region can be explained by two factors. First, high commodity prices in the period between 2003 and 2014 boosted growth rates, which allowed a significant number of underemployed people to be incorporated into formal employment, thus pushing up average wages. The increase in the demand for labour was concentrated in low-skilled jobs, which reduced wage inequality. In addition there was an increase in the supply of skilled workers, particularly in Mexico (Lustig, López-Calva and Ortiz-Juárez, 2013). The second factor is the adoption, particularly by South American countries, of social and income distribution policies, such as higher minimum wages and non-contributory social protection and conditional transfer programmes.

Windfall tax revenues during the boom and governments' mounting concerns about the high levels of inequality in the region led to a cycle of redistributive policies that marked a break with the past and that probably improved the population's perception

of globalization. The current concern is whether these policies will be sustainable in a context marked by the end of the commodity supercycle, slowing growth and fiscal consolidation. Greater social and political tensions in various countries of the region in recent years reflect, in part, the increasing difficulty that governments face in their efforts to continue reducing inequality, and evidence already points to a sharp deceleration in their progress in the last two years (Gasperini, Cruces and Tornarolli, 2016).

E. Ineffective global governance

The governance mechanisms of the global economy have not mitigated or solved the problems discussed above because of their partial and fragmented nature and their sluggish response to economic changes and the technology revolution. Mechanisms to check the accumulation of imbalances in the system, such as those highlighted in diagram I.2, have not worked. Global systems, based on the hegemony of one or a few developed countries, have not been able to adapt to a multiplicity of actors, many of whom have considerable political weight. Consensus mechanisms have achieved a certain amount of success, but the current leadership is unable to provide the necessary effective and efficient responses, particularly to the new challenges that the international community has decided to address and that have been incorporated in the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (ECLAC, 2016a). The problems are particularly acute in four areas of global governance, namely trade, FDI, taxation and financial transactions.

1. A fragmented trade system

The 1990s, with the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the establishment of WTO, marked a period of optimism about the future of the multilateral trade system, strengthened by China's accession to WTO in 2001. However, the difficulties encountered when it came to launching a new round of trade negotiations, the Doha Round, foreshadowed the tensions that prevented it from being concluded a decade and a half later.

This new round failed, in large part, because of the struggle for control of the agenda between developed and emerging countries. For half a century, since GATT was established, the industrialized countries, particularly the United States and, since the 1960s, the European Union, have been the driving forces behind the multilateral trade system. The main emerging economies were not part of the system (China and what is now known as the Russian Federation) or participated in a passive or reactive manner (Brazil and India, among others).¹⁹ Thus, the agreements reached mainly reflected the interests of the industrialized countries, as evidenced by the omission of agriculture, textiles and clothing.

Developed countries' current demands—that developing countries open up further in the areas of manufacturing, services and investment—run counter to developing countries' calls for greater liberalization of agriculture and the movement of labour in Europe and the United States. In a consensual system, the search for agreement has been complicated even more by the demands of particular groups, such as least developed countries, small island developing States and Mediterranean countries. To overcome these obstacles, current trends within WTO favour sectoral, plurilateral

¹⁹ Mexico, another major economic power from the developing world and the largest exporter in Latin America and the Caribbean, became a contracting party to GATT in 1986, as part of the liberalization process that followed the 1982 crisis.

negotiations, such as those currently under way on environmental goods and services. These initiatives are led by developed countries and the participation of developing countries, including the countries of the region, is limited.

Another response to the prolonged stagnation of the Doha Round has been the emergence of a new generation of trade negotiations, known as mega-regional negotiations. The main three are the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, and the Regional Comprehensive Economic Partnership among 16 Asian countries.²⁰ While TPP was signed in February 2016 and is in the process of being ratified by its member countries, TTIP and the Regional Comprehensive Economic Partnership are still being negotiated.

The mega-regional negotiations seek to create trade and investment agreements with a strong regulatory harmonization component, also known as “deep integration”. The grand scale of these agreements means that, if successful, they will significantly change the global rules on trade and FDI. These rules would be defined outside WTO for a limited number of countries, mainly those that participate to a greater extent in major value chains. However, both TPP and TTIP are now facing strong political opposition, which casts doubt on whether TPP will enter into force and the TTIP negotiations will be concluded.

With regard to TPP, the President-elect of the United States has repeatedly expressed his opposition to the agreement, arguing that it would result in the loss of industrial jobs to developing countries with lower labour costs. Opposition to TTIP has been limited mainly to Europe. Large swathes of its population have expressed concern at the possibility that TTIP will result in unwanted changes in European standards on social, cultural, public health, security and personal data protection matters, among others. The degree of openness of European agricultural markets to competition from the United States agribusiness has also been a controversial issue. The decision of the United Kingdom to withdraw from the European Union has affected the internal balance of power on this matter, as it is one of the staunchest supporters of TTIP. Against this backdrop, the negotiations are virtually deadlocked.

Opposition to trade negotiations grows when they touch on domestic public policy matters, such as labour and environmental standards, financial regulation or consumer protection. The case of TTIP highlights the tensions caused by regulatory harmonization processes, even among countries with high income levels, but whose societies have distinct preferences on those issues for historical and cultural reasons. The barriers to reaching agreements on such sensitive issues are even greater in North-South negotiations, involving countries with wide differences in their levels of development.

In short, the world trade institutions are currently subject to considerable tensions. In addition to the difficulties faced by WTO, there is growing opposition to trade negotiations in industrialized countries. This is further proof of the ambivalence about economic globalization that exists in those countries. The main drivers of global trade liberalization are now facing strong resistance to the deepening of that process from their own populations. What is more, questions have also been raised about the contribution of the current trade and FDI regimes to combating climate change. A recent study argued that WTO agreements, free trade treaties (particularly those initiated by the United States) and international investment agreements tend to increase greenhouse gas emissions and that their rules may undermine the effectiveness of national climate change policies by imposing limits on governments’ regulatory authority (Working Group on Trade, Investment, and Climate Policy, 2016).

²⁰ The possible implications of TPP for the region are analysed in chapter III.

2. Weak convergence of FDI regimes

Despite various attempts in the 1990s, it has so far proved impossible to establish a multilateral system of governance for FDI.²¹ The two WTO agreements that address the matter—the WTO Agreement on Trade-Related Investment Measures and the General Agreement on Trade in Services (GATS)—do so only partially. This situation has contributed to the proliferation of bilateral and regional investment treaties since the 1980s. As a result, there are currently 2,322 bilateral investment treaties and 294 trade agreements in force that contain provisions on investment (UNCTAD, 2016).

The absence of a multilateral investment framework and the eruption of agreements have produced a fragmented international structure, marked by inconsistent or contradictory provisions (Sauvant and Ortino, 2014). The fundamental criticism of investment agreements (or investment chapters in free trade agreements) is their failure to offer adequate protection to the regulatory spaces that States need to be able to carry out their public policy objectives (Rosales, 2016). This is particularly important for policies on the environment, health and the regulation of capital flows. A number of issues have been raised, with critics concerned that the right to public regulation is not sufficiently respected; that the protection of the interests of foreign investors is excessive; that the burden of proof lies with States; and that the dispute settlement system is unable to dismiss unsubstantiated claims (“frivolous lawsuits”) quickly.

These agreements include provisions that allow foreign investors to sue host States. Any investor-State disputes are to be settled by private arbitration, based, in the main, on the rules of the International Centre for Settlement of Investment Disputes (ICSID). The criticisms of this mechanism are even more numerous: the agreements are too open to interpretation by the arbitrators; they tend to be interpreted in a manner that gives more weight to investors’ interests; the arbitrators’ independence and impartiality are not always guaranteed; the oversight mechanism for arbitrators’ decisions is very limited, as their decisions are not subject to appeal; the cost of seeking recourse is prohibitive for States; only investors can initiate these proceedings; and conflicts of interest often arise among arbitrators. Consequently a private panel interprets these investment agreements, imposing that interpretation on governments and, in many cases, overriding the relevant national legislation (Schill, 2015; Johnson, Sachs and Sachs, 2015).

Hence international investment protection mechanisms need to be reformed. Ideally, a permanent international investment tribunal would be set up, with a second-tier appeal mechanism, similar to that of WTO. This international tribunal would replace the current system of private arbitration, and an investment protection system would be established that safeguards legal principles, protects human rights fully and is consistent with the Sustainable Development Goals (Rosales, 2016). This would require neutral, independent tribunals, dedicated to safeguarding the regulatory spaces that allow public policies to be put into action, including the continuous updating of regulations in the light of technological progress and scientific evidence (Schill, 2015).

It is clear that foreign investment must adapt to the current context of constant technological change, combating the effects of climate change and governments’ commitment to sustainable development. Similarly, the need, common to all developing economies, to attract foreign investment, forces governments to protect the rights of investors through stable, non-discriminatory legal frameworks. The challenge is

²¹ A first attempt was the unsuccessful Multilateral Agreement on Investment negotiations, under the aegis of OECD between 1995 and 1998. Subsequently, the Doha Round of WTO negotiations sought to address FDI, an initiative that was also unsuccessful.

to create better conditions for States and foreign investors to work together and to foster long-term productive relationships that are compatible with the Sustainable Development Goals.

In the wake of the recent international agreements on climate change and the Sustainable Development Goals the time is ripe for developing countries to push for global negotiations on this issue.

3. Loopholes in the international taxation system

Currently more than 3,800 bilateral treaties regulate the taxation of companies with international activities (Grinberg and Pauwelyn, 2015). While these treaties seek to avoid double taxation, their proliferation has led to inconsistencies and legal loopholes that allow multinational companies to channel their profits to jurisdictions with lower tax rates. Revenue losses associated with such practices are estimated to be between 4% and 10% of global revenues from corporate income tax (OECD, 2015b). The actual figures could be higher because it is difficult to monitor cross-border digital transactions. This loss of revenue has a particularly adverse effect on developing countries because of their heavy reliance on FDI.

Against this backdrop, in 2015, more than 80 countries—including eight from the region—agreed on the Action Plan on Base Erosion and Profit Shifting (BEPS) within the framework of OECD and G20, which established 15 actions that seek to minimize inconsistencies between the different national tax rules that allow transnational companies to reduce their tax burden, and to address the tax challenges of the digital economy and promote greater transparency. Its most relevant actions are:

- Establishing mechanisms to eliminate the practice of treaty shopping, whereby transnational companies use the most favourable treaty to obtain tax benefits.
- Clarifying the definition of “permanent establishment” to determine in which jurisdiction a company’s activities are taxable, which would prevent the fragmentation of activities across countries or the use of intermediary companies to minimize tax payments.
- Establishing mechanisms to collect tax on electronic transactions, for example, e-commerce, applications, online advertising, cloud computing and electronic payments.
- Ensuring that transfer pricing rules reflect corporate profits and the economic activities that produce that income.
- Developing a binding regulatory framework so that transnational companies inform tax authorities of their global activities and corresponding tax planning arrangements. This information could be shared among tax authorities in different jurisdictions, allowing harmful or abusive schemes to be identified.
- Strengthening the mutual agreement procedure to ensure the proper application and interpretation of bilateral tax treaties.
- Improving the transparency of tax administration processes.

It was also agreed that a multilateral tax treaty would be drawn up to implement these recommendations and amend bilateral tax treaties. To this end, an ad hoc group of 96 countries was established in May 2015 to start negotiations on a multilateral instrument. Better international tax governance of multinational companies would help to increase fiscal space in Latin American economies, at a time when many of them are facing funding constraints.

4. Weaknesses in the international financial architecture

Before the global crisis, financial regulation was predominantly based on the assumption that the stability of individual institutions would ensure the stability of the financial system as a whole. At the same time, it was assumed that the stability of individual institutions depended on the proper internalization of the risks that they faced, including credit, liquidity, interest rate and exchange rate risks. Risk was mainly internalized by establishing capital requirements to protect customers against unexpected losses.

In this context, a large number of countries have chosen to comply with the minimum regulatory capital requirements established by the Basel Committee on Banking Supervision (BCBS) to promote financial stability and avoid regulatory arbitration among countries. In 1988, BCBS set out the capital requirements in the Basel Capital Accord (Basel I), which was amended in 2004 to give rise to Basel II. After the new accord was signed, 2009 was set as the deadline for its implementation. Following the 2008 crisis, it was argued that the established minimum capital levels and lack of quantitative standards for liquidity had contributed to the crisis (Shearman & Sterling, LLP, 2011). In response to that, Basel III was adopted in September 2010, the broadest accord to date. The purpose of this framework is to limit risks at both the microprudential (individual banks) and macroprudential (systemic risks) levels. To that end, it seeks to improve the banking sector's ability to cope with financial and economic difficulties, strengthen risk management and develop a suitable governance system, and improve transparency and disclosure obligations.

Basel III, which will enter into force in January 2019, has limitations.²² Its response to the weaknesses in the capital requirements approach is not enough to ensure the stability of the financial system as a whole. This would require a broader, macroprudential regulatory approach that complements existing (essentially microprudential) regulation and fills the gaps inherent in that regulation.

Lastly, the debate on the macroprudential policy has focused primarily on developed countries, with little attention given to developing economies. For example, unlike the United States and the European Union, which have taken steps to implement the Basel III recommendations, Latin American and Caribbean countries are at different stages of its implementation. This unevenness can be problematic, given the strong credit growth and significant presence of foreign banks in the region.

F. Conclusions

The convergence of intense globalization and accelerating technological change has deepened the feeling of vulnerability among large sections of the global population. Trade and financial integration have increased steadily since the 1980s, while social inclusion and economic stability mechanisms have weakened. In this regard, the belief that by guaranteeing property rights the free market would spontaneously create outstanding institutions was particularly problematic.

²² Basel I and Basel II stated that regulatory capital should be at least equal to 8% of risk-weighted assets. In addition to this requirement, Basel III introduced two "buffers" as of 2016: a capital conservation buffer (2.5% of assets), to absorb losses during periods of financial and economic stress; and a countercyclical buffer (ranging from between 0% and 2.5% of assets) to avoid excessive credit growth in boom periods. The latter is the countercyclical deviation of credit from its trend. However, this does not necessarily imply that it is countercyclical to the economic cycle, i.e. that it increases in times of expansion and decreases in periods of economic decline or lower growth.

Just as Keynesian policies were the basis for successful globalization in the years after the Bretton Woods system was created, their abandonment in the mid-1970s has been a major factor in the discontent that has built up in recent years. The trends observed in the past four decades show that some of the main lessons learned from the setbacks to globalization of the 1930s have been forgotten. Instead, the emphasis has been on helping markets to operate with greater freedom, without building the necessary institutions that reduce asymmetries and protect the sectors most affected by technological disruption and increased competition. By abandoning multilateralism and development as relevant global governance issues, there is a risk of a further drop in support for an open global economy.

Current governance of globalization tends to reproduce asymmetries: the most technologically advanced countries under the old paradigm are again at the cutting edge under the new one and those countries that ran a current account surplus before the crisis are also running one after it. The less technologically advanced economies are therefore forced to adjust by adopting fiscal austerity measures, which slow growth.

In several developed economies, mainly in Europe, high levels of unemployment persist, particularly among young people. Stagnant wages and job cuts in many sectors mean that new generations are pessimistic about the future. For several decades young people could expect to have better living conditions than their parents, but this is no longer the case. This perception of growing vulnerability feeds into calls for closed economies and the marginalization of different ethnic and social groups. More generally, the idea that political and economic elites have neglected their responsibilities to the rest of the society has become widespread, casting doubt on the effectiveness of the political representation system.

Most countries of the region reduced poverty and inequality between 2004 and 2013. As a result there was, generally, little public opposition to global trade integration and the inflow of foreign investment. However, the production structures deteriorated during the same boom period, as evidenced by the decline in the industrial sector. The recent slowdown in the global economy and world trade and falling commodity prices therefore hit a number of countries, especially in South America, particularly hard. The sharp slowdown in growth stemmed efforts to improve distribution; the question now is how to avoid reversals with regard to reductions in poverty and inequality.

The loss of momentum has taken place as the region has fallen behind in the technological and production spheres, especially in sectors at the forefront of the new industrial revolution. The region must recognize that the world is going through a disruptive process of economic change, which includes a technological revolution, increasing business concentration, new organizational and business models, a shift in production location patterns, and radical changes in trade and investment flows, clearly dominated by the demand for intangible or digital goods and services. These trends will create a new technological and economic system that the region must participate actively in devising, for example by defining standards, setting up global digital platforms and building capacities for new technologies. Not recognizing the importance of these changes will hinder the productive restructuring needed to accelerate growth in the long term, sustain the progress made in reducing poverty and improving income distribution, and promote the transition to a low-carbon growth path. However, the majority of the region's countries have not had an industrial policy, or if they have it has been protectionist, unable to adapt to new technology and face up to competition.

In addition to reactivating and revitalizing industrial policies, the region must actively contribute to efforts to improve governance of the global economy by creating global public goods. ECLAC (2016a) has proposed policies that are linked to the implementation of the 2030 Agenda for Sustainable Development, including: (i) adjusting global trade

and investment rules to reflect the greater weight of emerging and developing countries and to avoid predatory competition among countries; (ii) coordinating macroeconomic policies to reduce trade imbalances and volatility by redesigning the financial architecture at the global and regional levels; (iii) strengthening international coordination to reduce tax evasion and avoidance; and (iv) strengthening international cooperation and innovation efforts to move towards a pattern of sustainable growth.

In order to implement global, regional and national strategies, action must be taken in two key areas. First, the perception must be dispelled that the tensions caused by globalization are other countries' problems and do not impact the region beyond their effects on the prices of the main export products. This perception reinforces the idea that countries should just be patient and adjust their economies while waiting for prices to rise again. This strategy is unsustainable given the social pressure to maintain and even build on the progress made, particularly when the effects of the technological revolution on jobs are being felt in ever more areas of activity. Given the speed of change, the region is truly facing the Red Queen effect: having to run faster just to stay in the same place.

Lastly, institutional weaknesses and fragmentation at the national and regional levels must be overcome, as these harden citizens' scepticism about governments' priorities and capacities. Actively including the population in efforts to overcome the disadvantages of globalization would improve the popular perception of governments' concern for and ability and interest to compensate the losers of globalization.

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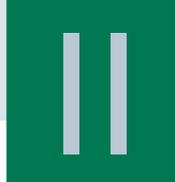
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Foreign trade by Latin America and the Caribbean: adverse conditions continue

Introduction

- A. The region's fragile position in globalization
- B. Four years of decline in foreign trade
- C. Projections for 2017-2020: a modest trade recovery
- D. Diversification and integration: more necessary than ever

Bibliography



Introduction

The tensions caused by globalization and weak institutions' inability to overcome them, analysed in the preceding chapter, have different repercussions, depending on each economy's production and technological structures and internationalization patterns. History shows that countries' ability to respond to international crises depends on the strength of their institutions, which determines to a great extent how proactive and effective their policies can be. There is no deterministic relationship between globalization and development that necessarily produces negative results for a country or region in the long term. The international economic system's inherent complexity creates niches of action for nations willing to integrate into a system that is, by definition, heterogeneous and has serious imbalances of power.

Implementing public and private strategies to tackle pressures from global development patterns must be based on an adequate assessment of the current situation at the unit level (be it national or regional) and of its connection with the system as a whole. Therefore, this chapter examines the pattern of participation of Latin America and the Caribbean in globalization. The first section analyses the region's position in global trade in goods and services and foreign direct investment (FDI) and financing flows in the preceding decades, and more recently in the digital economy. The second section examines in detail the region's external trade performance in 2016, paying particular attention to the intraregional trade situation. The third section sets out different regional foreign trade scenarios for the four-year period, 2017-2020. The fourth section concludes by asserting the validity of the proposals presented by the Economic Commission for Latin America and the Caribbean (ECLAC) in these areas.

Since 2000, the region has maintained its 6% share of world goods exports, with minor variations. This contrasts with the performance of developing Asian countries, whose weight in global trade increased considerably over the same period.

A. The region's fragile position in globalization

1. Limited export diversification and weak participation in value chains

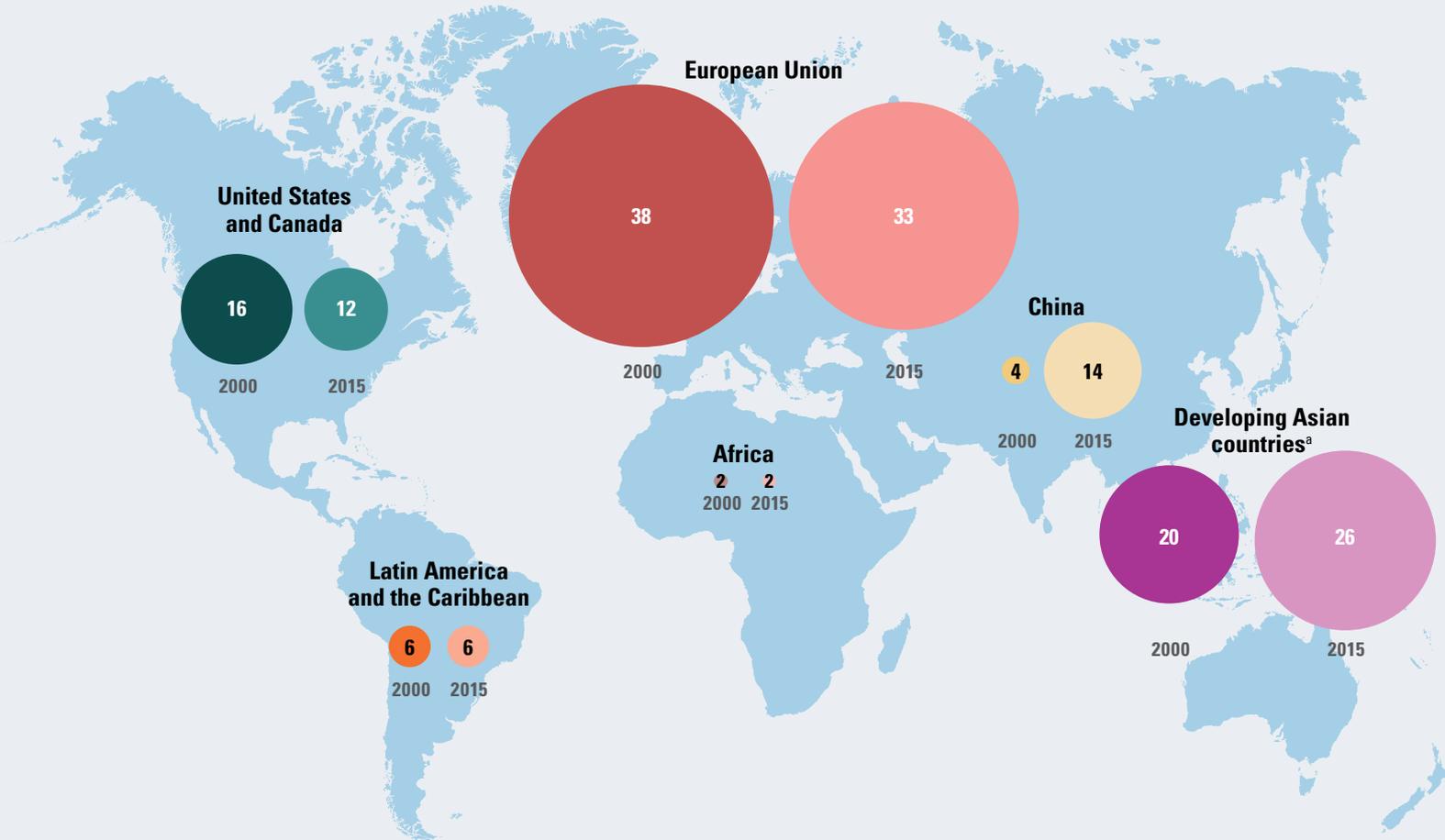
Since 2000, the region has maintained its 6% share of world goods exports, with minor variations. This contrasts with the performance of developing Asian countries, whose weight in global trade increased considerably over the same period. This increase is largely due to China, whose share more than tripled, up from 4% in 2000 to 14% in 2015 (see figure II.1). The relative stagnation of its exports reflects the region's difficulty in overcoming an export structure with limited diversification, in which more than half of the value of its total exports is concentrated in commodities and natural resource-based manufactures.

In fact, commodities account for the region's greater weight in global exports, around 14%. The region's share of world trade in natural resources-based manufactures decreased over the past two decades, reaching 7% by 2015. With the exception of the last biennium, the same pattern can be seen in the other manufacturing categories (see figure II.2). By comparison, the share of developing Asian countries has been increasing rapidly since 1990 in all categories, except commodities.

Figure II.1

Selected regions and countries: share of world goods exports, 2000 and 2015
(Percentages)

The region's share of world goods exports has stagnated since 2000



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

^a "Developing Asian countries" includes the countries of the Association of Southeast Asian Nations (ASEAN), China, India and the Republic of Korea.

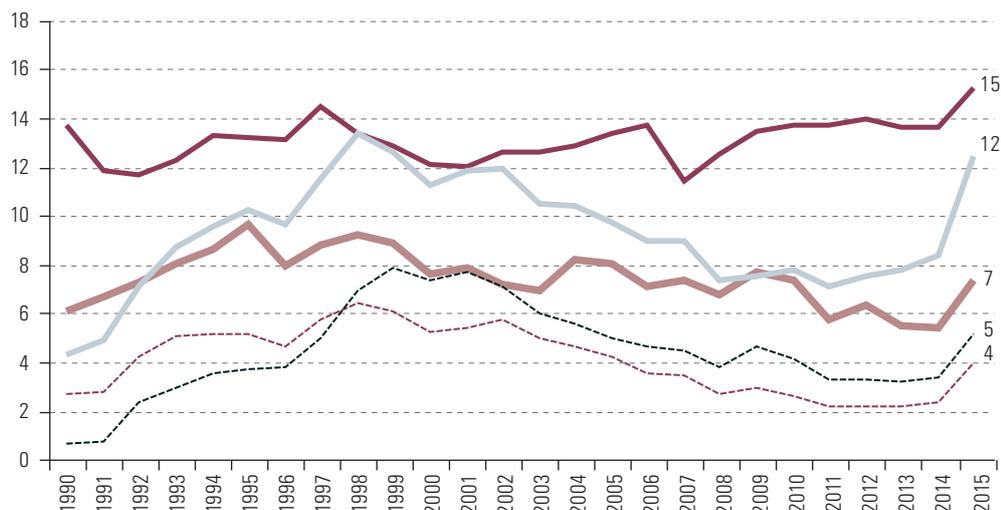
Since the 1970s, a key feature of economic globalization has been the growing international fragmentation of production, reflected in the emergence of global value chains. Facilitated by decreasing international transport costs, advances in digital technologies and the reduction of barriers to trade and FDI, this phenomenon can be seen in a gradual increase in the proportion of foreign value added in world exports, from 18% of gross exports in 1995 to 24% in 2011.

Figure II.2

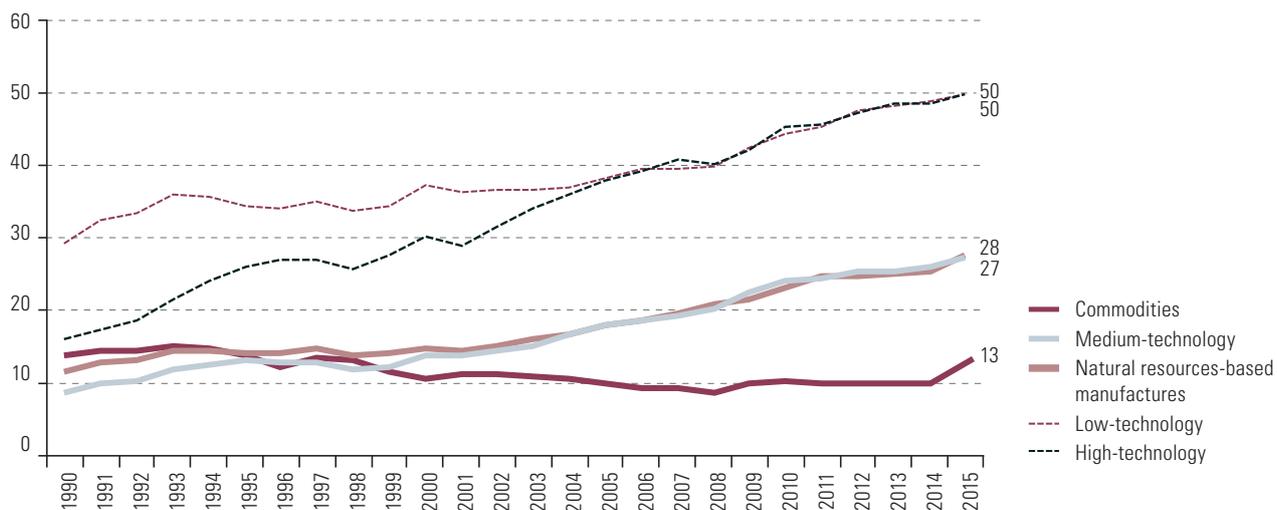
Latin America and the Caribbean and developing Asian countries: share of world goods exports by technological intensity, 1990-2015
(Percentages)

Unlike Asia, the region is losing its share of world manufactures trade

A. Latin America and the Caribbean



B. Developing Asian countries^a



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

^a "Developing Asian countries" includes the countries of Association of Southeast Asian Nations (ASEAN), China, India and the Republic of Korea.

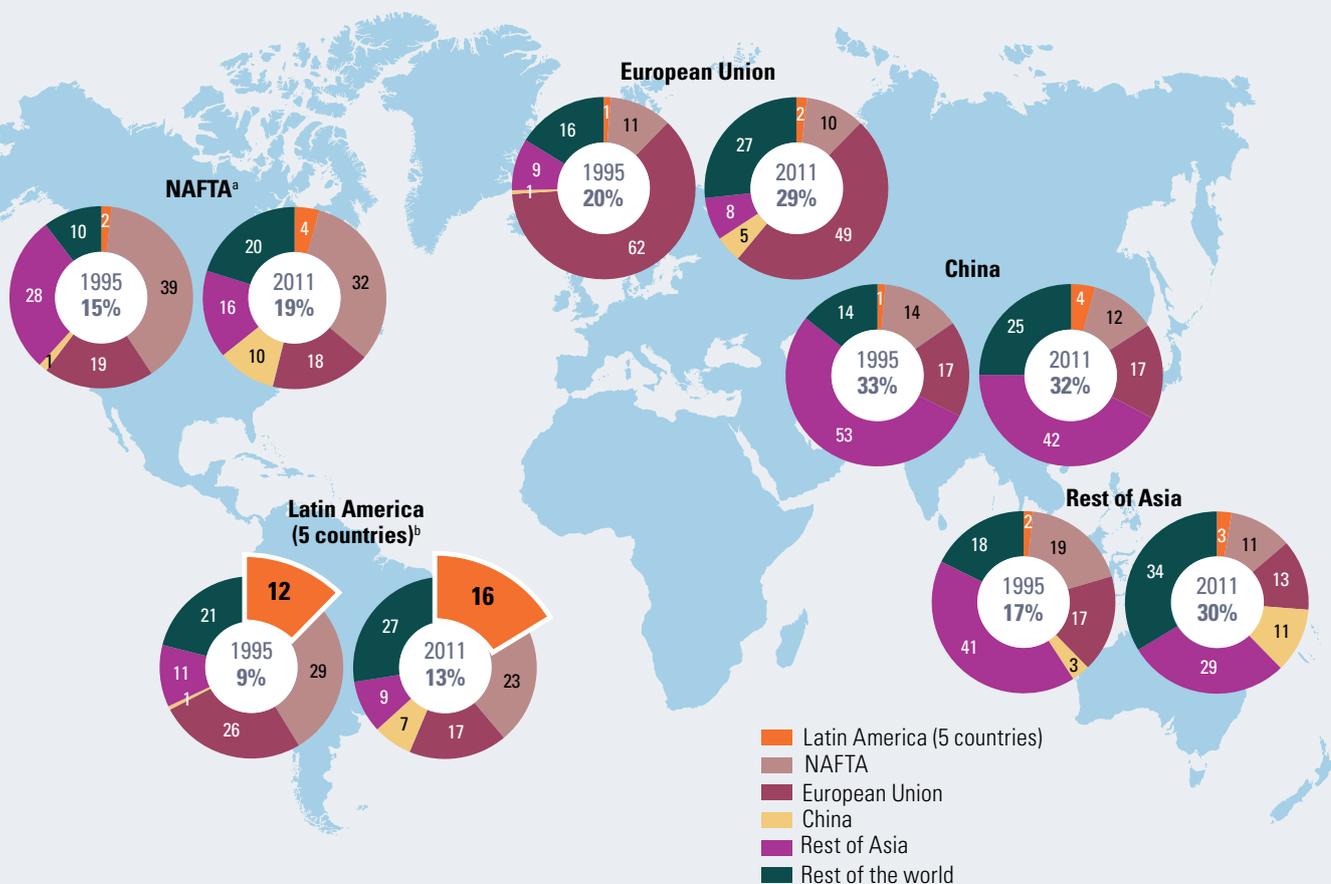
In general, the region participates little in global value chains. On the one hand, the region's weight as a source of foreign value added in world exports (forward linkages) remains negligible. Between 1995 and 2011, the share of five countries from the region (Argentina, Brazil, Chile, Colombia and Costa Rica) in foreign value added in world exports increased

from less than 2% to 3%.¹ The weight of these five countries is somewhat greater in the North American Free Trade Agreement (NAFTA) and Chinese exports (about 4% in 2011 in both cases). Mexico, despite being more integrated into global value chains, also had a low level of forward participation in these chains: it accounted for 1% of foreign value added in world exports in 2011, largely unchanged since 1995 (see figure II.3).²

Figure II.3

Selected regions: share of foreign value added in gross exports and composition by geographical origin, 1995 and 2011^a
(Percentages)

Latin America's share of foreign value added in exports from other regions grew between 1995 and 2011, but remains low



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO) multi-country Trade in Value-Added (TiVA) input-output tables, 2015 [online] <http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>.

Note: The percentages within each circle indicate the share of foreign value added in the region's gross exports in 1995 and 2011. The circles break down that value added by origin.

^a North American Free Trade Agreement

^b Argentina, Brazil, Chile, Colombia and Costa Rica.

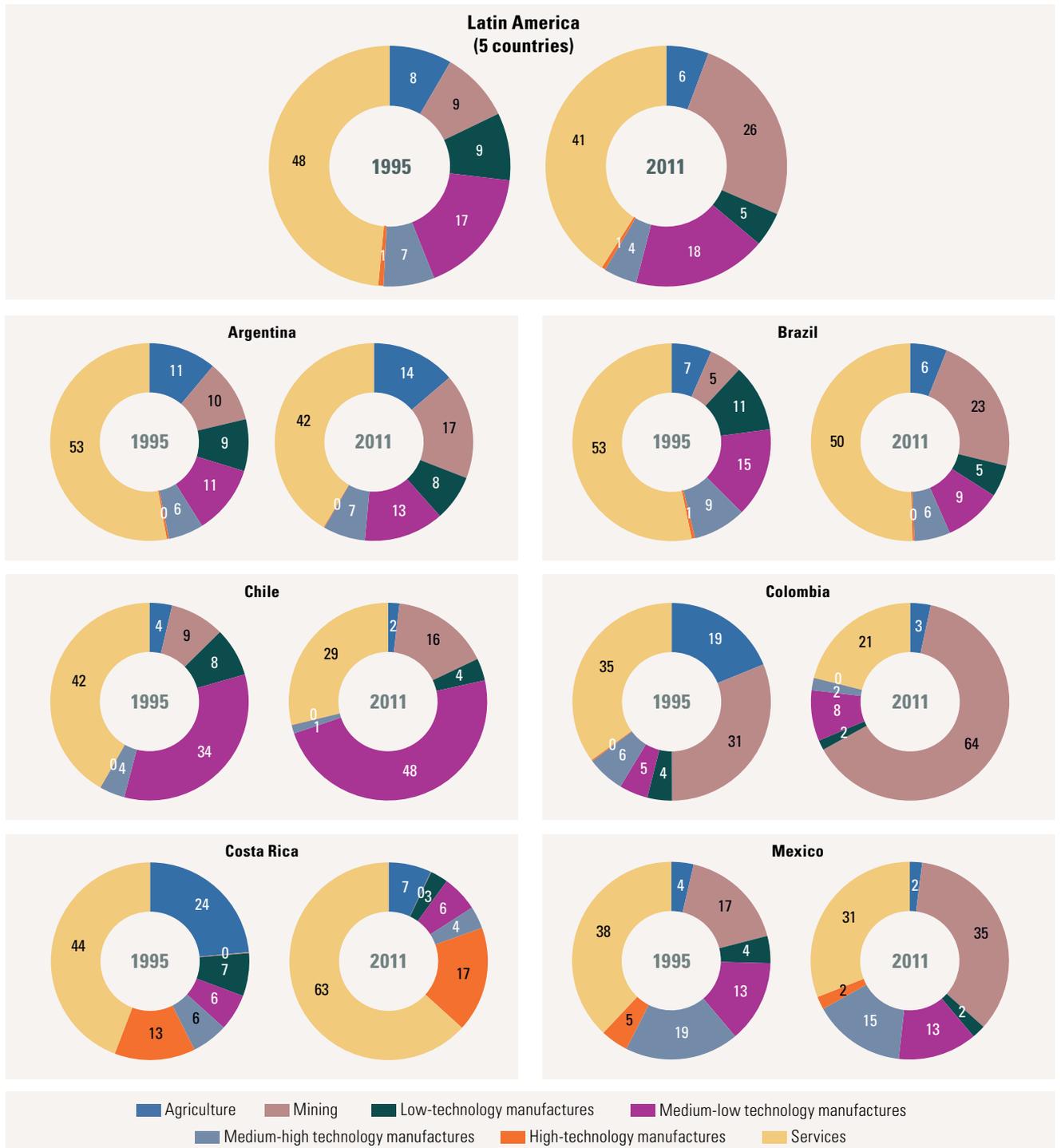
¹ Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico are the only countries of the region for which information is available in the Trade in Value-Added (TiVA) database of the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO), on which this section is based. The most recent year for which information is available is 2011.

² Developed countries are the main source of foreign value added in world exports, although they have lost share in recent decades. The European Union accounted for 31% of total foreign value added of world exports in 2011, compared to 43% in 1995, and the share of NAFTA countries (mostly the United States) went from 18% to 14% over this period. Meanwhile, China's foreign value added share grew significantly in exports from all regions, from 1% to around 7% of the total.

Figure II.4

Latin America (5 countries): structure of national value added in exports from third countries by sector of origin, 1995 and 2011^a
(Percentages)

Primary goods and low-technology manufactures gain share in Latin America's value added in exports from third countries



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO) multi-country Trade in Value-Added (TiVA) input-output tables, 2015 [online] <http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>.

On the other hand, the share of foreign value added in Latin American exports (backward linkages) is considerably lower than that of other regions, particularly the European Union and South-East Asia. In 2011, only 13% of the value exported by Argentina, Brazil, Chile, Colombia and Costa Rica was generated in other economies, compared with 19% in the case of NAFTA countries and some 30% in the case of the European Union, China and the rest of Asia. Mexico, however, has a high share of foreign value added in its exports (32% in 2011).

A feature of global value chains is their regional nature, since a high proportion of the foreign value added in these chains' exports originates in countries of the region in which they are located.³ However, Latin American countries have limited intraregional production integration. In 2011, only 16% of the foreign value added in exports from Argentina, Brazil, Chile, Colombia and Costa Rica was generated in the region (see figure II.3). When Mexico is included, this share increases to 18%. However, only 3% of foreign value added in Mexican exports originated in the other five aforementioned Latin American countries.

Analysis of Latin America's value added in third countries' exports by sector shows that it originates mainly, and increasingly, in primary sectors (agriculture and mining) and in low- and medium-low technology manufacturing sectors, although services also account for a large share (see figure II.4). The weight of primary sectors in the value added of Argentina, Brazil, Chile, Colombia and Costa Rica in exports from third countries increased from 18% to 32% between 1995 and 2011. In Mexico, the share of these sectors also grew, from 21% to 37%.

In all cases, this reprimarization is largely explained by the growing weight of mining (including fuels), as a result of the sharp rise in the prices of products such as oil, copper and iron. The exception to this pattern is Costa Rica, which saw a drop in the share of primary sectors (from 24% to 7% between 1995 and 2011), caused by the decline in the weight of agriculture. The contribution of services to the region's value added in exports from third countries, although down, remains significant, particularly that of research and development (R&D), other business services, trade and, to a lesser extent, transport and storage.

2. The region also lags behind in world services trade

Services are an increasingly important component of world trade. Advances in digital technologies have helped many services that were traditionally considered non-tradable to become tradable. The strides made in digitization have increasingly blurred the lines between goods and services.

The services sector currently accounts for 22% of world goods and services exports (measured in gross terms, as is customary). However, its share is estimated to reach 40% of world trade measured in value added, since much of the final value of internationally traded goods is added by services such as design, R&D and marketing, among others. In industry, this phenomenon is known as the servicification of manufacturing (Lanz and Maurer, 2015).

In line with the trends described, the composition of services trade has undergone major changes in recent decades: while transport and travel have lost share, the category "other services" (also known as "modern services") has gained economic weight, and

³ For example, the European Union accounted for almost 50% of the foreign value added in its exports in 2011. Likewise, around 40% of foreign value added in exports from China and the other Asian countries comes from Asia. In the NAFTA countries, just over 30% of total foreign value added in their exports originates from the bloc.

currently accounts for more than half of services trade (see figure II.5). Among modern services, the most important categories are business, financial and telecommunications services, accounting for 80% of the total (see figure II.6). The rapid growth in trade in these services has been facilitated by growing Internet use.

Modern services have become the main services trade category

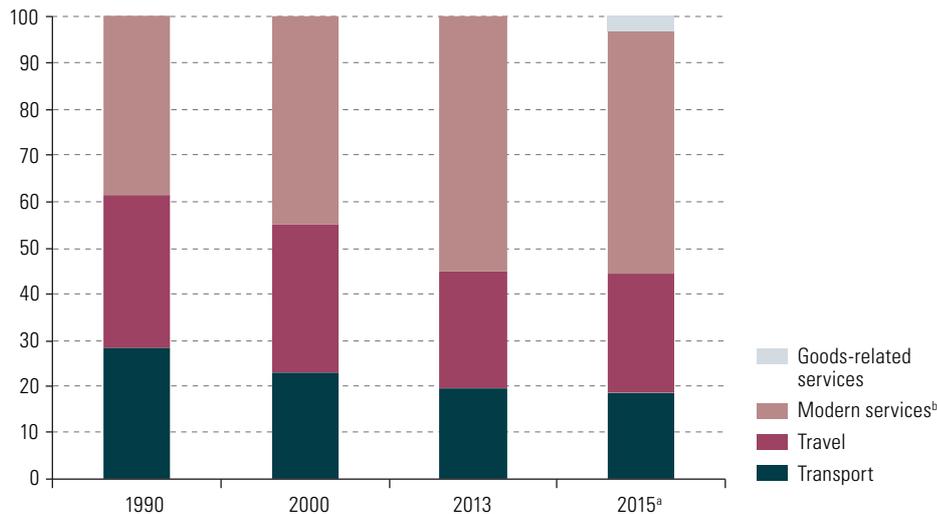


Figure II.5

Structure of world services exports by category, 1990, 2000, 2013 and 2015 (Percentages)

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

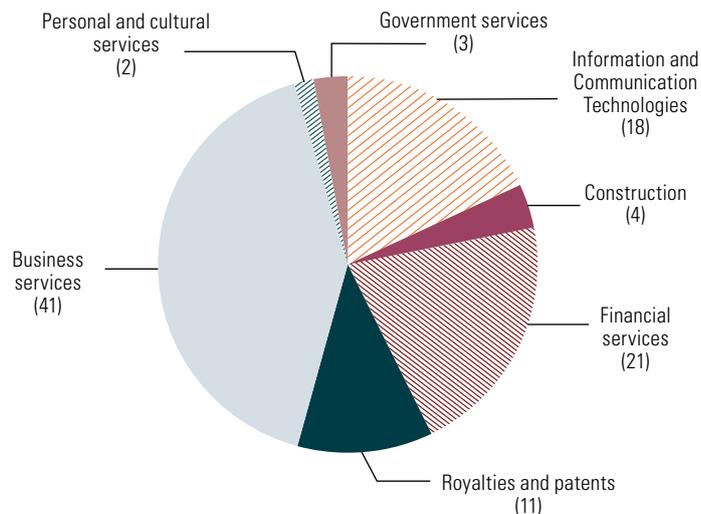
^a Statistics for 2015 include a new category (goods-related services), in line with the recommendations of the International Monetary Fund (IMF, 2009) and are therefore not strictly comparable with the figures collected up to 2013. This new category covers mainly services associated with manufacturing.

^b The modern services category corresponds to “other business services” under the balance of payments.

Figure II.6

Structure of world modern services^a exports, on average, 2013-2015 (Percentages)

Business services are the main modern services category



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

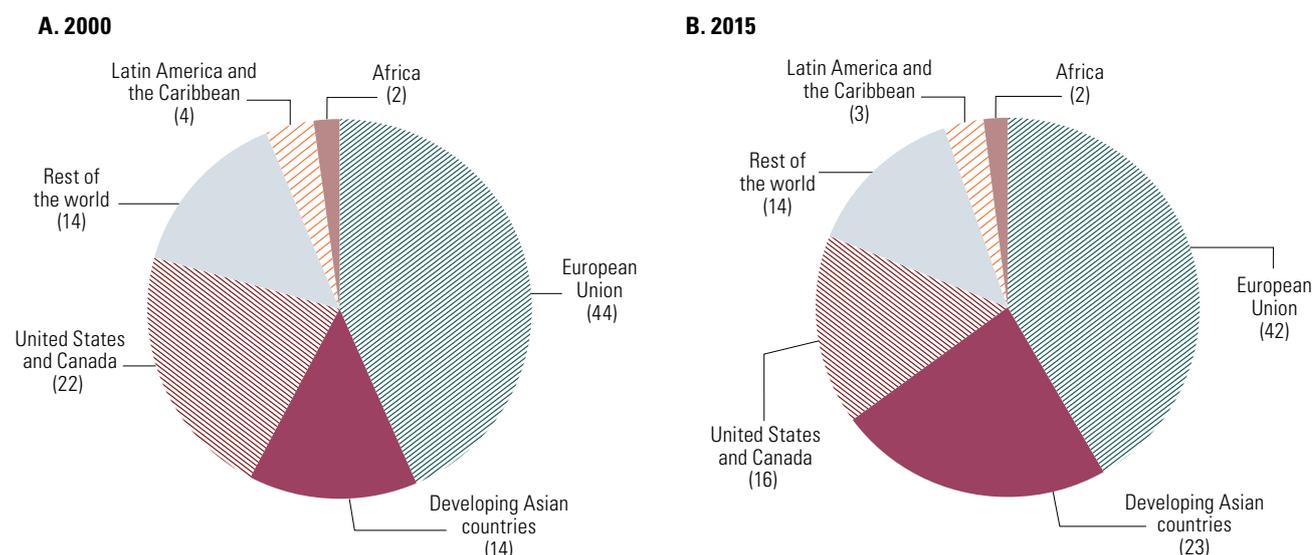
^a The modern services category corresponds to “other business services” under the balance of payments.

Figure II.7

Structure of world services exports by origin, 2000 and 2015
(Percentages)

Several indicators suggest that the region lags behind with regard to its participation in world services trade. In the past decade, the weight of services in its total exports has only increased slightly, from 14% in 2005 to 15% in 2015. This share is much smaller than that of services in world exports. Moreover, between 2000 and 2015, the region's share of world services exports fell from 4.1% to 3.4% (see figure II.7). This is lower than the region's share of world goods exports (5.6% in 2015). Meanwhile, the share of developing Asian countries in world services trade grew considerably, driven mainly by China and India.

As the region loses ground, developing Asian countries make gains in world services trade



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

The region's share in world modern services trade is even less than its share in world services trade as a whole (see table II.1). The difference with the main Asian competitors is particularly marked in areas such as business services and, in the case of India, telecommunications and information technologies. On the contrary, the region performs better in the traditional sectors of transport and travel.

Table II.1

Latin America and the Caribbean, ASEAN,^a China and India: share of world services exports, 2015
(Percentages)

The region barely accounts for 2% of world modern services exports

Services categories	Latin America and the Caribbean	ASEAN ^a	China	India
Transport	2.8	7.2	4.4	1.6
Travel	5.7	8.6	9.3	1.7
Other services (modern services)	2.4	4.6	4.3	4.6
Information and communication technologies	1.8	2.6	5.2	12.1
Construction	0.1	3.5	18.5	1.7
Financial services (including insurance)	1.3	4.9	1.4	1.4
Royalties and patents	0.4	1.2	0.4	0.2
Business services	2.5	6.6	5.6	4.6
Personal and cultural services	2.6	3.0	1.8	3.1
Government services	3.5	2.1	1.5	0.8
All services	3.4	6.1	5.6	3.3

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

^a Association of Southeast Asian Nations.

The weight of services in total exports fluctuates widely among the countries of the region. Countries that specialize more in services exports are generally located in the Caribbean and Central America (see figure II.8). Countries in the region are also very heterogeneous in terms of the makeup of their services exports (see figure II.9). Modern services are the main export category in Argentina, Brazil, Chile and Costa Rica only: in the first three countries, business services predominate in this category, while in Costa Rica the largest component is information technology, especially the outsourcing of information technology-related services. In the Bolivarian Republic of Venezuela, Panama and Paraguay, the main category is transport services. Travel services are the foremost services exports for the majority of countries, reflecting the importance of the tourism sector. Finally, manufacturing-related services are the main export category for Honduras and Nicaragua, given the weight of maquila operations.

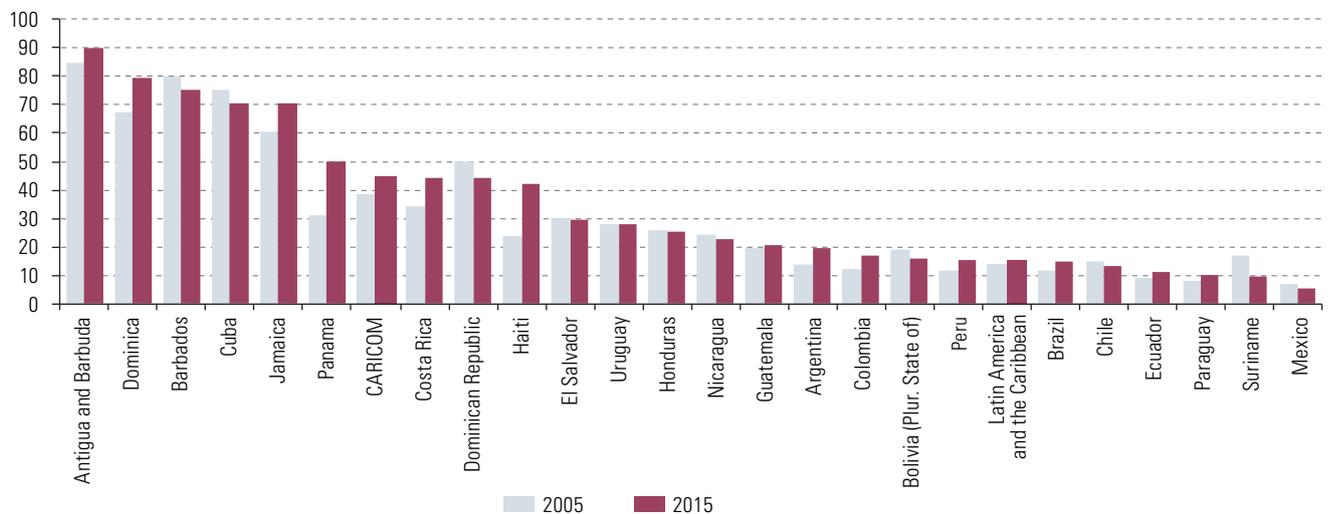
In terms of the most modern services—digital services—the region has made substantial progress, but gaps still exist. While Internet use has expanded rapidly, mainly through mobile connections, there are very few regional businesses among digital platform and social network providers causing the region to fall further behind (see point 5 below). A similar pattern can be seen in an important area of digital services, cross-border e-commerce. A survey carried out in Argentina, Brazil and Mexico in 2015 revealed that 38% of online shoppers in those three countries had purchased goods and services from the United States, 26% from China and 9% from Japan (PayPal, 2015). The remaining 27% purchased goods and services from other proveniences, including Latin America and the Caribbean. The limited regional integration in goods markets is therefore being replicated in the digital market.

Between 2000 and 2015, the region's share of world services exports fell from 4.1% to 3.4%. This is lower than the region's share of world goods exports (5.6%) in 2015.

Figure II.8

Latin American and Caribbean (24 countries): share of services in total goods and services exports, 2005 and 2015
(Percentages)

Services exports are particularly significant for the Caribbean and Central America

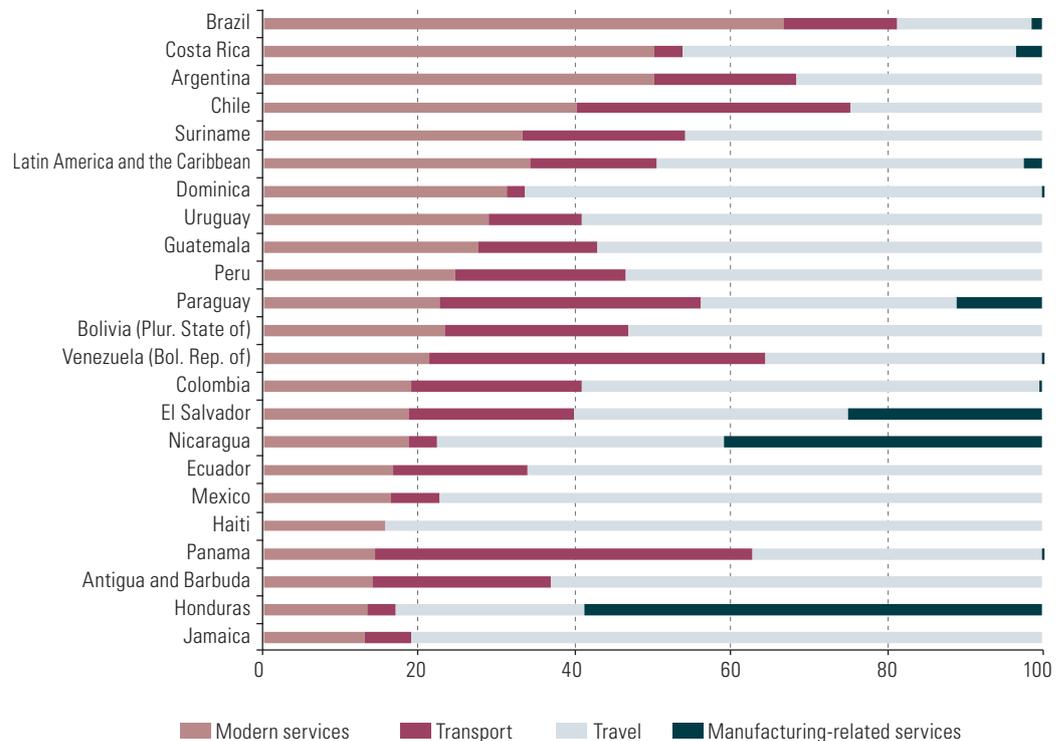


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Trade Organization (WTO) Statistics database [online] <http://stat.wto.org/Home/WSDBHome.aspx?Language=E>.

Figure II.9

Latin America and the Caribbean (22 countries): structure of services exports by category, 2015^a (Percentages)

Few countries in the region specialize in the export of modern services



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), Statistics database [online] <http://stat.wto.org/Home/WSDHome.aspx?Language=E>.

3. Foreign direct investment inflows double

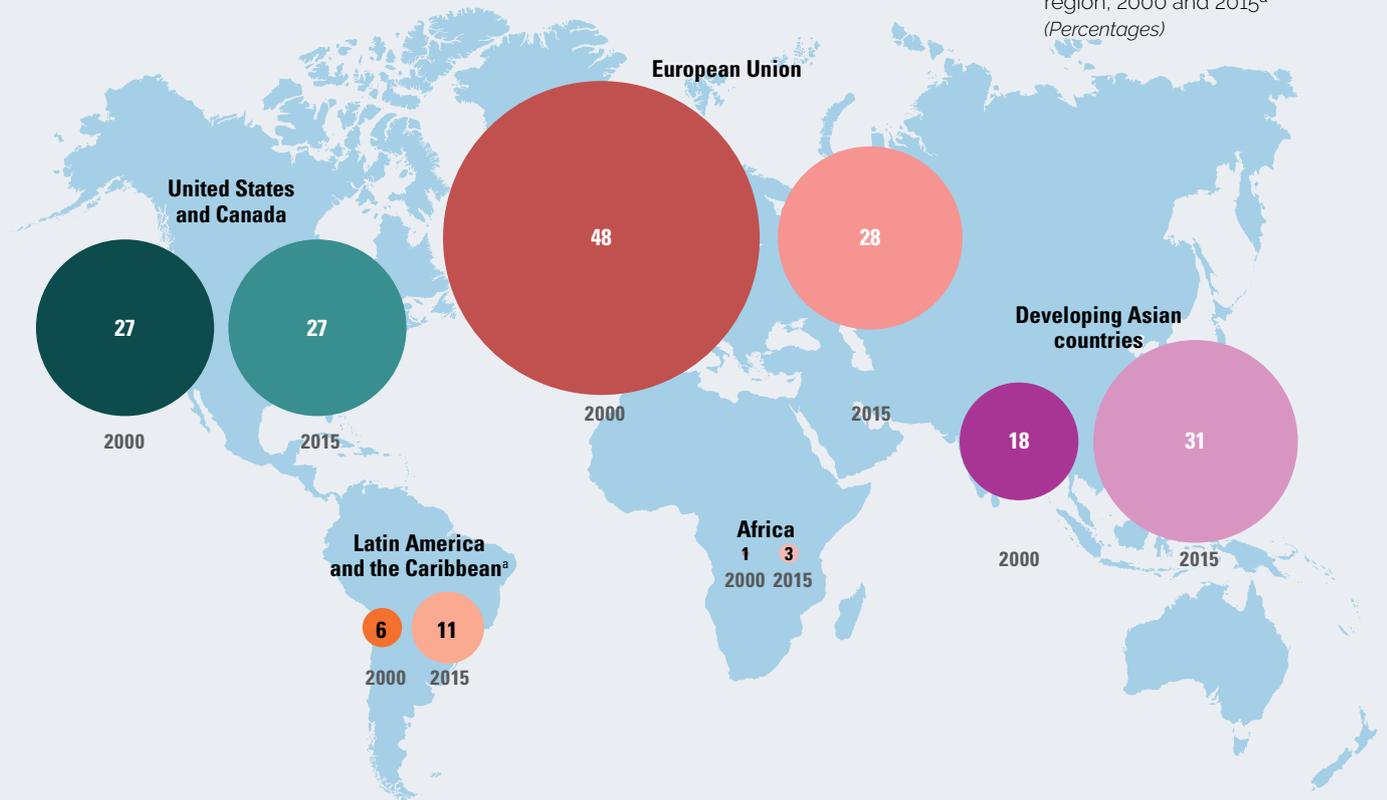
FDI flows have been buoyant over the long term and one of the drivers of globalization. A small number of transnational companies are responsible for most of that investment, while at the same time playing a key role in intra-firm trade and R&D processes.

Since the 1990s, the countries of the region have received increasing FDI flows. Between 2000 and 2015, the region's share of global FDI inflows almost doubled, rising from 6% to 11%. This is one of the few variables in which the region shows a pattern similar to that of the successful developing Asian economies (see figure II.10).

The sectoral distribution of the region's FDI inflows shows a predominance of services, followed by manufacturing and natural resources (see figure II.11). Most significant among services are investments in telecommunications, the hotel industry and tourism, financial services, retail and transport. The largest FDI flows into manufacturing activities go to the automotive industry, mainly in Brazil and Mexico. Investment in natural resources-related activities is directed chiefly towards metal mining and the coal, natural gas and oil sector. In the last five years, investment in renewable energies has grown in importance, especially in solar and wind power.

Since 2000 the region has almost doubled its share of FDI inflows

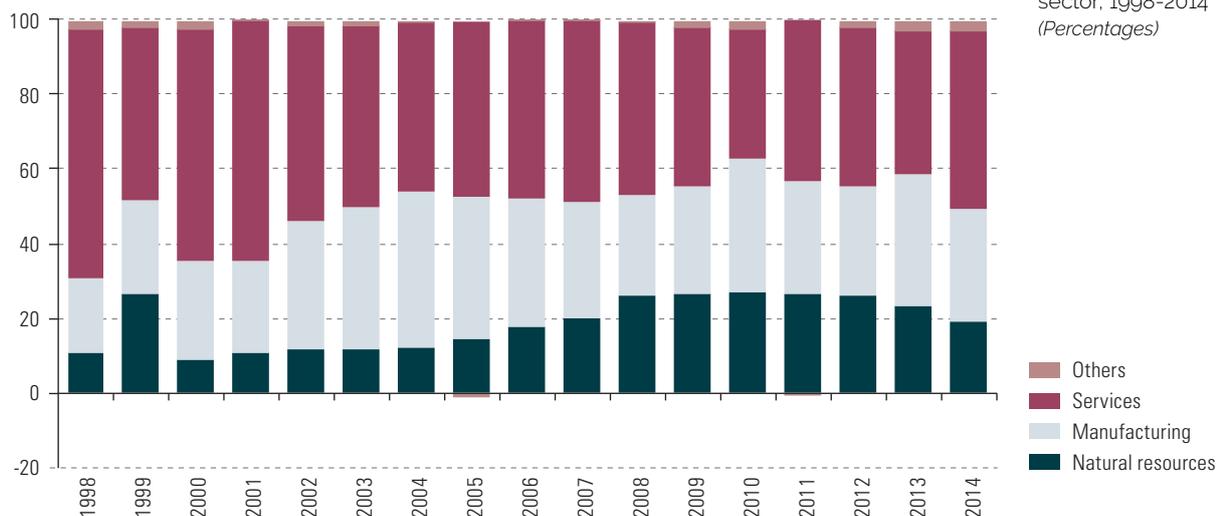
Figure II.10
Share of world foreign direct investment inflows, by region, 2000 and 2015^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Conference on Trade and Investment (UNCTAD), UNCTADSTAT [online] http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?IF_ActivePath=P,15912&sCS_ChosenLang=en.
^a Figures for Latin America and the Caribbean do not include data from Caribbean financial centres.

The commodity bonanza has not fundamentally altered the sectoral composition of FDI received by the region

Figure II.11
Latin America and the Caribbean (selected countries)^a FDI inflows by sector, 1998-2014
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.
^a Includes information for: Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guyana, Honduras, Mexico, Nicaragua, Panama, the Plurinational State of Bolivia and Trinidad and Tobago.

Globally, transnational companies' foreign investments adhere to four strategies: greater export efficiency, supplying domestic markets, access to natural resources and the search for smart assets (skilled workers and robust innovation systems). In the region, the first three clearly predominate, as exemplified by investments in Mexico's carmakers in the context of NAFTA, sizeable investments directed towards Brazil's domestic market and investments in mining in the Andean countries. There is a serious lack of investment in efforts to pursue investigative work and R&D in new technologies and products; the region's share of global FDI projects involving R&D averaged around 4% between 2003 and 2015, according to figures from fDi Markets.

Outward investment by Latin America, conversely, despite having risen in the 1990s and 2000s, remains limited to just a few companies headquartered in the region, such as Techint from Argentina; Vale, Gerdau, JBS and Petrobras from Brazil; and América Móvil and CEMEX from Mexico. Most of the Latin American investments abroad are made in the region and follow from the maturing of business capabilities developed over many years of activity in domestic markets.

The effect of FDI on the region's production patterns and its participation in globalization has been ambiguous. On the one hand, in countries where FDI is focused on the extraction and basic processing of natural resources, it has entrenched the specialization trend and even strengthened low-technology lock-in. On the other hand, FDI has made a substantial contribution to the expansion and modernization of advanced sectors in the region, such as finance, telecommunications and, to a lesser extent, business services in general. This pattern is the result of the passivity of national policies, which have rarely focused on quality over the amount invested.

4. Financial flows on the rise

Cross-border financial movements (bank loans and portfolio and other investments) registered the sharpest growth before the global financial crisis and the steepest decline afterwards. The accelerated pre-crisis financial globalization was concentrated in the advanced countries, as a result of the sophistication and profitability of their capital markets. The key players in this process were the banks of these countries, which extended their activities beyond their borders through loans or the establishment of subsidiaries. Another factor that accelerated these flows was the rapid growth in global trade and the growing asymmetry between the current account balances of China, the United States and natural resource-exporting countries (ECLAC, 2015).

Between 2011 and 2014, financial flows decreased by 60%, on average, compared to their peak in 2007. As a percentage of global GDP, the drop was even more pronounced, which dealt a blow to financial globalization. While financial flows declined across all regions, the biggest fall occurred in the advanced countries. Among emerging market economies, the fall was comparatively smaller, because their capital markets were less developed and their capital accounts were less open (Bussière, Schmidt and Valla, 2016). The net capital account balances also changed after the crisis: net inflows to the United States (and many emerging market economies) halved, reflecting their smaller current account deficits. However, the capital account surplus of China and Germany increased.

Another significant trend was the change in the structure of the balances, in particular the marked reduction in the share of the “other investments” component. This item covers bank loans, which—particularly in Europe—plummeted. This is largely explained by the considerable impact of the financial crisis, which led to global deleveraging and financial disintermediation processes.

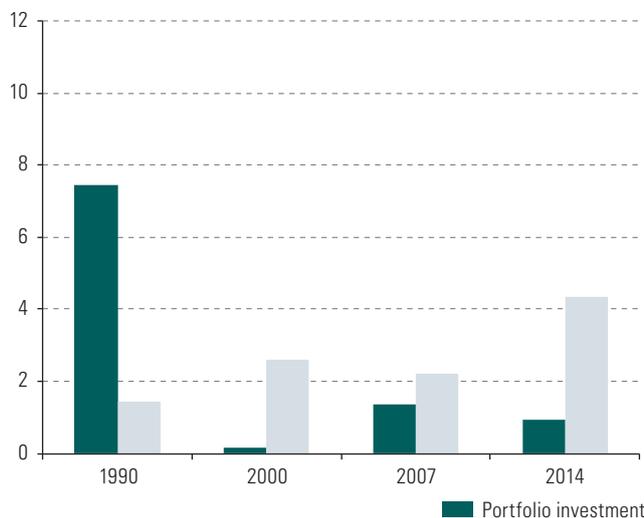
Diverging from global trends, the absolute amounts of post-crisis capital inflows into Latin America and the Caribbean did not decrease, although outflows did (see figure II.12). In the period between 2012 and 2014, portfolio investment inflows rose by 238%, compared to the pre-crisis period (between 2005 and 2007), while portfolio investment outflows and other investments fell by 4% and 6%, respectively. As with FDI, the region’s share of global inflows and outflows of other investments, mainly in interbank loans, increased between 1990 and 2014.

Figure II.12

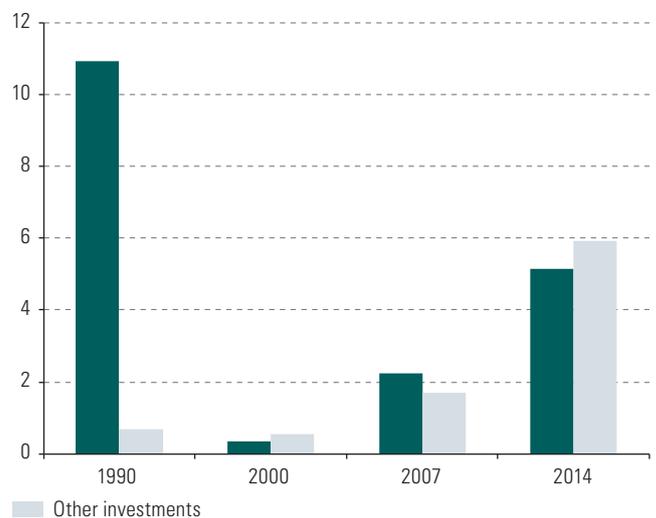
Latin America and the Caribbean: share of global financial flows, 1990 to 2014
(Percentages)

The region saw no drop in capital inflows following the financial crisis

A. Capital outflows (assets)



B. Capital inflows (liabilities)



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

Note: “Portfolio investment” refers to the acquisition of equity and debt securities by residents and non-residents. “Other investments” is a residual item that mainly covers bank deposit and lending operations.

5. A problematic integration into the digital economy

As stated in chapter I, both the global economy and globalization itself are increasingly digital. The development of the digital industry directly contributes to economic growth by boosting revenue, employment and corporate tax contributions, and indirectly, through spillover effects, providing inputs to other industries and business creation. To take

advantage of these benefits, the region must integrate digital technologies to a greater extent into economic activities and the production of digital and non-digital services, based on efficient connectivity and an adequate services infrastructure. Specifically, it must move from an Internet that is almost exclusively focused on consumption to one of consumption and production, taking full advantage of Big Data analysis and the Internet of Things (ECLAC, 2016d).

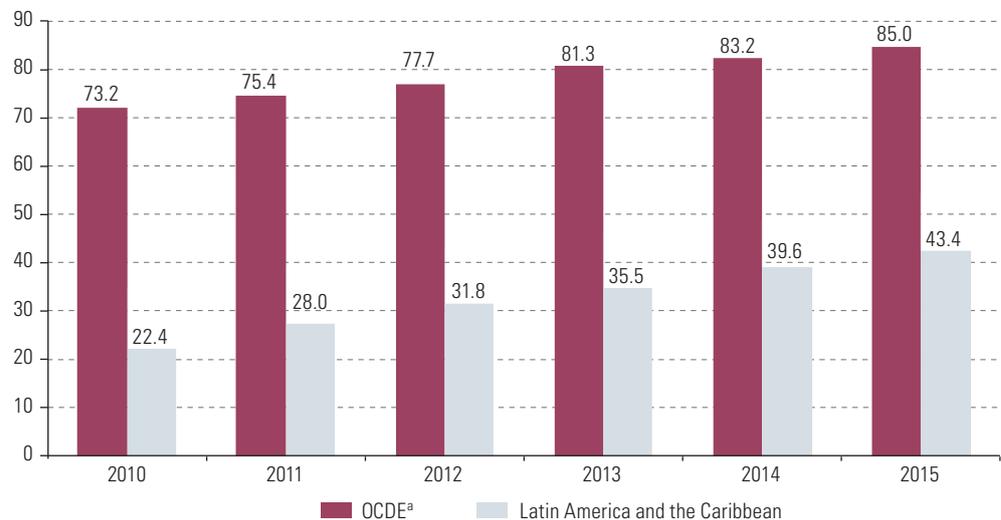
In the last five years, the number of households in the region with an Internet connection has grown by an annual average of 14%, reaching 43% of all households in 2015. This is almost double the figure for 2010. Although the gap with the countries of the Organization for Economic Cooperation and Development (OECD) has narrowed, it remains wide (see figure II.13). Likewise, the degree of Internet penetration among the countries of the region is highly heterogeneous. By 2015, of the 24 countries for which information is available, 3 had a penetration rate of less than 15%, 15 of them had between 15% and 45%, another 3 had between 45% and 56%, and the last 3 had close to 60%. There are also large gaps within countries depending on socioeconomic status and between urban and rural areas (ECLAC, 2016b).

The number of households in the region with an Internet connection has grown by an annual average of 14%, reaching 43% of all households in 2015. This is almost double the figure for 2010.

Figure II.13

Latin America and the Caribbean and OECD^a households with Internet access, 2010-2015 (Percentages)

The region has been narrowing the Internet penetration gap with the advanced countries



Source: Economic Commission for Latin America and the Caribbean (ECLAC), Regional Broadband Observatory (ORBA), on the basis of International Telecommunication Union (ITU), *World Telecommunications Indicators Database*, June 2016.

^a Organization for Economic Cooperation and Development (OECD). OECD data do not include Chile or Mexico.

With regard to the quality of connections, the variable commonly referred to is speed. Figure II.14 shows the percentage of households that have the different speeds available: over 4 Mbps, over 10 Mbps and over 15 Mbps. In the countries that are most advanced in this respect, such as the Republic of Korea and Norway, more than 50% of connections are over 15 Mbps. In Latin America and the Caribbean, on the contrary, high-speed connections (over 10 Mbps) are still scarce. In Chile, Uruguay and Mexico, the countries with better services, only 15% of connections are over 10 Mbps and barely 4% over 15 Mbps. These connection speeds make it difficult to access advanced services and applications (see table II.2).

Despite having narrowed, the connection speed gap between the region and advanced countries is still very significant

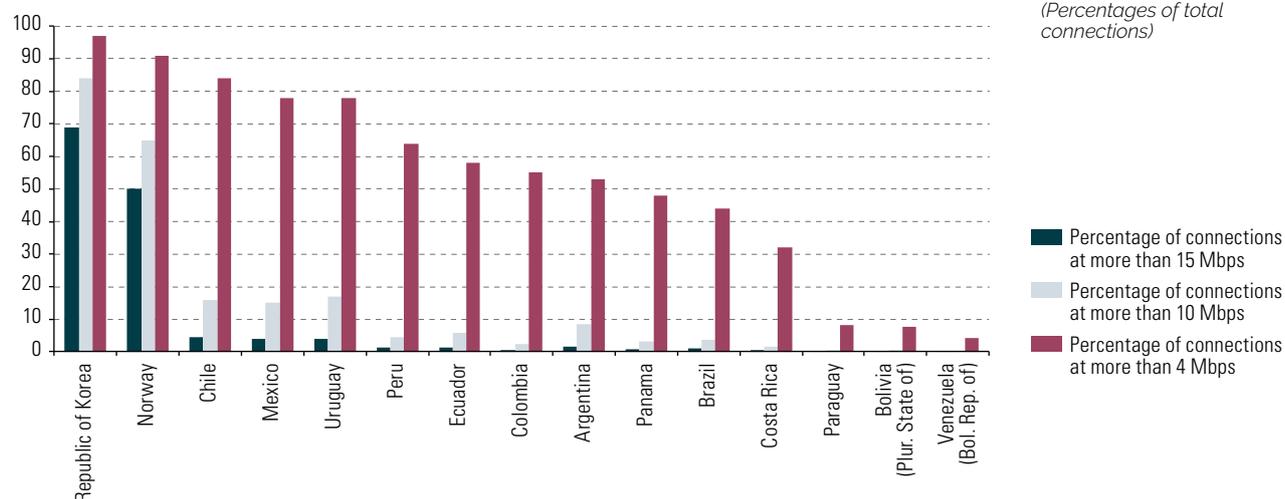


Figure II.14

Selected countries: broadband connections by speed available, 2016 (Percentages of total connections)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), Regional Broadband Observatory (ORBA), on the basis of Akamai Technologies, *Akamai's State of the Internet Q1 2016 Report*, vol. 9, No. 1, Cambridge, June 2016.

The region's low connection speed hampers participation in more advanced activities

Table II.2

Advanced applications and bandwidth required

The Mozilla Ignite and US Ignite projects	Bandwidth required
Advanced manufacturing	Between 38 and 74 Mbps
Emergency preparedness and security	Between 6 and 18 Mbps
Education and training	Between 38 and 74 Mbps
Healthcare technologies	Between 38 and 74 Mbps
Clean energy and transport	Between 2 and 3 Mbps
Climate and air traffic monitoring	Between 38 and 74 Mbps
interactive 3D video use	Between 77 and 148 Mbps

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Y. Zhuang and others *Future Internet Bandwidth Trends: An Investigation on Current and Future Disruptive Technologies*, New York, Polytechnic Institute of New York University, 2013.

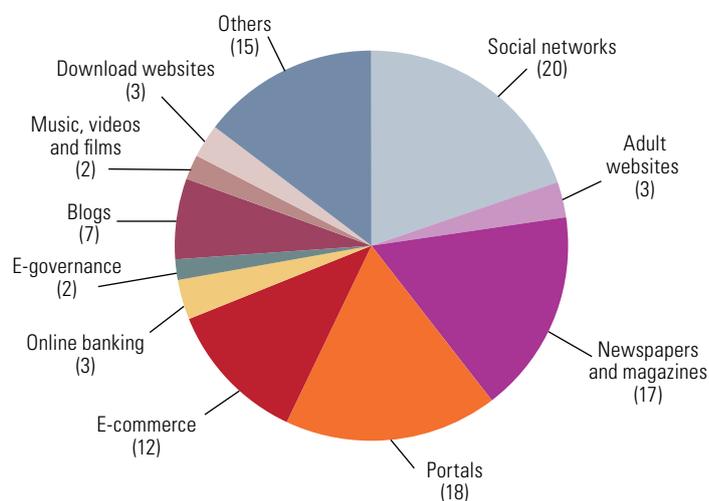
The region's relatively low level of digital connectivity, compounded by poor quality, is limiting progress in the digitization of its economy. In order to achieve greater digitization, two other elements are needed: the development of a local digital services industry and the integration of information and communications technologies (ICT) into production processes.

The intensity of Internet use and the online consumption profile in Latin American are similar to those of developed countries. The regional monthly average of hours spent connected is 21.7, slightly lower than the world average of 22.8 hours. The Latin American consumption profile reveals high use of social networks (see figure II.15). This demand is covered in the main by content generated outside the region and distributed by digital platforms located primarily in the United States, creating a significant imbalance between local supply of and demand for digital services. Websites created in the region with big market shares are mainly devoted to e-commerce (in the case of sites such as Mercado Libre) or the dissemination of news (newspapers), non-priority categories in the region's consumption profile (see table II.3).

Figure II.15

Latin America: distribution of Internet users by category^a
(Percentages)

The region's Internet consumption profile is similar to that of developed countries



Source: Katz, R. *El ecosistema y la economía digital en América Latina*, Fundación Telefónica/Editorial Ariel/Economic Commission for Latin America and the Caribbean (ECLAC), January, 2015.

^a Based on information from the 100 most popular Internet sites in the region.

Table II.3

Most visited Internet sites in Latin America, 2014

Regional demand for Internet services is mainly supplied by extraregional providers

Ranking	Site	Number of unique monthly visitors (millions)
1	Google websites (Google, YouTube, etc.)	168.1
2	Facebook	144.9
3	Microsoft websites (Bing, MSN, etc.)	127.9
4	Yahoo websites (Portal, Tumblr, etc.)	110.6
5	Wikipedia	60.5
6	Terra	58.9
7	UOL	54.1
8	Ask Network	48.1
9	R7	45.5
10	Mercado Libre	45.2

Source: Telecom Advisory Services, on the basis of comScore, "2014 Latin America & U.S. Hispanic Digital Summit. The Latest LatAm and U.S. Hispanic Digital Trends", 2014 [online] <http://blog.aotopo.com.br/wp-content/uploads/2015/02/2014-08-LATAM-Digital-Future-in-Focus.pdf>.

The imbalance between supply and demand leads to a transfer of resources from the region to more advanced economies, through the purchase of digital services (for example, access to websites or advertising). It thus replicates an import model of high value-added goods (digital services) in which the region is primarily responsible for providing the inputs (telecommunications infrastructure) for these goods to reach the end users. A market therefore exists that could be served by regionally produced digital services. This would have a positive impact on the development of the digital economy, harnessing resources that are currently used to import these services.

Digital technologies have not been widely adopted or integrated into production processes, apart from personal consumption services (Katz, 2015; Rovira and Stumpo, 2013), even though it would improve productivity and reduce transaction, commercialization and marketing costs. In summary, increased connectivity has stimulated growth in the region's digital economy, although there is still room for improvement, by boosting the contents industry, the development of platforms and the integration of new technologies into production processes.

B. Four years of decline in foreign trade

The international context described in chapter I, marked by weak external demand linked to poor macroeconomic performance, imbalances and a lack of global governance, has had a direct impact on regional trade, which, as was already anticipated in 2015, has had its worst performance in 80 years (ECLAC, 2015b).

1. The decline in exports is decelerating, but not in imports

The sharp drop in regional goods exports seen in 2015 was offset in the first half of 2016 by a smaller drop in the price of commodities exported (especially oil, minerals and metals) and higher volumes exported by some countries. The fall in services exports, which, in 2015, was less severe than that of goods exports, has also slowed down in recent quarters (see figure II.16). The similar trends seen in both flows are evidence of the strong link between the dynamism of trade in goods and that of freight transport services. Meanwhile, declining regional demand has adversely affected trade in telecommunications, business and financial services and other modern services.

Regional foreign trade has performed less well in recent years than it did during the crisis of 2008-2009. While on that occasion the fall in exports lasted 13 months, this time there have been more than 30 months of decline between July 2012 and September 2016, including the past 24 months in the case of goods and the last 6 quarters for services. Regional goods exports are expected to return to modest growth in the last quarter of 2016.

The recovery of regional exports after the crisis was short-lived, lasting only two and a half years. It was driven by sustained demand from emerging economies (particularly in Asia), which mitigated the effects of the recession in the eurozone and low growth in the United States (ECLAC, 2012). However, the persistent recessionary bias in the world economy eventually hit developing economies too, reducing their demand for imports and, consequently, the region's exports.

Based on foreign trade information from the region and the price of the main export products to September 2016, the value of goods exports is expected to decrease by 5% for the year as a whole. A breakdown of this contraction reveals a 6.7% drop in prices and 1.7% increase in volume. The region will thus mark four consecutive years of falling export values (see figure II.17 A). However, the projected contraction for 2016 is much less than that seen in 2015 (-15%), owing primarily to the smaller drop in the prices of the export basket and the recovery in export volumes, which only grew by 1% in 2015.

Figure II.16

Latin America and the Caribbean: variations in the value of trade in goods and services, 2006-2016
(Percentages with respect to the year-earlier period)

The decline in regional exports of goods and services has slowed in 2016

A. Goods (monthly)



B. Services (quarterly)



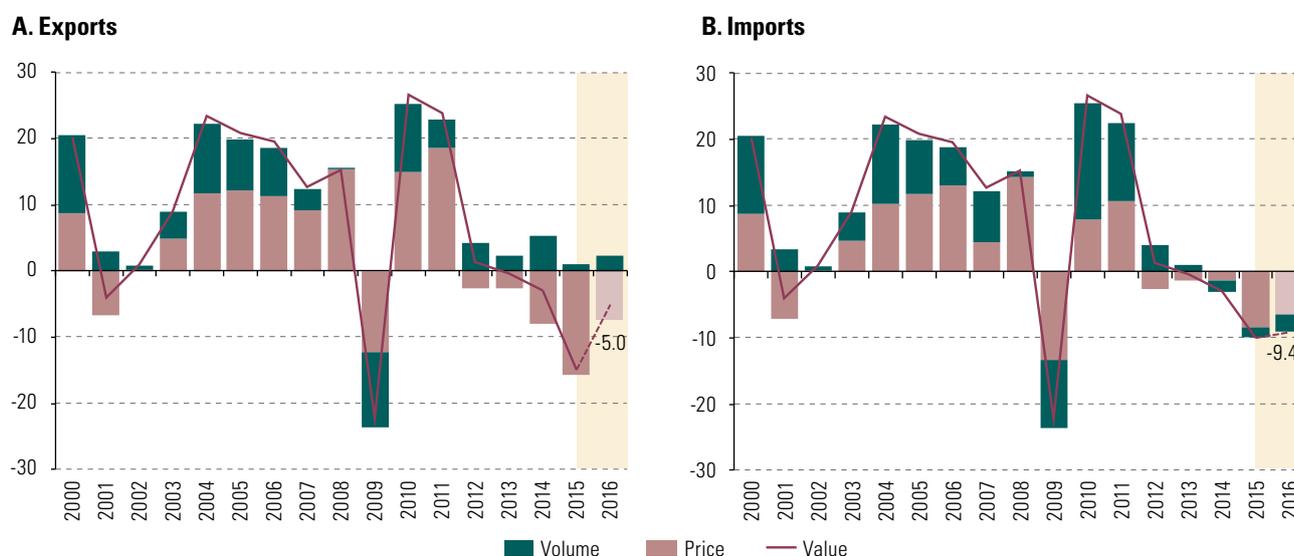
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from countries of the region and the World Trade Organization (WTO).

Since mid-2015, the fall in regional goods imports has been greater than that in exports. This reflects both the lower export revenues received by many countries, owing to falling commodity prices, and the sharp slowdown in growth in the region in recent years, particularly the recession affecting several of the largest South American economies. In this context, the value of regional imports is expected to contract by 9.4% in 2016, marking four consecutive years of decreases (see figure II.17 B).

Figure II.17

Latin America and the Caribbean: annual variations in goods trade by volume, price and value, 2000-2016^a
(Percentages)

A drop of 5% in regional exports and of 9% in imports is expected for 2016



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2016 are projections.

Unlike exports, regional imports are not yet showing signs of recovery, as they are projected to decrease in 2016 by a similar amount to that of 2015 (-10%). As in 2014 and 2015, the volume of imports is projected to fall in 2016, amid sluggish aggregate demand in the region. Similarly, during the first half of 2016, regional services imports dropped more sharply than exports, which can be explained by the decline in South American countries' imports (see table II.4).

Prices for the region's commodity exports, which fell at double-digit rates in 2014 and 2015, began to rally in the first half of 2016 (see figure II.18). However, given sluggish world demand, these prices are expected to remain highly volatile, without a clear trend. For the whole of 2016, price levels for the region's basket of exported commodities are expected to fall further, although slightly less than they did in 2015. Consequently, between 2012 and 2016, the price index of the region's export basket will have dropped by an accumulated 35%.

Table II.4

Latin America and the Caribbean (selected groupings and countries): variations in the value of services trade, first half of 2016 relative to the same period in 2015

(Percentages)

In the first half of 2016, services imports fell much more than exports

Grouping and country	Exports		Imports	
	First half of 2015	First half of 2016	First half of 2015	First half of 2016
Latin America and the Caribbean	-1.0	-1.3	-7.3	-7.8
Latin America	-0.5	-2.3	-7.2	-8.3
South America	-7.9	-3.9	-9.2	-10.2
Southern Common Market (MERCOSUR)	-9.8	-6.0	-9.6	-12.8
Argentina	-0.1	-5.6	0.5	7.9
Brazil	-13.3	-5.6	-11.3	-17.4
Paraguay	-4.1	0.2	-2.6	-6.5
Uruguay	-4.4	-11.0	-17.4	-13.8
Venezuela (Bolivarian Republic of)	-17.2	-10.2	-10.6	-13.8
Andean Community (CAN)	3.3	-0.4	-8.8	-7.8
Bolivia (Plurinational State of)	19.3	-15.5 ^a	-9.2	-9.7 ^a
Colombia	1.6	2.8	-15.6	-8.6
Ecuador	7.0	-12.0	-9.1	-13.8
Peru	2.0	1.2	3.6	-3.6
Chile	-18.2	-0.4	-8.4	-4.3
Central America	7.7	2.6	0.6	-0.1
Costa Rica	2.9	13.0	11.2	4.3
Dominican Republic	-14.7	23.5	-21.4	34.6
El Salvador	9.8	2.0	4.0	5.4
Guatemala	-1.6	-2.1	1.4	-4.8
Honduras	1.7	0.0	0.5	1.1
Nicaragua	0.0	18.2	-8.5	11.3
Panama	13.3	-2.9	-4.6	-4.3
Mexico	22.1	-2.8	-4.4	-6.6
Caribbean Community (CARICOM)^b	3.2	-2.0	-2.8	5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Trade Organization (WTO) and official information from the countries.

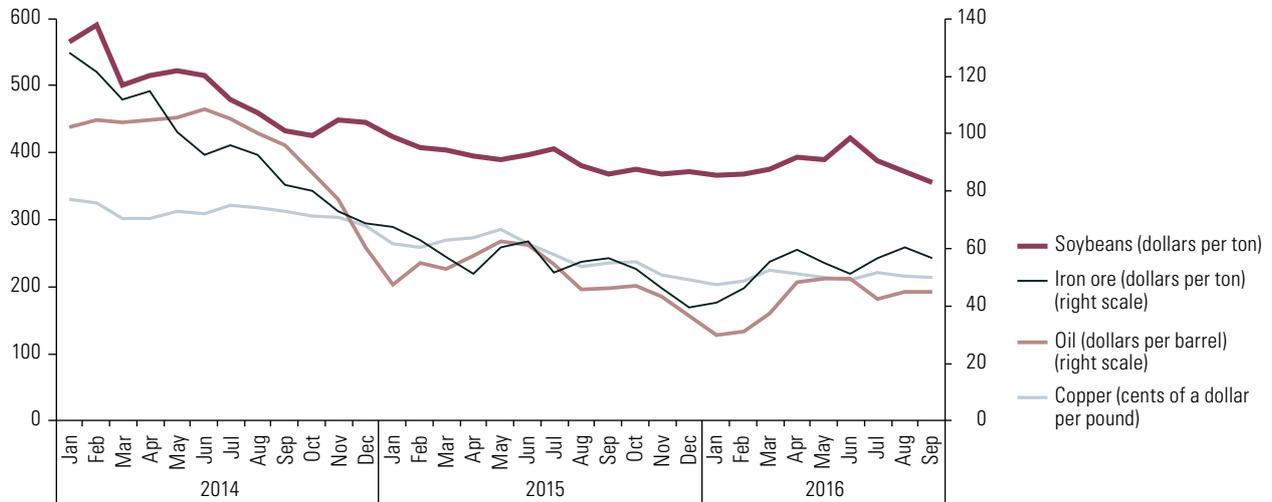
^a Includes estimates for the period from April to June 2016.

^b Information is included from Jamaica and the member countries of the Central American Bank for Economic Integration (CABEI): Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Figure II.18

World prices for selected commodity groups, January 2014 to September 2016
(Dollars or cents of a dollar by unit volume)

Commodity prices have recovered slightly



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Rosario Board of Trade and IndexMundi, "Precios de Materias Primas" [online database] <http://www.indexmundi.com/es/precios-de-mercado/> and the Chilean Copper Commission (COCHILCO), "Precio de los metales" [online] <https://www.cochilco.cl/Paginas/Estadisticas/Bases%20de%20Datos/Precio-de-los-Metales.aspx>.

The Caribbean is expected to see the largest declines in export values in 2016, down by 12.6%, followed by South America (-6.3%) (see figure II.19). The price and volume of Caribbean exports will fall, with mining and oil products down the most. Meanwhile, the price of South American exports will drop but their volume will rise, owing to significant expected increases in volumes exported by Argentina, Brazil, Ecuador, Paraguay and Peru (see table II.5). These increases will take place both in exports of commodities and their derivatives and in those of manufactures. Among commodities, the largest increases will be in agricultural products (soybeans, rice, wheat, maize, meat, sugar, fats and oils), mining products (iron ore and copper) and fuels (oil). In the case of manufactures, Brazil saw the largest increase in exported volumes, whose industrial exports grew by 13% between January and September of 2016 (Ministry of Industry, Foreign Trade and Services of Brazil, 2016). Brazilian products that saw the biggest rise in exports included automobiles (44%), heavy goods vehicles (35%), aeroplanes (31%) and construction equipment (17%).

Central America is the only subregion where the value of exports will fall less than the regional average in 2016, because the prices of its exports will drop less than those of the region as a whole and will be partly offset by a 2.2% increase in volume. In this subregion, there has been considerable growth in exports of medical equipment and implements and food products from Costa Rica, and of textiles and clothing from El Salvador. A slight decrease is expected in the volumes exported by Nicaragua. The higher export volumes of the other Central American countries will not be enough to offset the falling prices for products such as coffee, sugar and textiles.

Figure II.19

Latin America and the Caribbean (selected subregions and countries): projected variations in exports by volume, price and value, 2016 (Percentages)

The biggest falls are expected in Caribbean and South American exports



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

Table II.5

Latin America and the Caribbean (selected groupings and countries): projected variations in foreign trade by price, volume and value, 2016 (Percentages)

Central America is the subregion where foreign trade is expected to decrease the least in 2016

Grouping and country	Exports			Imports		
	Price	Volume	Value	Price	Volume	Value
Latin America and the Caribbean	-6.7	1.7	-5.0	-6.3	-3.0	-9.4
Latin America	-6.5	1.9	-4.7	-6.3	-3.0	-9.4
South America	-9.5	3.1	-6.3	-8.2	-8.4	-16.7
Southern Common Market (MERCOSUR)	-9.3	3.6	-5.6	-9.5	-10.0	-19.5
Argentina	-5.0	6.3	1.3	-10.0	1.9	-8.1
Brazil	-9.0	5.0	-4.0	-10.5	-10.4	-20.9
Paraguay	-4.5	7.7	3.2	-6.4	-2.5	-8.9
Uruguay	-5.9	-0.5	-6.4	-5.9	-8.7	-14.6
Venezuela, Bolivarian Republic of	-18.8	-7.3	-26.1	-5.9	-29.8	-35.7
Andean Community	-11.6	3.3	-8.3	-6.2	-8.8	-15.0
Bolivia (Plurinational State of)	-13.1	-4.4	-17.6	-4.5	-8.6	-13.1
Colombia	-13.7	-2.0	-15.7	-6.1	-11.5	-17.6
Ecuador	-16.0	5.0	-11.0	-7.3	-18.9	-26.2
Peru	-6.5	10.0	3.5	-6.2	0.8	-5.4
Chile	-7.1	0.4	-6.7	-6.2	0.1	-6.1
Central America	-2.7	1.6	-1.1	-7.0	2.0	-5.0
Costa Rica	-2.4	6.9	4.5	-5.8	6.3	0.5
Dominican Republic	-1.8	2.8	1.0	-5.9	5.5	-0.4
El Salvador	-3.7	1.8	-1.9	-6.5	2.4	-4.1
Guatemala	-1.5	-2.6	-4.1	-9.0	1.3	-7.7
Honduras	-3.0	1.0	-2.0	-7.0	-2.3	-9.3
Nicaragua	-4.7	-0.7	-5.4	-5.5	6.6	1.1
Panama	-8.1	4.1	-4.0	-6.5	-0.6	-7.1
Mexico	-3.5	0.5	-3.0	-4.0	2.0	-2.0
Cuba	-2.8	-10.5	-13.3	-5.1	-1.5	-6.6
Caribbean Community (CARICOM)	-6.6	-6.0	-12.6	-5.9	-1.7	-7.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

Unlike the Caribbean, the export volumes of the majority of countries in Latin America are expected to grow in 2016. However, export values will rise in Argentina, Costa Rica, the Dominican Republic, Paraguay and Peru only (see table II.5), largely because the prices of the main commodities exported by the region—particularly oil—are expected to be lower, on average, than in 2015. In this context, the countries that specialize in hydrocarbon exports, namely the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia, will see the biggest falls in their export values.

With regard to imports, the largest fall in value in 2016 will be in South America (-17%), reflecting the recession that several of the subregion's main economies are experiencing (see figure II.20). The sharp contraction in the value of South American imports is explained by falling prices and volumes. Import volumes will drop the most in the Bolivarian Republic of Venezuela, Ecuador, Brazil, Colombia, Uruguay and the Plurinational State of Bolivia, in that order. By sector, import volumes will fall the most in capital goods (machinery and equipment) and intermediate inputs (pieces, parts and semi-processed materials), which reflects weak investment. Import volumes and prices are also expected to contract in the Caribbean. Meanwhile, import volumes will increase in Mexico and Central America, revealing the greater buoyancy of their economies in 2016 compared to the rest of the region.

With regard to imports, the largest fall in value in 2016 will be in South America (-17%), reflecting the recession that several of the subregion's main economies are experiencing.

South American imports are expected to fall the most in 2016



Figure II.20

Latin America and the Caribbean (selected subregions and countries): projected variations in imports by volume, price and value 2016 (Percentages)

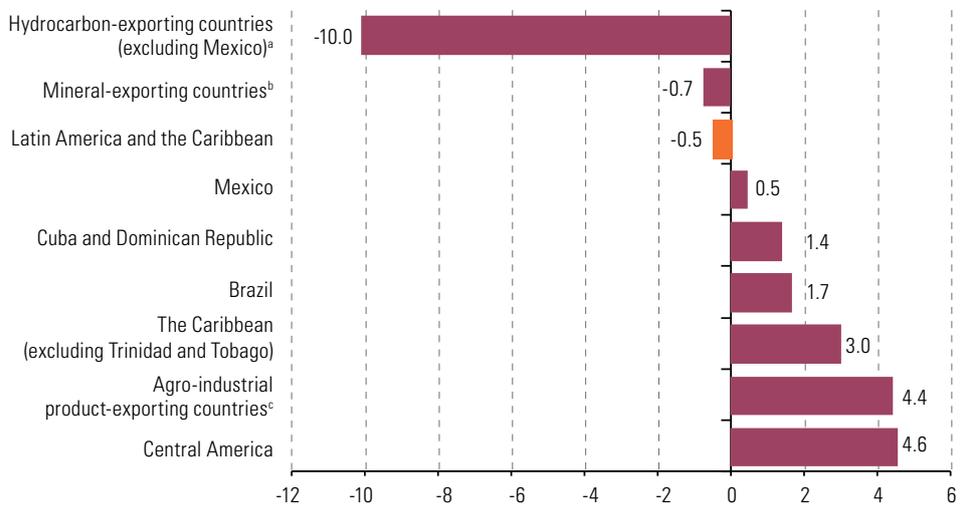
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

In the light of the expected 16% drop in oil prices in 2016, the terms of trade of the hydrocarbon-exporting countries will deteriorate the most in the region. Meanwhile, countries that import oil and food, particularly those in Central America and the Caribbean, will benefit (see figure II.21).

Figure II.21

Latin America and the Caribbean (selected groupings and countries): projected variations in terms of trade, 2016 (Percentages)

The terms of trade of hydrocarbon-exporting countries are deteriorating the most



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Bolivarian Republic of Venezuela, Colombia, Ecuador, Plurinational State of Bolivia and Trinidad and Tobago.

^b Chile and Peru

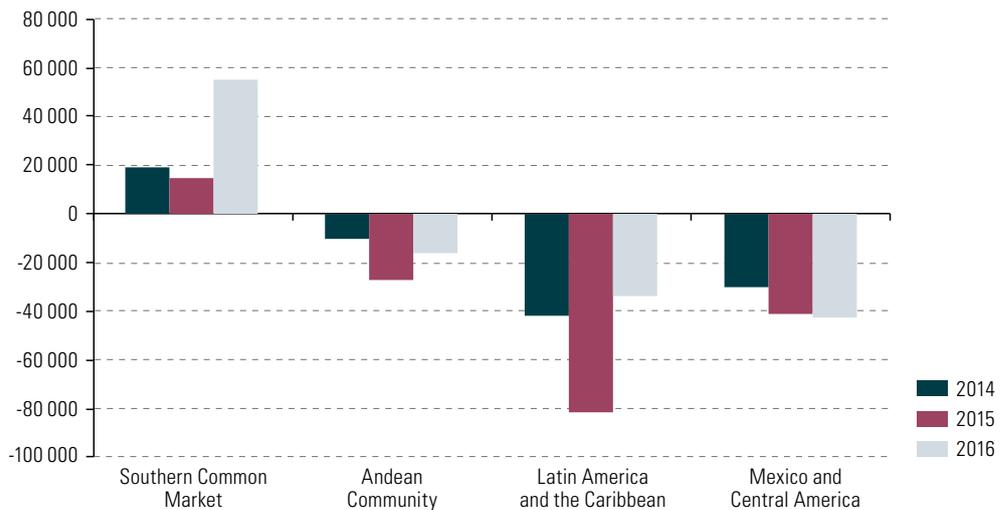
^c Argentina, Paraguay and Uruguay.

Imports have contracted more than exports, especially in South America, which will lead to a sharp reduction in the region's trade deficit, from US\$ 86 billion in 2015 to US\$ 33 billion in 2016. This change can be largely explained by the increase in the surplus of the Southern Common Market (MERCOSUR) (driven by Brazil) and the cuts to the deficit of the Andean Community (CAN). The deficit of Mexico and Central America, as a grouping, will grow slightly (see figure II.22).

Figure II.22

Latin America and the Caribbean (selected groupings): trade balance, 2014-2016^a (Millions of dollars)

The region's trade deficit has narrowed sharply in 2016



Source: Economic Commission for Latin America and the Caribbean (CEPAL), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2016 are projections.

When the trade balance is broken down by main trading partners, the biggest partner is Asia, in particular China, with which the trade deficit is close to US\$ 82 billion. This is followed by the deficit with the other Asian partners, which is some US\$ 34 billion. Meanwhile, the region has a surplus of around US\$ 100 billion with the United States (see figure II.23).

The biggest trade deficits are with Asia

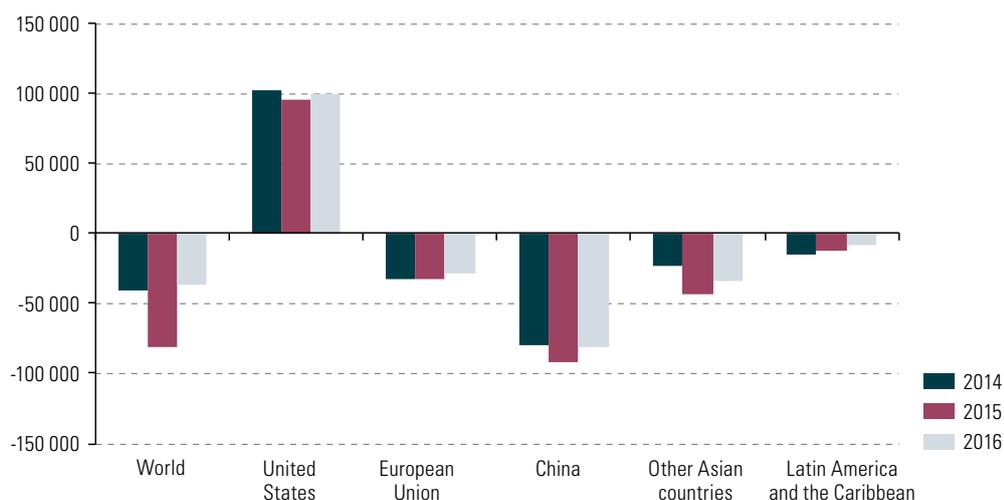


Figure II.23

Latin America and the Caribbean: trade balances with selected countries and regions, 2014-2016^a
(Millions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2016 are projections.

The bulk of the region's trade deficit with China is concentrated in the manufacturing sector, mainly in machinery and equipment, metals and metal products, telecommunications equipment, automobiles and automobile parts, and components for heavy industry. The region also has trade deficits with that country in chemical and pharmaceutical products, and final products from the textile, clothing and footwear industries. In all the aforementioned sectors, China is consolidating itself as the leading supplier of not only final goods, but also intermediate goods, which already account for a quarter of the total value of the region's imports from China. This indicates that China is being increasingly incorporated into Latin American value chains (Durán Lima and Pellandra, 2016).

Projections for the region's trade with its main partners in 2016 reveal that intraregional trade is likely to experience the largest decline (see figure II.24 and section 3.2 below). Exports to Asia, the United States and the European Union will also shrink, though less than they did in 2015. Imports from all the major origins will also contract, reflecting weak regional demand.

2. The worrying performance of intraregional trade

Regional trade projections for 2016 show that, as in 2015, intraregional exports will fall much more sharply than sales to the rest of the world (see figure II.25), marking the fourth consecutive year of accumulated declines in intraregional trade. In addition, 2016 will be the third consecutive year in which intraregional trade has shrunk more than extraregional trade. This trend is particularly worrying given that the region's manufactures are chiefly exported to Latin American and Caribbean

Regional trade projections for 2016 show that, as in 2015, intraregional exports will fall much more sharply than sales to the rest of the world.

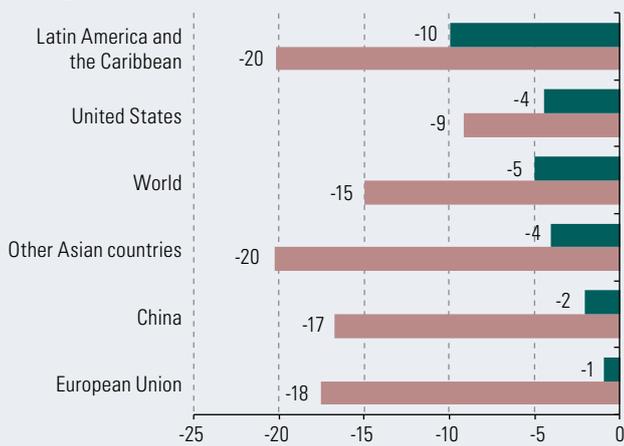
countries. Thus weak intraregional trade limits the region's potential to diversify and increase its productivity in this area. As a result of this dynamic, the intraregional trade ratio (measured by imports)⁴ is expected to fall to 15% in 2016, its lowest level in a decade. The decline in intraregional trade in the first half of 2016 was widespread, although it was much steeper in South America than in Central America and the Caribbean (see table II.6).

Figure II.24

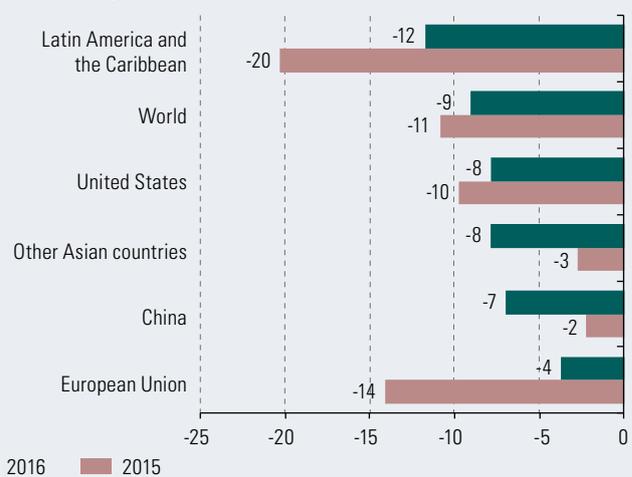
Latin America and the Caribbean: variations in the value of goods trade by origin and destination, 2015 and 2016^a
(Percentages)

The region's trade with all its main partners will shrink in 2016

A. Exports



B. Imports



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2016 are projections.

The sharp contraction in trade between South American countries cannot be separated from the recession that several of the subregion's major economies are experiencing. For example, during the first eight months of 2016 and the same period in 2015, sales of manufactures from the region to Brazil shrank significantly, especially exports of capital goods (-45%) and intermediate inputs (-21%). The trading partner that was most affected was Argentina, whose exports to Brazil decreased by 18% over the first nine months of 2016, mainly those of chemical products, machinery and equipment, and automobiles and automobile parts (INDEC, 2016). Imports to the Bolivarian Republic of Venezuela from its MERCOSUR partners dropped across the board (-10%) during the first half of 2016. Meanwhile, Colombia and, to a lesser extent, Peru face higher costs when exporting to Ecuador, because of balance of payments safeguards applied by Ecuador, which result in surcharges of between 15% and 40% of the product's value being levied on many goods.

⁴ The intraregional trade ratio is defined as the share of intraregional imports (or exports) in the total imports (or exports) of each sector or of the economy as a whole.

Intraregional trade continues to fall more steeply than extraregional trade



Figure II.25

Latin America and the Caribbean: annual variations in intraregional and extraregional exports by value, 2007-2016^a (Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2016 are projections.

Table II.6

Latin America and the Caribbean (integration schemes and individual countries): variations in intraregional exports, January-June 2016 relative to the same period in 2015 (Percentages)

Trade between South American countries plummeted in the first half of 2016

Grouping and country	MERCOSUR	CAN	MCCA	CARICOM	Other countries of the region ^a	Latin America and the Caribbean
Southern Common Market (MERCOSUR)	-11.7	-6.3	-23.0	-36.8	-2.8	-10.3
Andean Community (CAN)	-36.7	-19.1	-25.4	-21.8	-10.3	-24.5
Central American Common Market (MCCA)	-42.9	-8.8	-1.3	5.6	-1.1	-3.3
Caribbean Community (CARICOM)	-73.6	-37.4	11.5	-7.8	-37.8	-37.4
Chile	-15.0	-5.3	2.8	-31.0	-7.0	-9.4
Mexico	-36.3	-15.3	-5.6	-1.5	4.5	-17.3
Others countries of the region ^a	-26.6	-5.1	-4.9	-24.3	-11.8	-21.7
Latin America and the Caribbean	-21.3	-12.7	-9.0	-18.1	-6.0	-15.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Includes Chile, Mexico, Cuba and the Dominican Republic.

In addition to weaker demand, intraregional trade has also been affected by low prices for products such as petroleum, basic chemicals, textiles, clothing and agro-industrial products. This explains, for example, why, in the first half of the year, the value of intraregional exports from Plurinational State of Bolivia and Ecuador declined, even though their volume increased (SGCAN, 2016). The only countries whose exports to the region grew in terms of value in the first half of 2016 were Paraguay and Costa Rica (see table II.7). The value of exports from Paraguay was up by 19%, mainly on the back of the strong performance of agricultural exports, in particular soybeans, wheat, maize, rice, sorghum and dairy products.

Table II.7

Latin America and the Caribbean: variations in intraregional exports, January-June 2016 relative to the same period in 2015 (Percentages)

Only exports to the region from Paraguay and Costa Rica increased in the first half of 2016

Grouping and country	Exports within the grouping ^a	Exportaciones intrarregionales ^b
Southern Common Market (MERCOSUR)	-11.7	-10.3
Argentina	-21.5	-18.6
Brazil	-12.5	-10.2
Paraguay	29.2	18.6
Uruguay	-6.7	-5.4
Venezuela (Bolivarian Republic of)	-10.3	-5.0
Andean Community (CAN)	-19.1	-24.5
Bolivia (Plurinational State of)	5.1	-40.4
Colombia	-28.4	-29.9
Ecuador	-10.9	-3.3
Peru	-23.1	-15.6
Pacific Alliance	-12.0	-18.2
Chile	-7.5	-9.4
Mexico	-10.5	-17.3
Central American Common Market (MCCA)	-1.3	-3.3
Costa Rica	2.3	1.9
El Salvador	-1.9	-1.8
Guatemala	-1.7	-1.0
Honduras	-4.0	-10.7
Nicaragua	-2.1	-19.0
Panama	-18.1	-19.0
Caribbean Community (CARICOM)	-7.8	-37.4
Cuba	-24.1	-22.3
Dominican Republic	-22.5	-21.5
Latin America and the Caribbean	-11.7	-15.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Includes exports from each country to the main integration scheme to which it belongs.

^b Includes exports to the whole region.

When intraregional export figures from the first half of 2016 are broken down by sector, distinct trends can be observed between agricultural and fishing products, and other goods. The export value of agricultural products such as wheat, maize, barley, soybean flour and various fish products increased, particularly in South America and Central America. Among manufactures, the steepest declines during the first half of 2016 were in the oil and mining sectors, especially petroleum-based oils, gasoline, naphtha and gas.

The sharp contraction of intraregional trade during the first half of 2016 has resulted in a reduction in the intraregional trade ratio (measured by exports), which fell from 17.2% to 16.0% for all products traded among the countries of the region. The intraregional trade ratio of manufactures saw a similar decrease. However, Central America differs from the other subregions both because of its high intrasubregional trade ratio of manufactures (40%), and because this ratio increased in the first half of 2016 compared with the same period in 2015 (see table II.8). In addition, although the decline in intraregional exports is widespread, trade between Central American countries has seen moderate growth in agribusiness, chemical, rubber and plastic products and non-metallic minerals.

The intraregional trade ratio registered its biggest fall in the chemical and pharmaceutical sector, from 58% in the first half of 2015 to 52% in the same period of 2016. The intraregional trade ratio also fell sharply in the non-metallic minerals, wood, pulp and paper, machinery and equipment, and automotive sectors. The only sectors in which the ratio improved were primary activity sectors, namely agriculture, hunting and fishing, and oil and mining (see table II.9).

Table II.8

Latin America and the Caribbean: variations in intraregional and intrasubregional exports by sector, January-June 2016 relative to the same period in 2015
(Percentages)

Trade within Central America shows the greatest resilience

Main sectors	Southern Common Market	Andean Community	Pacific Alliance	Central American Common Market	Caribbean Community	Latin America and the Caribbean
All products	-11.7	-19.1	-12.0	-1.3	-7.8	-15.2
Agriculture, hunting and fishing	7.0	40.3	-9.0	3.4	-27.2	14.0
Oil and mining	-13.6	-33.5	2.8	-18.2	-14.6	-24.5
Food, beverages and tobacco	-5.1	-3.3	-12.5	0.1	2.8	-3.6
Wood, pulp and paper	-15.3	-41.0	-18.6	-1.2	11.1	-12.1
Textiles, clothing and footwear	-13.3	-31.8	-9.7	-0.5	-6.2	-7.4
Chemicals and pharmaceuticals	-20.3	-19.8	-11.1	1.3	-1.6	-17.7
Rubber and plastics	3.1	-30.4	-21.3	2.4	6.3	-5.6
Non-metallic minerals	-21.1	-26.1	-9.5	2.8	-22.6	-8.2
Metals and metal products	-25.6	-29.9	-20.9	-11.4	-32.5	-16.5
Machinery and equipment	-21.5	-23.7	-18.0	-0.2	70.8	-14.2
Automotive	-9.1	-41.7	8.5	-3.4	21.6	-10.5
Other manufactures	-13.4	-53.7	-19.3	-7.6	-7.9	-18.4
Total intrasubregional or intraregional trade ratio ^a						
January-June 2015	12.7	8.3	3.1	29.3	11.3	17.2
January-June 2016	12.2	8.0	3.0	29.4	11.1	16.0
Intrasubregional or intraregional trade ratio of manufactures ^a						
January-June 2015	16.3	11.2	3.2	37.9	11.3	17.7
January-June 2016	15.2	11.1	3.1	40.3	11.0	16.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a The intraregional (or intrasubregional) trade ratio is defined, in this case, as the share of total exports attributed to intraregional (or intrasubregional) exports.

Table II.9

Latin America and the Caribbean: intraregional export ratio by major sector, first half of 2015 and 2016^a
(Percentages and percentage points)

The fall in the intraregional trade ratio was sharpest in industrial sectors

	Intraregional export ratio (percentages)		Share of intraregional exports (percentages)		Ratio variation (percentage points)
	First half of 2015	First half of 2016	First half of 2015	First half of 2016	
Total	17.2	16.0	100.0	100.0	-1.2
Agriculture, hunting and fishing	10.5	10.6	7.2	9.3	0.1
Oil and mining	13.7	14.7	10.5	9.0	1.0
Food, beverages and tobacco	19.1	18.9	13.4	14.7	-0.2
Wood, pulp and paper	28.0	25.4	4.4	4.4	-2.6
Textiles, clothing and footwear	22.9	22.4	3.7	3.9	-0.5
Chemicals and pharmaceuticals	57.8	52.0	19.4	18.1	-5.8
Rubber and plastics	31.8	31.3	2.6	2.8	-0.5
Non-metallic minerals	34.1	31.5	1.5	1.6	-2.6
Metals and metal products	12.0	11.7	9.2	8.7	-0.3
Machinery and equipment	9.6	8.4	11.7	11.3	-1.2
Automotive	16.2	15.2	13.1	13.2	-1.0
Other manufactures	8.7	8.5	3.2	3.0	-0.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Includes information from 20 countries. The intraregional export ratio is defined as the share of total exports of each sector attributed to intraregional exports.

C. Projections for 2017-2020: a modest trade recovery

Based on GDP growth projections for the main trading partners of Latin America and the Caribbean and the expected evolution in the prices of its main export products, three scenarios were developed (pessimistic, optimistic and neutral) for the value of the region's imports and exports between 2017 and 2020. Table II.10 sets out the main assumptions, which are explained, together with the methodology used, in annex II.4.⁵ The optimistic scenario assumes much higher rates of GDP growth than is generally accepted by the prevailing consensus, particularly for China and the United States. It is therefore unlikely to come to pass.

Table II.10

Latin America and the Caribbean: assumptions used in regional trade projections, 2017-2020 (Average annual rates of variation in percentages)

Growth in main partners	Pessimistic scenario	Neutral scenario	Optimistic scenario
United States	1.9	2.2	3.0
European Union	1.5	1.9	2.0
Latin America and the Caribbean	1.5	2.2	2.6
China	4.0	6.0	7.0
Rest of Asia	2.5	3.0	3.7
Rest of the world	2.5	2.7	3.0
Main product prices			
Oil	3.7	7.0	13.5
Copper	0.0	0.9	8.7
Soybeans	-5.1	-1.7	6.2
Sugar	-5.1	-0.7	6.2
Iron	-13.9	-9.7	6.2
Gas	-0.3	0.3	13.5
Manufactures	-1.0	0.0	1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF), World Bank and United Nations Commodity Trade Statistics Database (COMTRADE).

The projections indicate that, between 2017 and 2020, the region will see an average annual growth rate of between 1.9% and 5.4% for goods exports, and of between 2.3% and 4.8% for imports, with both variables at about 3% under the neutral scenario (see table II.11). In other words, a modest expansion of regional trade is expected for the remainder of the current decade, far from the high growth rates for exports seen between 2004 and 2008 and between 2010 and 2011, the last commodity boom (see figure II.26).

Table II.11

Latin America and the Caribbean: projections of the value of foreign trade, 2017-2020 (Average annual rates of variation in percentages)

A modest expansion of regional trade is forecast for 2017-2020

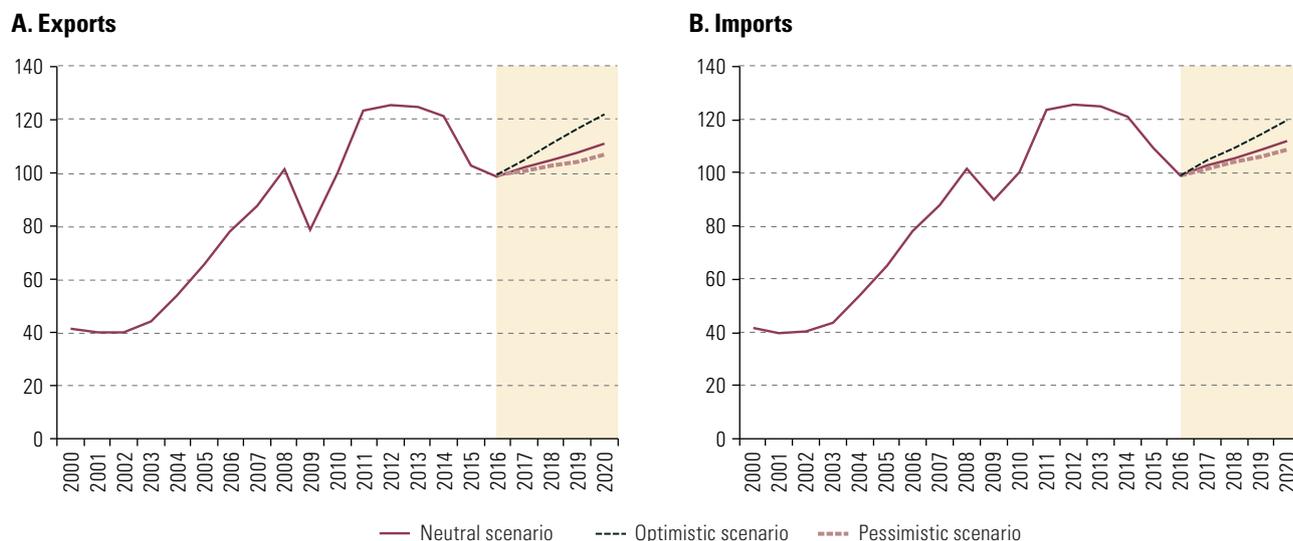
Destination/origin	Exports			Imports		
	Pessimistic	Neutral	Optimistic	Pessimistic	Neutral	Optimistic
World	1.9	2.9	5.4	2.3	3.1	4.8
United States	2.6	3.2	4.8	2.6	3.5	5.8
European Union	1.1	2.2	4.9	2.0	2.4	3.2
Asia	0.7	2.7	7.7	2.2	3.0	4.1
China	0.3	2.8	9.0	2.5	3.4	4.5
Rest of Asia	1.1	2.5	6.4	1.9	2.4	3.5
Latin America and the Caribbean	1.8	2.7	5.0	1.7	2.5	4.8
Rest of the world	1.6	2.5	4.7	2.9	3.9	6.6

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

⁵ The exercise is based on microsimulations carried out using disaggregated trade information (by products and partners) from the United Nations Commodity Trade Statistics Database (COMTRADE) for 2015. The price changes were then simulated. The economic growth forecasts for trading partners were based on income elasticity data by country and partner, which were used to model the effect of income changes on the volume exported or imported, as appropriate.

Figure II.26

Latin America and the Caribbean: foreign trade value indices, 2000-2020^a
(2010 index=100)



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

^a Figures for 2016 through to 2020 are projections.

D. Diversification and integration: more necessary than ever

Patterns in flows of goods, services and FDI and the digital revolution suggest that the region faces mounting challenges in terms of entering new markets and diversifying its production structure. The region's share in global merchandise trade has stagnated since 2000, while its model of technological specialization has regressed, due to the rising weight of natural resources. On the services side, the region has lost ground to its Asian competitors, which is most apparent in the fastest growing and more technologically advanced services. Lastly, as regards FDI, although transnational corporations have driven modern sectors such as telecommunications, targeted investments in smart assets for R&D continue to be limited.

In general terms, the region's integration into value chains and digital platforms ultimately depends on economic agents based in developed countries, so that recent trends towards growing corporate concentration and the increasing concentration of knowledge generation, discussed in chapter I, raise the barriers to the region regaining lost ground.

As discussed in chapter I, China's economic slowdown is set to continue over the next few years, which will suppress commodity demand and prices. This, combined with persistently sluggish global economic conditions, means that the modest projections for regional export growth over the rest of this decade come as no surprise. On the import side, growth over the next few years will be limited by the weak recovery in regional output. Before the end of the present decade, trade is, in short, unlikely to play such a prominent role in the region's economic growth as it did in 2004-2008 and 2010-2011. Accordingly, the region urgently needs public policies and investment projects to foster growth in more sophisticated export sectors that are less prone to price volatility than those of the existing export basket.

By adopting modern trade and industrial policies, the region could become involved in the technological revolution, positioning itself in the world economy on the basis of a more knowledge-intensive and diversified export structure. To this end, the technological changes taking place in value chains and the organization of production activities must be identified, fully integrating trends towards advanced manufacturing and the Internet of Things. A number of old instruments, specifically focused on clearly defined sectors, must be replaced with systemic and highly flexible tools, based on the data revolution and analytics.

Lastly, the worrying performance of intraregional trade in recent years underscores the urgency of taking up the regional integration agenda again, to explore convergence options between ongoing initiatives and to overcome the political obstacles to that convergence. Doing so would make it possible to achieve economies of scale in sectors that require them, provide proactive responses to the formation of global macroregions and develop a regional digital market to lay the foundation for creating content search and distribution platforms—as well as social networks—capable of competing more successfully within the regional framework.

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Annex II.A1

Latin America and the Caribbean: imports and exports by value,^a 2014-2016

(Millions of dollars)

Region, subregion or country	Exports			Imports		
	2014	2015	2016	2014	2015	2016
Latin America and the Caribbean	1 076 878	919 087	874 061	1 081 773	987 104	894 795
Latin America	1 054 771	901 895	859 153	1 068 432	962 060	871 802
South America	600 869	466 106	436 375	567 124	464 849	387 047
Southern Common Market (MERCOSUR)	390 592	304 162	287 052	358 771	286 191	229 991
Argentina	68 331	56 720	57 429	57 205	57 205	52 600
Brazil	224 098	190 092	182 297	230 727	172 422	136 281
Paraguay	13 105	10 927	11 281	12 079	10 317	9 401
Uruguay	10 344	9 067	8 481	11 252	9 345	7 985
Venezuela (Bolivarian Republic of)	74 714	37 357	27 564	47 508	36 901	23 724
Andean Community	135 353	99 712	91 310	139 773	119 921	101 954
Bolivia (Plurinational State)	12 301	8 302	6 833	10 518	9 686	8 418
Colombia	56 923	38 125	32 114	61 553	52 151	42 927
Ecuador	26 596	19 049	16 953	26 660	20 699	15 258
Peru	39 533	34 236	35 410	41 042	37 385	35 351
Chile	74 924	62 232	58 013	68 580	58 738	55 102
Central America	36 901	36 792	36 342	72 019	70 968	67 439
Costa Rica	9 271	9 504	9 935	14 838	14 377	14 446
El Salvador	4 256	4 381	4 295	9 463	9 463	9 068
Guatemala	10 992	10 831	10 396	17 056	16 380	15 123
Honduras	8 072	8 041	7 885	11 070	11 097	10 056
Nicaragua	3 622	3 341	3 163	6 024	6 083	6 147
Panama (excludes re-exports from CFZ ^b)	689	695	668	25 710	13 569	12 599
Panama	15 333	12 784	11 672	13 569	22 492	20 322
Mexico	397 650	381 049	369 427	400 440	399 977	391 661
The Caribbean	38 573	35 140	31 916	57 121	51 310	48 648
Caribbean Community (CARICOM)	20 182	18 221	15 916	31 938	28 123	25 971
Bahamas	834	527	523	3 316	2 953	2 786
Barbados	792	801	752	1 652	1 537	1 438
Belize	589	538	519	926	961	930
Guyana	1 167	1 170	1 123	1 791	1 573	1 540
Haiti	961	1 029	1 008	3 666	3 079	2 978
Jamaica	1 449	1 261	1 175	5 208	4 414	4 228
Suriname	2 149	1 652	1 540	2 012	2 028	1 991
Trinidad and Tobago	11 806	10 804	8 859	11 276	9 474	8 125
Organization of Eastern Caribbean States (OECS)	436	440	416	2 091	2 104	1 955
Antigua and Barbuda	55	55	55	500	500	481
Dominica	41	42	42	181	186	183
Grenada	46	46	46	299	293	291
Saint Kitts and Nevis	58	60	61	270	283	281
Saint Lucia	182	181	156	522	517	395
Saint Vincent and the Grenadines	54	56	57	319	326	323
Cuba	8 492	7 395	6 397	7 910	5 898	5 504
Dominican Republic	9 899	9 523	9 603	17 273	17 288	17 173

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries on their balance of payments to 2015 and estimates for 2016, based on monthly information from central banks and statistics bureaux for the period from January to August.

Note: In the case of the Caribbean Community (CARICOM) countries and Panama, which includes the Colón Free Zone, the estimates for 2016 assume the trade product structure given by the United Nations Commodity Trade Statistics Database (COMTRADE) and only consider price changes, with no variation in volumes, since full monthly information was not available from the countries for 2016. In the cases of the Bolivarian Republic of Venezuela, Cuba and the Dominican Republic, the projections for 2016 are based on mirror data from their trade partners.

^a According to information available for each country.

^b Colón Free Zone.

Annex II.A2

Latin America and the Caribbean: variations in exports to selected destinations by value, 2015 and 2016

(Percentages)

Region, subregion or country	European Union		United States		China		Rest of Asia		Latin America and the Caribbean	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Latin America and the Caribbean	-17.5	-0.8	-9.0	-4.4	-16.7	-2.0	-22.9	-3.1	-20.3	-10.0
Argentina	-17.3	1.2	-14.9	32.5	10.7	-12.2	-5.9	24.5	-25.8	-13.0
Bolivia (Plurinational State of)	-7.7	12.9	-47.5	10.1	6.4	-7.0	-5.8	6.2	-36.3	-32.9
Brazil	-19.3	-1.1	-10.8	-5.4	-12.3	1.3	-16.2	-8.9	-15.7	-6.8
Chile	-24.7	-8.7	-12.1	2.8	-11.4	-4.6	-23.1	-10.0	-16.3	-7.1
Colombia	-36.0	-14.7	-33.4	1.8	-66.7	-44.3	-71.1	-33.7	-23.7	-18.4
Costa Rica	-9.3	17.4	-9.0	6.2	-76.1	-42.8	-72.1	-14.4	0.3	-0.9
Cuba	10.8	-10.6	0.0	0.0	12.2	2.6	-36.1	-7.6	-46.9	-14.6
Dominican Republic	-1.2	19.2	5.1	-0.7	-17.2	-12.2	169.7	-8.1	-12.5	-17.4
Ecuador	-7.0	2.8	-35.7	-25.3	47.9	-14.8	-0.2	10.5	-35.5	-10.2
El Salvador	-15.1	8.6	6.5	2.0	662.0	-88.2	3.0	-10.7	4.0	-3.6
Guatemala	3.8	5.5	-3.3	-6.9	372.6	-59.2	-33.7	18.8	1.6	-3.7
Honduras	6.2	8.0	3.2	-4.9	-70.9	-56.4	-30.9	13.3	-6.1	-18.8
Mexico	-9.6	4.4	-3.0	-3.0	-18.1	1.9	-4.5	12.3	-12.1	-14.0
Nicaragua	2.5	-3.3	11.0	7.9	-13.9	3.6	-9.9	-18.6
Panama	-10.6	2.5	-15.4	13.9	-41.1	-4.8	-25.0	-4.0	-4.1	-18.4
Paraguay	6.5	-27.0	-29.3	-3.1	-36.4	-49.1	-21.7	-10.4	-15.0	24.0
Peru	-15.5	-3.6	-18.4	18.4	5.2	14.7	-10.4	10.9	-26.8	-10.0
Uruguay	-13.4	1.4	25.2	-10.4	-12.4	-17.2	-18.9	-10.6	-24.1	-0.4
Venezuela (Bolivarian Republic of)	-45.5	-28.7	-49.6	-46.9	-50.6	-21.5	-49.7	-21.0	-46.4	3.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and the national institutes of statistics.

Annex II.A3

Latin America and the Caribbean: variations in imports from selected origins by value, 2015 and 2016

(Percentages)

Region, subregion or country	European Union		United States		China		Rest of Asia		Latin America and the Caribbean	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Latin America and the Caribbean	-14.1	-4.1	-9.7	-7.9	-2.3	-7.3	-3.7	-9.2	-20.0	-11.6
Argentina	-11.0	-2.9	-12.8	-13.6	9.4	-16.3	1.7	-2.0	-14.5	-4.8
Bolivia (Plurinational State of)	-13.7	-16.0	-17.2	-22.0	-3.9	-11.3	-8.0	-14.7	-4.6	-12.8
Brazil	-21.5	-18.0	-24.2	-11.4	-18.7	-12.1	-24.8	-37.5	-26.5	-19.9
Chile	-6.2	8.3	-18.0	-13.1	-2.4	-5.4	-3.8	-7.1	-21.4	-9.9
Colombia	-5.2	-26.4	-14.9	-25.4	-14.9	-12.4	-19.5	-12.4	-23.7	-9.2
Costa Rica	3.1	3.7	-15.1	-3.9	8.6	2.7	5.5	9.2	-13.6	-2.7
Cuba	24.3	-15.4	-32.7	14.2	96.0	-8.0	24.6	9.5	-29.5	3.6
Dominican Republic	14.2	5.3	3.2	6.0	10.7	-7.2	6.1	12.0	-21.3	-4.8
Ecuador	-17.8	-27.1	-36.9	-31.2	-2.8	-15.5	-6.6	-37.4	-25.5	-23.6
El Salvador	7.4	-4.5	-4.9	-11.1	10.7	1.7	-0.2	-1.9	-2.3	2.6
Guatemala	-3.0	-4.4	-10.9	-5.2	5.0	-6.7	5.7	-13.2	0.0	-10.4
Honduras	7.2	-9.3	-17.9	-13.6	81.7	-15.8	39.4	-1.0	-1.9	-13.3
Mexico	-15.4	14.3	-4.4	-5.1	5.6	-0.8	6.8	0.8	-17.1	4.1
Nicaragua	32.8	-3.9	19.7	13.6	5.3	9.4	-15.3	-4.3
Panama	-9.5	0.0	-8.5	-8.0	4.0	-14.6	-10.9	-12.4	7.9	-3.2
Paraguay	-13.7	-12.2	-15.7	-1.3	-21.8	-1.6	5.3	5.9	-20.3	-8.0
Peru	-4.7	-5.7	-6.0	-10.6	2.9	-5.0	9.0	1.4	-12.1	-5.4
Uruguay	-5.5	-11.8	-21.5	-36.5	-17.7	-7.8	-0.8	-33.9	-21.2	-20.4
Venezuela (Bolivarian Republic of)	-31.7	-16.4	-24.1	-30.9	-15.6	-46.0	-15.7	-46.2	-31.1	-34.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks, customs offices and the national institutes of statistics.

Annex II.A4

Methodology used to develop the foreign trade projections for Latin America and the Caribbean for 2017-2020

This annex includes: (i) a summary of the main assumptions considered, implicitly and explicitly, when estimating international trade growth in the region (imports and exports); (ii) a breakdown of the main scenarios; and, (iii) the calculation method used to determine the annual growth of trade with each region or partner under the three possible scenarios.

(i) Main assumptions

The analysis is based on three main components: the structure of trade, expected changes in the prices of the main products that make up the regional trade basket and the expected growth in international demand (i.e. the link between the income of the region's main partners and its export level).

Trade data for the last available year (in most cases, 2015) from the United Nations Commodities Trade Statistics Database (COMTRADE) were used to capture the import and export structure. The baseline data are the trade flows (exports and imports) of each country of the region with each of their partners, disaggregated to the three-digit level of the Standard International Trade Classification (SITC), Revision 2. In the event that no direct country information was available (owing to a lack of reporting), mirror data from the COMTRADE database were used, with the reporting country's imports being counted as exports from non-reporting countries, and vice versa in the case of imports. Countries for which direct information was not available are the Bolivarian Republic of Venezuela in South America, and Cuba, Dominica, Grenada, Guyana, Haiti, Honduras, Saint Kitts and Nevis, Saint Lucia, Surinam and Trinidad and Tobago in the Caribbean.

The dynamism of international demand (i.e. GDP growth in the main trading partners of Latin America and the Caribbean —the United States, the European Union, the region itself, Japan, China and other developing Asian countries) was captured using International Monetary Fund (IMF) projections, published in the World Economic Outlook database (IMF, 2016a). In order to calculate the effect of each country's GDP growth on trade, a fixed coefficient is applied that weights either growth or deceleration, according to the expectations of national stakeholders. More details on this coefficient are given in subsection (iii) on the calculation method.

Lastly, the effect of the region's partners' demand was modelled using the trade income elasticities (exports/imports) of each major partner (the United States, the European Union, China, the rest of Asia, and Latin America and the Caribbean). Elasticities were estimated bilaterally, linking each country to a partner or region. The value of those elasticities was based on ECLAC estimates (2012).

(ii) Scenario development

The purpose of the three scenarios is to capture the different possibilities for growth in the trading environment of the countries of Latin America and the Caribbean, in the face of different price assumptions or fluctuating world demand. A base scenario (Scenario A – NEUTRAL), a more favourable scenario (Scenario B – OPTIMISTIC) and a less favourable scenario (Scenario C – PESSIMISTIC) were developed.

Each scenario includes two components: real GDP year-on-year growth of the main trading partners of Latin America and the Caribbean and the year-on-year variations in the price of all seven products or groups of products that make up the bulk of the region's foreign trade.

The major partners are identified as the United States, the European Union, China, the rest of Asia, the region itself and the rest of the world. The products or groups of products considered are sugar, copper, gas, iron, manufactures, oil and soybeans, with the implicit assumption that other products will maintain their price levels (i.e. that variation is 0%).

The neutral scenario describes growth in line with objective expectations of changes in the aforementioned world trade determinants. The IMF projections were used to capture world GDP trends (2016a). Data updated in September 2016 were used to measure GDP growth in China. Growth in the rest of Asia and the rest of the world was calculated on the basis of individual countries' growth, weighted by their real GDP in dollars, based on IMF data (2016a).

The *Commodity Price Outlook & Risks* projections for the month of September were used to estimate the changes in the price of the products considered (IMF, 2016b). When calculating changes in manufactures prices, the assumption was made that the 2016 levels would be maintained, i.e. that variation would be 0%.

The optimistic scenario paints a picture of strong international demand and rallying prices. The GDP growth rates of the region's main partners under consideration are higher than under the neutral scenario, while price movements are positive and price levels are also higher than under the neutral scenario. On the other hand, the pessimistic scenario describes a prolonged global downturn and stagnant prices. This translates into lower GDP growth in the region's main partners and negative variations in prices, or positive variations but with more moderate price levels than under the neutral scenario.

The three scenarios are set out in table II.11, which shows the main partners' growth rates and price variations considered under each of these annualized scenarios for 2017-2020.

(iii) Calculation method

The value of trade with each of the main partners s for the year t is calculated as:

$$Val_{i,t}^s = \sum_{j=133} \sum_{c=1}^n \sum_{k=1}^{237} Val_{i,j,t-1}^{i,k} * (1 + \Delta P_t^k) * (1 + \Delta Q_{j,t}^s), \forall c \in s,$$

where i is the trade flow (1 = exports, 0 = imports); j is the country of the region; c is the partner country; k , the different groups of products disaggregated to the third digit level of SITC, Rev. 2; P is the price of each group of products, and Q is the volume exported or imported. Note that the annual changes ΔP and ΔQ refer to the variations between the year t and $t-1$ and are expressed as percentages.

As explained in point (i), the trade values of the previous year $Val_{i,j,t-1}^{i,k}$ are taken from COMTRADE for $t = 2015$ and are then calculated recursively by iterations. The annual price changes ΔP_t^k are determined by the defined scenarios.

The annual change in volume $\Delta Q_{j,t}^s$ is calculated as:

$$\Delta Q_{j,t}^s = \varepsilon_j^s * (\theta * \Delta PIB_{j,t} + (1 - \theta) * \Delta PIB_t^s)$$

where ε is the income elasticity of exports or imports, as appropriate, derived from the trade of country j with the partner region s , GDP is the gross domestic product and θ is a fixed coefficient that weights that country's growth. For 30 countries of the region, $\theta = 0.5$ was applied, while $\theta = 0.75$ was used for the Bolivarian Republic of Venezuela, Brazil and Ecuador.

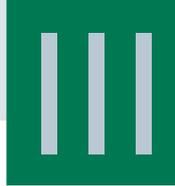
Lastly, the annual growth of trade with each partner $g_{i,t}^s$ was calculated as follows:

$$g_{i,t}^s = (Val_{i,t}^s / Val_{i,t-1}^s - 1) * 100$$

The Trans-Pacific Partnership: a preliminary analysis

- A. A sui generis agreement
- B. The TPP zone: highly diverse and an economic and demographic heavyweight
- C. A new generation agreement with major public policy implications
- D. Strategic implications for the region and the world

Bibliography



A. A sui generis agreement

On 4 February 2016, after nearly six years of negotiations, 12 countries from Latin America and the Caribbean, North America, Asia and Oceania¹ signed the Trans-Pacific Partnership (TPP). The agreement is currently in the process of being ratified by the signatories, which could take some 18 months.

This is the first of a new generation of trade negotiations of vast scope, known as megaregional agreements. TPP would create the largest free trade area in the world, measured by its members' joint GDP, and the second largest, after the European Union, by total trade among its members. It is estimated that its entry into force could increase world income by US\$ 295 billion and world exports by US\$ 444 billion by 2025 (Petri, Plummer and Zhai 2012). More recent estimates suggest that TPP could raise its members' GDP by 1.1% on average and their trade by 11% by 2030 (World Bank, 2016).

TPP differs from most previous trade agreements in that it is both plurilateral and interregional, and that it covers a wide range of subjects. It contemplates not only the elimination of the vast majority of tariffs on the goods trade among its members, but also access to services markets, investment and government procurement. In addition, it sets rules on matters that World Trade Organization (WTO) agreements have regulated to a limited extent or not at all, such as e-commerce, State-owned enterprises, regulatory coherence and various labour and environmental matters.

Underpinning the TPP negotiations was a strategic aim of the United States to write the new rules for global trade and investment over the coming decades, not only in the trans-Pacific area, but potentially at the global level. The United States has thus explicitly sought to prevent alternative models, in particular that of China, from occupying this normative space.² All in all, this is an agreement of a magnitude, complexity and ambition rarely seen. This has made it controversial since its inception, even in the United States. In fact during his campaign, the country's President-elect declared his opposition to TPP. The future of the Partnership is thus highly uncertain.

The main results achieved within the TPP framework are set out in this chapter and their likely effects on the three participating Latin American countries and, more generally, the region as a whole are discussed. The analysis will focus on possible impacts of TPP on Chile, Mexico and Peru in terms of two basic criteria: production and export diversification and their ability to steer their public policies according to their own priorities and development strategies. Its implications for the economic integration processes under way in Latin America and the Caribbean are also discussed.

TPP would create the largest free trade area in the world, measured by its members' joint GDP.

B. The TPP zone: highly diverse and an economic and demographic heavyweight

In addition to the United States and Japan, the world's first and third largest economies, respectively, three other TPP members are among the world's 15 largest economies: Canada, Australia and Mexico. The agreement includes 5 of the top 15 global goods exporters in 2015 (United States, Japan, Canada, Mexico and Singapore) and 5 of the top 25 services

¹ Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Viet Nam.

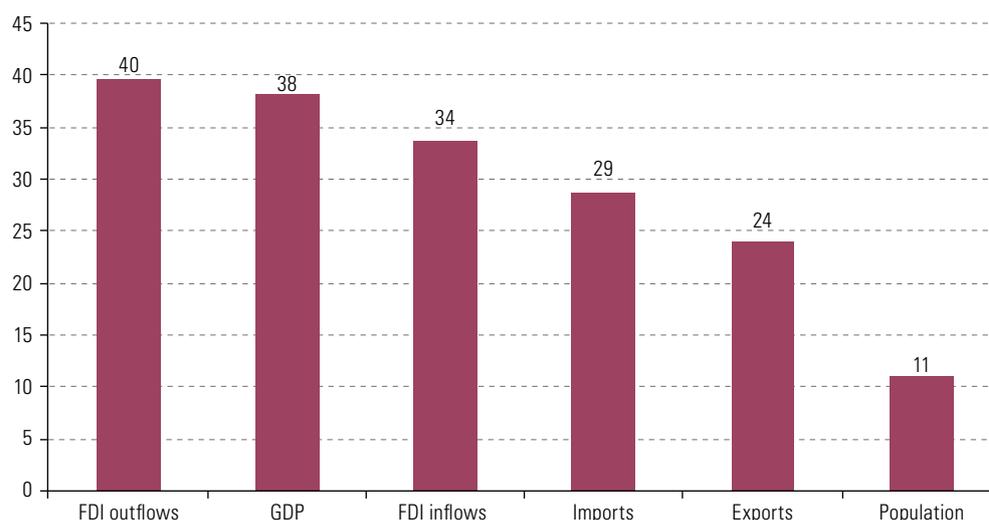
² On 5 October 2015, at the conclusion of TPP negotiations, President Barack Obama made the following statement: "When more than 95% of our potential customers live outside our borders, we cannot let countries like China write the rules of the global economy. We should write those rules, opening new markets to American products while setting high standards for protecting workers and preserving our environment. That is what the agreement reached today in Atlanta will do." [online] <https://www.whitehouse.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership>.

exporters (United States, Japan, Singapore, Canada and Australia). Six TPP members (United States, Singapore, Canada, Mexico, Australia and Chile) were among the top 20 recipients of foreign direct investment (FDI) in 2015, while 5 (United States, Japan, Canada, Singapore and Chile) were among the top 20 foreign investors. Together, the 12 members represent 38% of global GDP (measured in current dollars) and a quarter of global trade. Likewise, in 2015 they received a third of global FDI flows and generated 40% of them (see figure III.1).

Figure III.1

The Trans-Pacific Partnership (TPP): population, GDP, trade and foreign direct investment (FDI) flows, 2015^a (Percentages)

TPP represents almost 40% of global GDP and a quarter of global trade



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations "World Population Prospects: The 2015 Revision, Key Findings and Advance Tables", Working Paper, No. ESA/P/WP.241, Population Division, 2015 [online] <http://esa.un.org/unpd/wpp/>, for population; International Monetary Fund "World Economic Outlook Database", October 2015 [online] <https://www.imf.org/external/ns/cs.aspx?id=28>, for GDP; United Nations Commodity Trade Statistics Database (COMTRADE), for imports and exports; and United Nations Conference on Trade and Development (UNCTAD), "World Investment Report 2016", Geneva, for foreign direct investment.

^a Global FDI flows exclude financial centres in the Caribbean.

Five of the 15 largest economies in the world are TPP members.

A second hallmark of TPP members is their heterogeneity. For example, the GDP of the United States is more than 1,000 times that of the smallest member of the group, Brunei Darussalam, while the United States' population is 760 times greater. Likewise, the per capita income of the richest member (Singapore) is 15 times that of the poorest (Viet Nam), measured in purchasing power parities. The great diversity among the members of the agreement is also evident in their different political regimes, institutional and technological capacities, world economy integration patterns, geography, languages and cultures.

In 2015, exports among member countries totalled US\$ 1.91 trillion, equivalent to 12% of world goods exports. That year, the TPP zone absorbed 48% of the exports of all its members and was the origin of 39% of their imports. The share of total exports varies between 30% (for Chile and Singapore) and more than 80% (for Canada and Mexico). Internal trade is concentrated in a small number of bilateral relations; trade between the United States, on one hand, and Canada, Mexico and Japan, on the other, accounts for almost 70% of exports among member countries (see figure III.2). Meanwhile, the share of the three Latin American member countries in the bloc's trade is highly asymmetrical. Mexico is the second largest exporter in the bloc (together with Canada) and the third largest importer, surpassing Japan in both respects. However, Chile and Peru account for just 1% or less of trade flows among TPP members (see figure III.3).

United States trade with Canada and Mexico alone accounts for 60% of total trade among TPP members

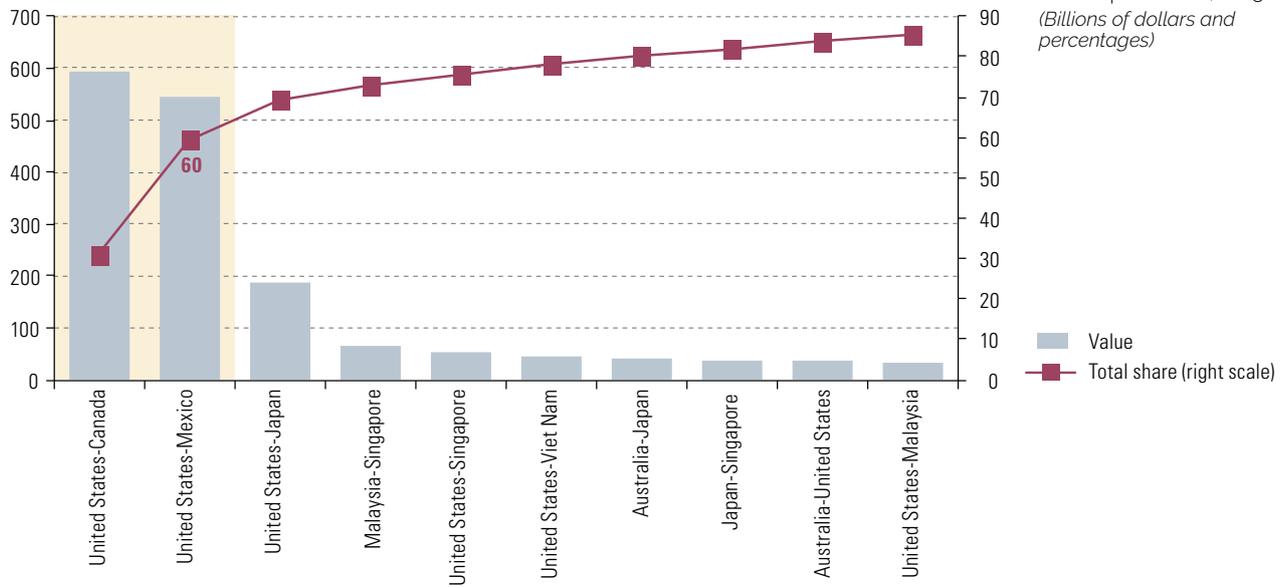


Figure III.2
Trans-Pacific Partnership (TPP): 10 main bilateral trade relations and their members' total export share, 2015
(Billions of dollars and percentages)

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

Mexico accounts for a large share of TPP internal trade, unlike Chile and Peru

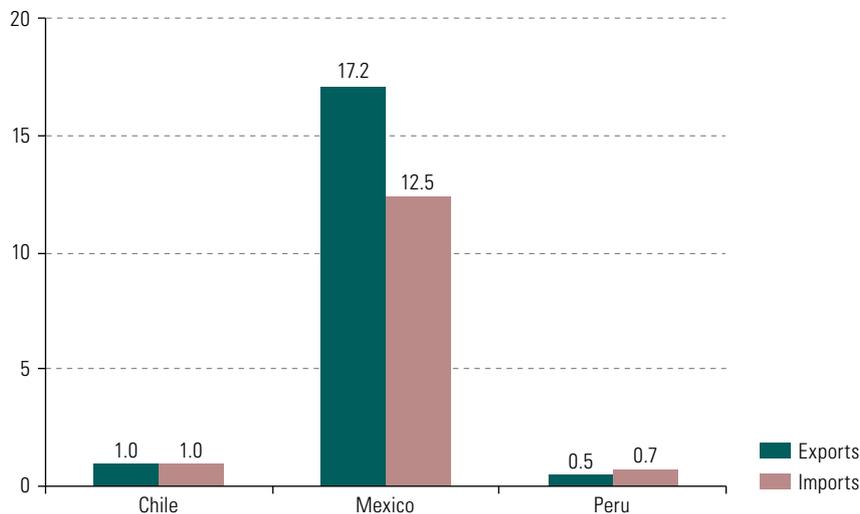


Figure III.3
Chile, Mexico and Peru: share of goods trade among Trans-Pacific Partnership (TPP) members, 2015
(Percentages)

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

TPP members are already linked by a dense network of some 25 free trade agreements, including both plurilateral (such as the North American Free Trade Agreement (NAFTA), and the Association of Southeast Asian Nations (ASEAN) Free Trade Area) and bilateral agreements. Thus, out of 66 possible bilateral relations, only 24 are not covered by an existing agreement, and several pairs of countries are bound by two or even three agreements. The share of trade between TPP countries not bound by other agreements was only 15% of the total in 2013 (Fergusson, McMinimy and Williams, 2015). Among trade relations not covered by agreements, the most important in terms of trade flows is that between the United States and Japan, followed at some distance by that between the United States and Viet Nam.

C. A new generation agreement with major public policy implications

The scope of the 30 chapters of TPP is broad. Given the breadth and complexity of the negotiated commitments, it is impossible to set out here a comprehensive assessment of the potential impact on the participating Latin American countries. The analysis is complicated by the existence of some 120 side letters, which, in practice, are exceptions to the agreed-upon general commitments. Nevertheless, the main opportunities, and greater risks, created by TPP for Chile, Mexico and Peru are outlined below. When possible, the impact on those countries in the region that are not part of the agreement is also analysed.

The analysis focuses on seven topics: market access (including tariff aspects, technical standards, cumulation of origin and public procurement); investment; intellectual property; e-commerce; State-owned enterprises; labour relations; and the environment. The TPP chapter on cross-border trade in services is not analysed as it essentially consolidates the liberalization agreed in previous trade deals among TPP members. However, disciplines agreed for other areas, which are analysed below (in particular, investment and e-commerce) are directly relevant to the liberalization of the trade in services.

1. Market access: limited tariff benefits (except in agriculture) and increased Asian competition in the United States market

Analysis of the results of a trade agreement in the area of market access has an offensive component (new export opportunities) and a defensive one (the possibility that local industries will face greater competition). Both components are directly related to the share of foreign trade of the country concerned held by a partner or partners. In this regard, the importance of TPP as a market varies widely among the three Latin American countries involved. While the agreement accounts for approximately one-third of total trade in Chile and Peru measured by exports or imports, its importance is much greater for Mexico (see figure III.4). This is mainly explained by the share in TPP zone trade of the United States, Mexico's main trading partner. In 2015, the United States absorbed 94% of Mexico's exports to the TPP zone and was the source of 81% of its imports from that bloc. To a much lesser extent, the United States is also the main TPP trading partner for Chile and Peru.

The broad thematic scope of TPP is reflected in its 30 chapters.

The TPP zone is a much more significant trading partner for Mexico than for Chile and Peru



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

Figure III.4

Chile, Mexico and Peru: Trans-Pacific Partnership (TPP) member countries' share of the total goods trade, 2015 (Percentages)

Overall, trade among TPP members does not face high tariff barriers: the average tariff on trade among bloc members was 2.7% in 2014 (World Bank, 2016). This is largely due to the high number of free trade agreements among these countries. In this regard, Chile stands out as the only TPP member country that has agreements with all the other signatories of the Partnership. Peru has agreements with Canada, Chile, Japan, Mexico, Singapore and the United States, which together accounted for 98% of Peruvian exports to TPP countries in 2015. Lastly, Mexico has agreements with Canada and the United States (NAFTA), Chile, Japan and Peru, which together absorbed 99% of its TPP exports in that year.

In the light of this preliminary overview, it appears that TPP has little to offer Chile, Mexico and Peru in terms of improving their access to other markets. However, a major exception is the agriculture and food sector. Several TPP members maintain tariffs above 15% for a significant percentage of all products, especially in this sector (see figure III.5).

TPP market liberalization commitments with regard to the agricultural sector are much deeper and broader than those contained in previous agreements among its members. For example, Chile, Mexico and Peru already have bilateral free trade treaties with Japan, but these agreements exclude many agricultural products and foodstuffs. Under TPP, the Japanese market for products such as meat, citrus fruits, dairy products, food preparations and fish was opened up significantly, with major potential gains for the three Latin American countries. For example, Chile gained market access for 1,603 (mainly agricultural) products that are excluded from tariff cuts in its agreements with Canada, Japan, Malaysia, Mexico and Viet Nam, and whose exports to these five markets totalled close to US\$ 1.4 billion in 2014. Chile's access was also improved compared with its bilateral free trade agreements with Japan, Malaysia and Viet Nam for 1,523 products, exports of which to these three countries also exceeded US\$ 1.3 billion in the same year (DIRECON, 2016).

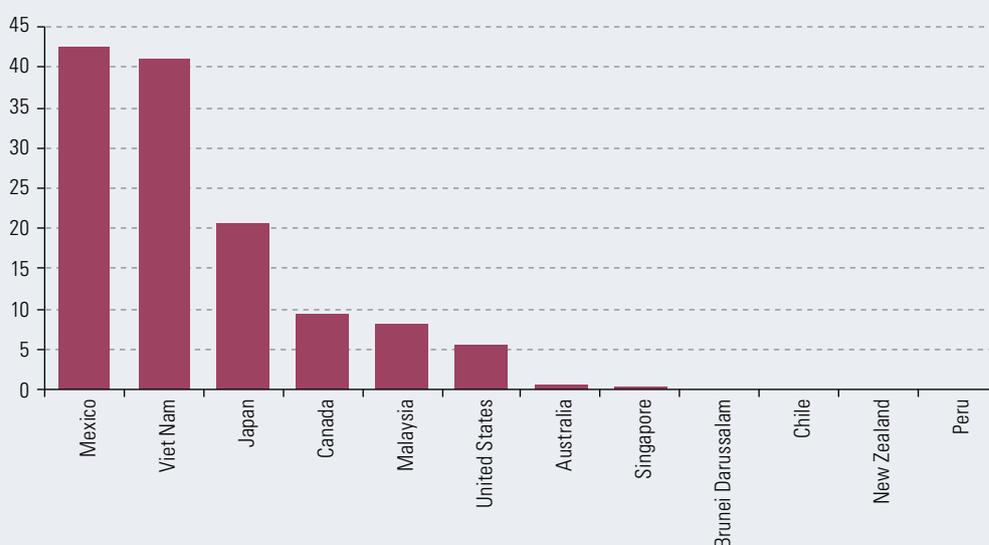
There is a similar situation in Peru. The number of its products excluded from tariff cuts in the Japanese market is reduced from 1,062 under their bilateral agreement to only 29 under TPP (rice and its derivatives). In addition, Peruvian authorities consider that TPP offers significant growth potential for its non-traditional exports, especially food, industry and fisheries, to the markets of Australia, Brunei Darussalam, Malaysia, New Zealand and Viet Nam, countries with which Peru has not signed bilateral agreements (MINCETUR, 2016). Mexico has also identified the expansion of its products' access to the Japanese market as one of the important benefits of TPP (Secretariat of Economic Affairs of Mexico, 2016).

Figure III.5

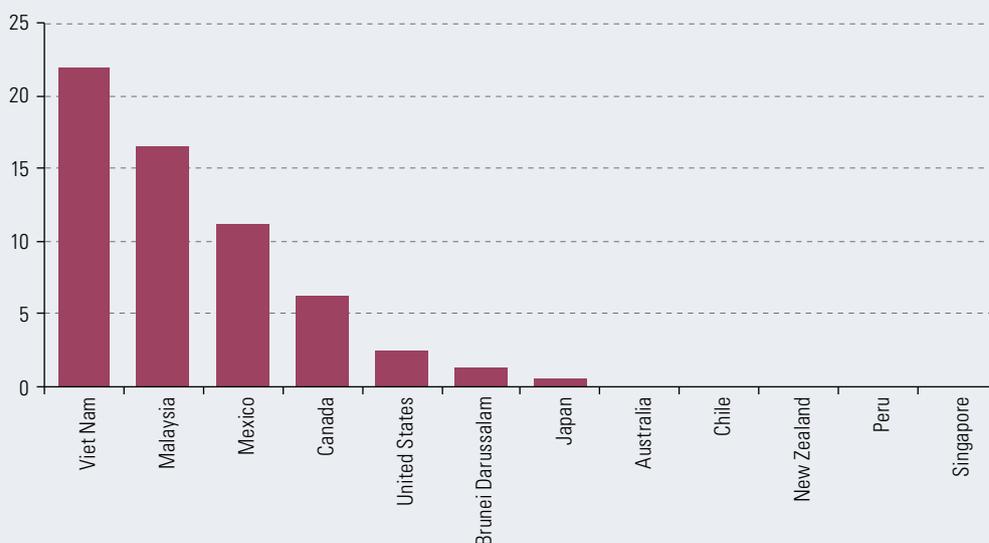
Trans-Pacific Partnership (TPP) member countries: tariff lines to which most-favoured-nation tariffs above 15% are applied, 2014^a (Percentages of all tariff lines)

Mexico, Viet Nam and Japan are the TPP members with the highest levels of agricultural protection

A. Agriculture^b



B. Non-agricultural products



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/United Nations Conference on Trade and Development (UNCTAD), *World Tariff Profiles 2015*, Geneva, 2015.

^a Calculated to the six digit level of the Harmonized Commodity Description and Coding System.

^b Includes agro-industry.

On the defensive level, TPP should not create great difficulties for the participating Latin American countries. On the one hand, most of their imports from the other treaty members are already duty-free (or are in the process of becoming so) due to existing bilateral agreements. On the other hand, the three Latin American countries obtained prolonged tariff phase-out periods for their most sensitive products under TPP. For example, tariffs on some products from Mexico (including various agricultural and clothing products) will be phased out over a period of up to 16 years, while others will remain at levels of up to 47.5% (used vehicles) and in other cases will not be reduced (for example, sugar).

Peru will also eliminate tariffs on some products during a period of up to 16 years (for example, certain poultry and pork preparations), while for Chile the period would be up to 8 years (for example, on some dairy products) and other products would be excluded from the tariff reduction (e.g. certain poultry products and cheeses originating in Canada).

TPP should also help to reduce non-tariff barriers to trade among its members. These often arise from discrepancies between countries' technical standards in areas such as safety, health or environmental protections. These discrepancies may be justified in some cases by the different levels of development or by the diverse preferences of their societies. Consequently, absolute harmonization of these standards is not always feasible or even desirable, especially among countries as disparate as the TPP signatories. However, there are intermediate options that reduce unnecessary discrepancies between national standards, benefiting producers in member countries (and probably also non-member countries) without compromising other important public policy objectives. This approach has been adopted in TPP, whose chapter on technical barriers to trade includes annexes aimed at reducing barriers to various product categories (see table III.1).

The biggest market access gains for Chile, Mexico and Peru will be in the agricultural sector under TPP.

Sector-specific agreements under TPP should reduce non-tariff barriers to trade in various product categories

Table III.1
Trans-Pacific Partnership (TPP):
sector-specific annexes on
technical regulations

Product category	Main contents of the annex
Wines and distilled spirits	<ul style="list-style-type: none"> Sets out guidelines for objective and clear labelling.
Information and communications technologies (ICT)	<ul style="list-style-type: none"> Prohibits Parties from requiring a manufacturer or supplier of a product that uses cryptography to transfer or provide access to a particular technology, production process or other information that is proprietary to the manufacturer or supplier and relates to the cryptography in the product. If a Party requires positive assurance that a product meets a standard or technical regulation for electromagnetic compatibility, it shall accept a supplier's declaration of conformity.
Pharmaceuticals	<ul style="list-style-type: none"> Sets out guidelines for carrying out the marketing authorization process in an objective, transparent and procedural manner.
Cosmetics	<ul style="list-style-type: none"> In applying a risk-based approach in regulating cosmetic products, each Party shall take into account that cosmetic products are generally expected to pose less potential risk to human health or safety than medical devices or pharmaceutical products. Sets out guidelines for carrying out the marketing authorization process in an objective, transparent and procedural manner. Establishes labelling regulations.
Medical devices	<ul style="list-style-type: none"> Sets out guidelines for carrying out the marketing authorization process in an objective, transparent and procedural manner. Establishes labelling regulations.
Proprietary formulas for pre-packaged food and food additives	<ul style="list-style-type: none"> Ensures that the confidentiality of information about products provided by the manufacturer to the regulatory body of the importing country is respected.
Organic products	<ul style="list-style-type: none"> Each Party is encouraged to accept as equivalent or recognize the technical regulations, standards or conformity assessment procedures that relate to the production, processing or labelling of products of that other Party as organic.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Ministry for Foreign Affairs and Trade of New Zealand "Chapter 8. Technical barriers to trade" [online] https://www.mfat.govt.nz/assets/_securedfiles/trans-pacific-partnership/text/8.-technical-barriers-to-trade-chapter.pdf.

One of the main opportunities offered by TPP to its members is the cumulation of origin. This "allows products of one country of a free trade area to be further processed or added to products in another country of that free trade area as if they had originated in the latter country".³ The cumulation of origin would encourage production sharing and value chains among TPP members in two ways. Firstly, Chile, Mexico and Peru may freely incorporate inputs originating from any member of the Partnership into the final products that they export to any TPP market, without those products losing access to negotiated preferential tariffs. Secondly, intermediate inputs produced by Chile, Mexico and Peru may be exported to other member countries of the agreement to be incorporated into the final goods that they export within the free trade area (see examples in box III.1).

³ World Customs Organization, [online] <http://www.wcoomd.org/en/topics/origin/instrument-and-tools/comparative-study-on-preferential-rules-of-origin/specific-topics/study-topics/cum.aspx>.

Box III.1

Examples of possible production chains between Chile and Peru and other Trans-Pacific Partnership (TPP) members through the cumulation of origin

Chile

- **Canned tropical fruit:** Pineapple can be imported from Peru, canned in Chile and exported to the United States or other TPP markets.
- **Tropical wood furniture:** Raw materials can be imported from Peru or other TPP member countries, used by domestic labourers and designers to make furniture and exported to Canada or any other market within the TPP zone.
- **Strawberry juice:** Chile can export strawberries to Asia (for example, to Malaysia), where they will be processed and turned into juice, which will then be exported to Japan or Singapore.
- **Electrical panels:** The production process can be carried out in Chile, importing all inputs from Canada, the United States or Mexico and exporting the panels to other TPP members, such as Peru.

Peru

- **Clothing:** A Peruvian exporter will be able to buy nylon yarns produced in the United States and buttons from Mexico, make the garment in Peru and export it to Australia or Singapore.
- **Vehicle brakes:** A Peruvian small or medium-sized business can export brakes to Mexico, where a local business will incorporate them into the assembly of a car that will then be exported to the United States.
- **Toothpaste:** A Peruvian business will be able to acquire chemical inputs in Mexico to produce toothpaste in Peru and export it to Chile.

Source: Chilean General Directorate of International Economic Relations (DIRECON) [online] <http://www.direcon.gob.cl/tpp/comercio-de-bienes/> and the Ministry of Foreign Affairs and Tourism (MINCETUR) for Peru, "105 preguntas y respuestas sobre el Acuerdo de Asociación Transpacífico", 2015 [online] http://www.acuerdoscomerciales.gob.pe/images/stories/tpp/adjunto/105_preguntas_y_respuestas_sobre_tpp.pdf.

The cumulation of origin should encourage the diversification of and addition of value to exports from Latin American TPP signatories. However, the ability of each country to take advantage of these opportunities will largely depend on its productive and export structure. Thus, at least initially, Mexico would appear to be better placed than Chile and Peru to benefit from the cumulation of origin, given its more diversified productive structure and the fact that it participates in several manufacturing value chains. Moreover, countries' ability to take full advantage of the cumulation of origin could be hampered by the multiplicity of rules of origin agreed upon in the Partnership for different industries, with different minimum levels required for the regional value content and various methods for calculating it (see some examples in table III.2).

Table III.2

Trans-Pacific Partnership (TPP): rules of origin for selected products

TPP includes various sector-specific rules of origin regimes

Product type	Applicable rule of origin
Fruit juices	<ul style="list-style-type: none"> • The fruit must originate in the TPP zone.
Vehicles	<ul style="list-style-type: none"> • Regional value content of 45% (under the net cost method) or 55% (under the build-down method).
Spare parts	<ul style="list-style-type: none"> • Regional value content between 35% and 55%, depending on the type of spare part and calculation method.
Footwear	<ul style="list-style-type: none"> • Regional value content of 55% (under the build-down method). • Footwear uppers must originate in the TPP zone.
Domestic electrical appliances	<ul style="list-style-type: none"> • Regional value content of 45% (under the build-down method).
Textiles and apparel	<ul style="list-style-type: none"> • Yarns and fabrics must be produced in the TPP zone ("yarn forward" rule). • Short Supply List of Products: 194 inputs can be acquired outside of the TPP zone due to insufficient supply in that zone.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Ministry for Foreign Affairs and Trade of New Zealand "Annex 3-D. Product-specific rules of origin" [online] https://www.mfat.govt.nz/assets/_securedfiles/Trans-Pacific-Partnership/Annexes/Annex-3-D-Product-Specific-Rules-of-Origin.pdf, and the Secretariat of Economic Affairs of Mexico, "Tratado de Asociación Transpacífico", document presented at the seminar *El Acuerdo de Asociación Transpacífico: Impactos para América Latina y el Caribe*, ECLAC, Santiago, 5 April 2016 [online] http://conferencias.cepal.org/acuerdo_transpacifico.

Public procurement is another important aspect of market access negotiated as part of a trade agreement. Under TPP, Chile, Mexico and Peru have greater access in the area of public procurement than under previous trade agreements, even more, in fact, than other TPP partners. For example, Australia granted access to public procurement markets at the federal level to all TPP partners, but provided only five countries (the three Latin American countries, Canada and Japan) with access to its state and territory public procurement markets, i.e. at the subnational level. Under TPP, Canada and Japan have also added more entities to the list covered by commitments on the openness of public procurement markets, compared with existing agreements with Chile, Mexico and Peru.

In addition to these improvements, under TPP, Chile will have access to public procurement markets of three countries (Malaysia, Peru and Vietnam) with which it already has bilateral agreements that do not address this issue. Peru will have access to public procurement in six new markets (Australia, Brunei Darussalam, Chile, Malaysia, New Zealand and Viet Nam). Among the sectors that would benefit from these opportunities are Peruvian suppliers of professional, technical and scientific services and wood products (MINCETUR, 2015). The opportunities arising from the reciprocal opening of public procurement markets between Chile and Peru are especially clear.⁴ Lastly, under TPP, Mexico will have access to six new public procurement markets in Asia and the Pacific (Australia, Brunei Darussalam, Malaysia, New Zealand, Singapore and Viet Nam).

One of the main effects of the entry into force of TPP will be the greater competition that exports of all the countries of the region will face in the United States market, due to tariff reductions that this country will apply to the non-Latin American members of the Partnership. In the case of the countries of the region that are not signatories to TPP, the scale of potential export diversion will depend on many factors, in particular, the weight of the United States market in their total exports, how similar their export patterns to the United States are to those of the Asian TPP members and differences in the tariffs faced.

The share of all TPP members in the total exports of the countries of the region varies widely, between 12% for Uruguay and 85% for the Bahamas. The TPP zone is a relatively less important market for the Southern Cone countries than for Central American, Caribbean and South American oil-exporting countries. This is due to the considerable weight of the United States market in exports from neighbouring countries (see figure III.6).

The TPP zone is a major destination for exports from Central American and Caribbean countries

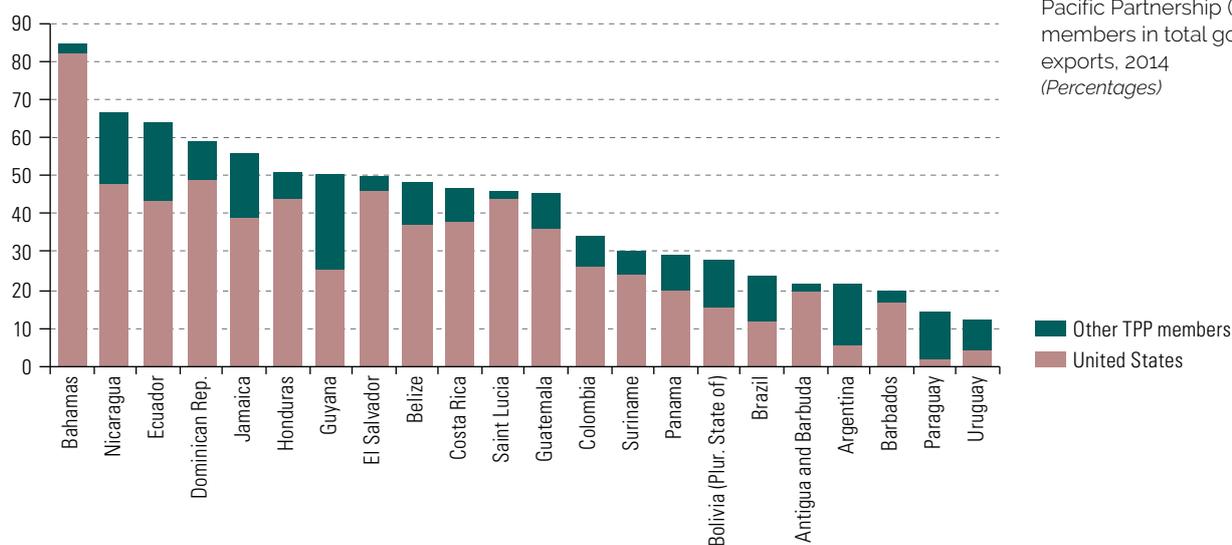


Figure III.6

Latin America and the Caribbean (selected countries): share of Trans-Pacific Partnership (TPP) members in total goods exports, 2014 (Percentages)

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

⁴ This was also agreed under the Additional Protocol to the Framework Agreement of the Pacific Alliance, which entered into force in May 2016.

In 2015, the average tariff levied on exports from five TPP members in Asia and the Pacific (Brunei Darussalam, Japan, Malaysia, New Zealand and Viet Nam) to the United States was equal to or above the average tariff imposed on all Latin America and Caribbean countries that are not signatories to the Partnership, which is as much as 0.7% (see table III.3). These are precisely the five TPP members with which the United States has not signed bilateral free trade agreements. Therefore, tariff reductions applied by the United States after the entry into force of TPP should favour an increase in imports from these countries and could affect the region's exports.

Table III.3

Exports to and average tariff imposed by the United States, 2015
(Percentages)

Several Asian TPP members face higher tariffs than countries of the region to access the United States market

Country or trading bloc	Exports to the United States		
	As a percentage of each country's total exports	As a percentage of total imports to the United States	Average tariff imposed by the United States
Trans-Pacific Partnership (TPP) (11 countries)	33.3	37.7	0.7
Latin American TPP member countries	67.5	13.8	0.1
Chile	13.0	0.4	0.0
Mexico	81.2	13.2	0.1
Peru	15.1	0.2	0.1
Canada	76.7	13.3	0.1
Asian and Pacific TPP member countries	14.2	10.6	2.4
Australia	5.3	0.5	0.2
Brunei Darussalam	0.3	0.0	6.4
Japan	20.2	5.9	1.7
Malaysia	9.5	1.5	0.7
New Zealand	11.8	0.2	0.9
Singapore	6.3	0.8	0.2
Viet Nam	20.7	1.7	7.5
All countries not members of TPP	12.8	62.3	1.7
Latin American and Caribbean countries	18.5	4.4	0.7
Andean Community (Colombia, Ecuador and Plurinational State of Bolivia)	28.2	1.0	0.2
Central America	38.5	0.9	1.0
Southern Common Market (MERCOSUR)	13.2	2.0	0.8
Caribbean Community (CARICOM)	26.0	0.3	0.3
Dominican Republic	42.3	0.2	0.2
European Union	20.7	18.9	1.3
China	18.1	21.5	3.0
Rest of Asia and the Pacific	13.5	7.0	1.6
Rest of the world	7.7	10.5	2.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United States International Trade Commission (USITC) Interactive Tariff and Trade DataWeb [online] <https://dataweb.usitc.gov/>; Commerce database, United Nations Commodity Trade Statistics Database (COMTRADE), Ministry of Finance of Viet Nam, Department of Statistics of Singapore, National Bureau of Statistics of China, Statistical Office of the European Union (EUROSTAT), Korean Statistical Information Service of the Republic of Korea, Bureau of Foreign Trade Taiwan Province of China and International Monetary Fund (IMF) Direction of Trade Statistics Database (DOTS).

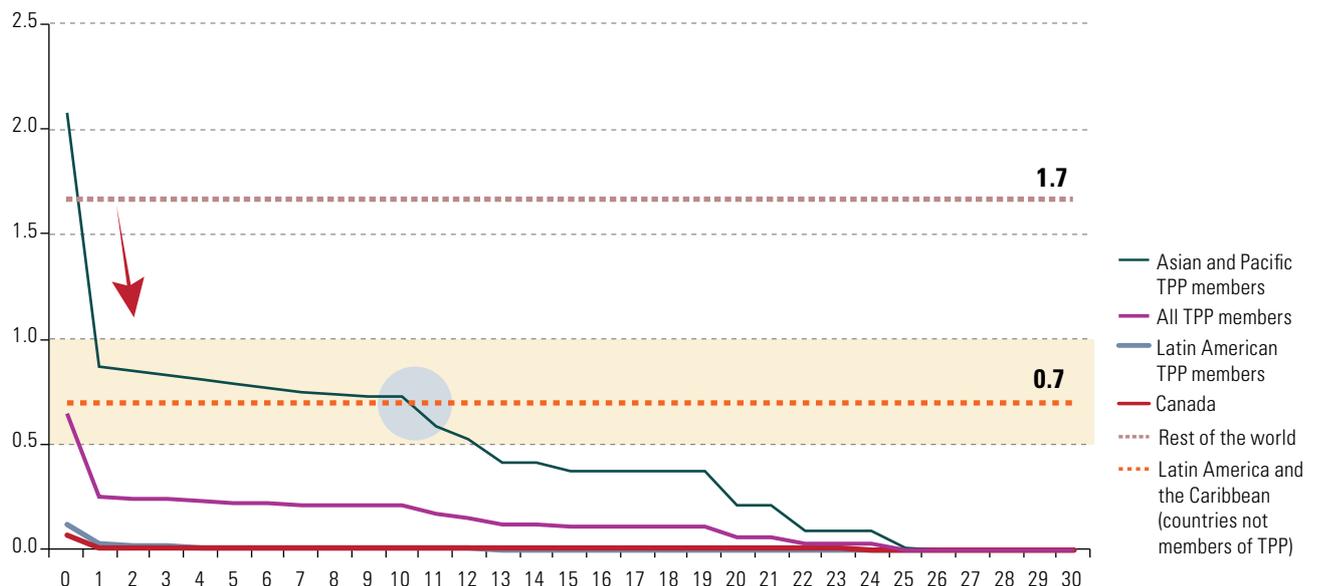
According to the agreed schedules, in year 1 after the entry into force of TPP, the reduction of customs duties by the United States will mean that all members pay an average tariff of 0.3% on imports, 0.4 percentage points less than the average tariff paid by all the countries of the region that are not Parties to the agreement (see figure III.7). Although this gap is small in aggregate terms, it is much greater for some sectors and products. For example, the gaps will be larger in sectors such as leather articles and footwear, tobacco and textiles and apparel, where the United States tariff reduction in favour of its TPP partners will, on average, exceed 5 percentage points (see figure III.8). The tariff gap may be wider for products such as meat and dairy products, on which the United States imposes high tariffs if they come from countries with which it has not signed a trade agreement.

The Latin American TPP members will also face greater competition from countries such as Japan, Malaysia, New Zealand and Viet Nam in the United States market. This would be partly offset by improved access conditions for their exports to those countries. Some ex ante assessments of the effects of TPP, which cover the three Latin American countries, anticipate a positive impact on trade and production, which would be greater for Mexico and Peru than for Chile (Cerdeiro, 2016; Petri and Plummer, 2016).

Figure III.7

The United States: projected change in average tariffs applied to Trans-Pacific Partnership (TPP) members and to the rest of the world during the 30-year tariff elimination period^a
(Percentages)

The entry into force of TPP would drastically reduce the relative preferential margin granted by the United States to Latin American countries compared to Asian members of the Partnership



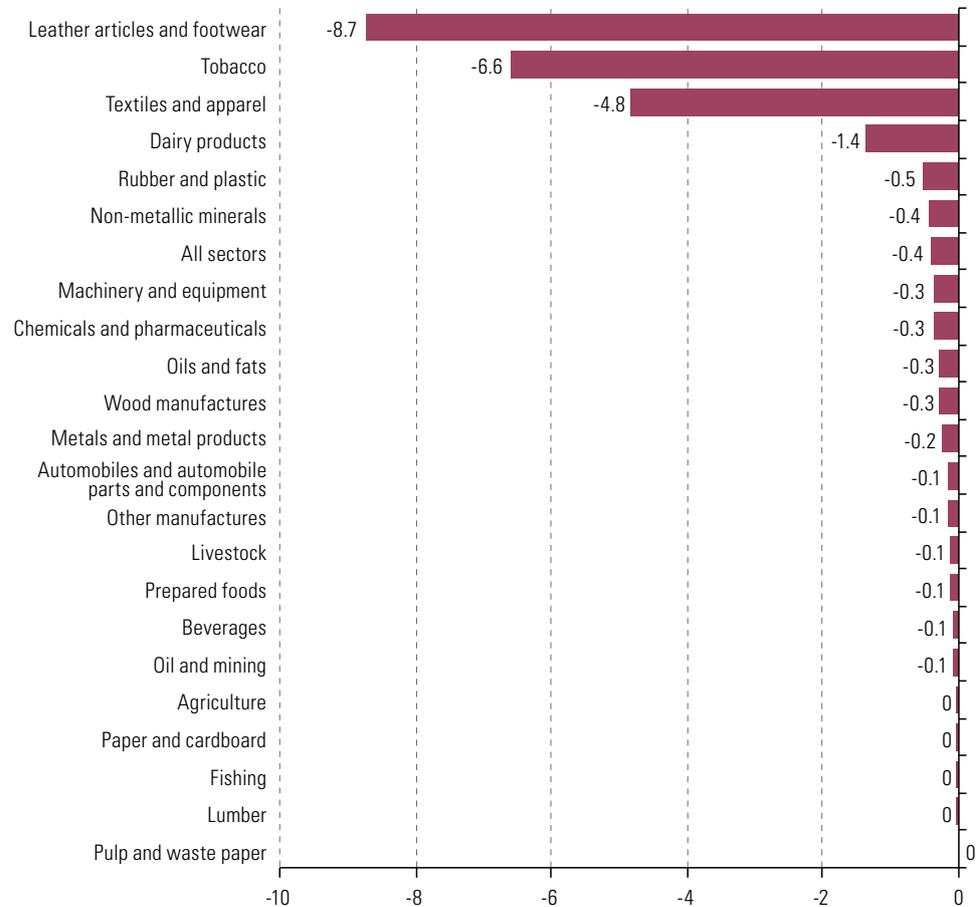
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United States International Trade Commission (USITC) Interactive Tariff and Trade DataWeb [online] <https://dataweb.usitc.gov/> and bilateral tariff reduction schedules applied by the United States to each TPP partner.

^a In the case of the partners that are not TPP members, the baseline for the fiscal year was obtained from actual tax take declared by the USITC.

Figure III.8

The United States: projected change in average tariffs applied to Trans-Pacific Partnership (TPP) members in year 1 after the Partnership's entry into force, by sector (Percentage points)

In year 1 after the entry into force of TPP, the United States' largest tariff reductions would apply to the leather articles and footwear, tobacco and textiles and apparel sectors



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United States International Trade Commission (USITC) Interactive Tariff and Trade DataWeb [online] <https://dataweb.usitc.gov/> and bilateral tariff reduction schedules applied by the United States to each TPP partner.

In order to carry out more in-depth analysis of the impact of TPP on regional exports to the United States, the degree of similarity between the export baskets to that market from TPP member countries and from the countries of the region was estimated. Bilateral similarity indices were calculated for this purpose.⁵ Of the three countries in the region that are TPP members, Mexico's exports were most similar to those of the Asian partners, with whom it has intermediate similarity (except in the case of Japan, where similarity is high). Meanwhile, Peru has intermediate similarities with Australia, Brunei Darussalam, New Zealand and Viet Nam (see table III.4).

⁵ The index is defined as follows: $I. Similarity = \sum_{k=1}^{nj} \text{Min} \left[\frac{M_i^k}{M_j^k}, \frac{M_j^k}{M_i^k} \right]$, where M represents United States imports, i is a country of the region, and j a TPP member. The calculations were made using the three-digit disaggregation level of the Standard International Trade Classification (SITC) Rev. 2. The resulting index fluctuates between 0 and 1. The higher the index level, the greater the similarity between the export baskets of two countries to the United States. Three ranges of similarity were identified: high (similarity index greater than 0.33), medium (similarity index greater than 0.10 and lower than 0.33) and low (lower than 0.10).

Table III.4

Latin America and the Caribbean and member countries of the Trans-Pacific Partnership (TPP): export similarity in the United States market, 2015^a

The degree of similarity between exports from countries of the region and those of TPP members to the United States varies according to their respective production patterns

Latin American and Caribbean countries	TPP member countries										
	Australia	Brunei Darussalam	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Viet Nam
TPP member countries											
Chile	M	B	M		B	B	M	M	M	B	B
Mexico	M	B	A	M	A	M	A	M	M	M	M
Peru	M	M	M	M	B	B	M	M		B	M
Central America											
Costa Rica	M	B	M	A	M	M	M	M	M	M	M
El Salvador	B	A	M	B	B	B	M	B	M	B	A
Guatemala	B	M	M	M	B	B	M	B	A	B	M
Honduras	B	M	B	M	B	B	M	M	A	B	A
Nicaragua	M	M	B	B	B	B	M	M	A	B	M
Panama	M	A	M	M	M	B	M	M	M	M	M
Andean Community											
Bolivia (Plurinational State)	B	B	B	M	B	B	B	B	A	B	B
Colombia	M	B	A	M	B	B	M	B	M	B	B
Ecuador	B	B	M	M	B	B	M	M	A	B	B
Southern Common Market (MERCOSUR)											
Argentina	M	B	A	M	M	B	M	M	M	M	B
Brazil	A	M	A	M	M	M	M	M	M	M	M
Paraguay	B	B	M	M	B	B	B	M	M	B	B
Uruguay	A	B	M	M	B	B	M	A	M	M	B
Venezuela (Bolivarian Republic of)	B	B	M	B	B	B	B	B	M	B	B
Caribbean Community (CARICOM)											
Antigua and Barbuda	M	A	B	B	B	B	B	B	B	M	B
Bahamas	M	A	M	B	B	B	B	B	M	M	B
Barbados	M	M	M	M	B	B	M	M	B	M	B
Belize	M	M	M	M	B	B	M	M	M	M	B
Dominica	M	M	M	B	B	B	M	B	M	M	B
Grenada	M	M	B	A	B	B	B	M	M	M	B
Guyana	B	B	B	B	B	B	B	B	M	B	B
Haiti	B	M	B	B	B	B	B	B	M	B	M
Jamaica	M	M	M	M	B	B	M	M	M	B	B
Saint Kitts and Nevis	M	M	M	B	M	M	M	B	B	M	M
Saint Lucia	M	A	B	B	B	M	M	B	B	M	M
Saint Vincent and the Grenadines	M	A	M	B	B	B	M	M	M	M	B
Suriname	M	B	M	M	B	B	B	B	M	B	B
Trinidad and Tobago	B	M	M	B	B	B	B	B	M	B	B
Dominican Republic	M	M	M	B	M	M	M	M	M	M	M

A High **M** Medium **B** Low

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United States International Trade Commission (USITC) Interactive Tariff and Trade DataWeb [online] <https://dataweb.usitc.gov/>.

^a For the purposes of analysis, three ranges of similarity were identified: high (H), with an index greater than 0.33; medium (M), with an index greater than 0.10 and less than 0.33; and low (L), where the index is less than 0.10.

The countries of the region would face greater competition in the United States market under TPP.

The similarities between the exports of all the Central American countries and those of Viet Nam stand out; they are especially high for El Salvador and Honduras. The next highest similarities are between El Salvador and Panama and Brunei Darussalam. Among the South American countries, the highest similarities are between Brazil and Australia, Brazil and Canada, Argentina and Canada, and Uruguay and Australia and New Zealand. Paraguay and the Bolivarian Republic of Venezuela are the South American countries whose baskets of exports to the United States bear little similarity to those of the Asian TPP members. Among the Caribbean countries, the greatest similarities occur between Antigua and Barbuda, the Bahamas, Saint Lucia and Saint Vincent and the Grenadines, on the one hand, and Brunei Darussalam on the other, which in terms of scale and comparative advantage could become a competitor for the smaller Caribbean economies.

Table III.5 identifies the sectors in which exports from some countries of the region to the United States are expected to face increased competition from Asian TPP members. Among the countries of the region that are TPP members, the biggest impacts would be felt in Mexico and Peru. The apparel industry in Peru stands out, because tariffs are not currently paid on its exports of underwear and various items of clothing for men, women and children, and it will face competition from similar Vietnamese products. The average tariff imposed by the United States on apparel exports from Viet Nam will be reduced from 18% today to 8% and, on some garments such as jackets, trousers and men's and women's shirts, the tariff will be cut from close to 30% to 0%.

Table III.5

Latin America and the Caribbean (selected countries): export sectors facing increased competition in the United States following the entry into force of the Trans-Pacific Partnership (TPP)

Once TPP enters into force, a wide range of sectors in the region will face greater Asian competition in the United States

TPP members	TPP members	Sectors
Peru	Viet Nam	Textiles and apparel (underwear for men and women, outerwear for infants and women); crustaceans and fish; coffee and coffee substitutes
Mexico	Japan	Passenger automobiles; automobile parts; telecommunications equipment; electrical equipment; engines
Mexico	Malaysia	Telecommunications equipment; data-processing machines; electrical equipment; domestic appliances
Central America		
Costa Rica	Japan	Medical instruments and apparatus; electrical lamps, tubes and valves; electrical machines and equipment
El Salvador, Guatemala, Honduras and Nicaragua	Viet Nam	Textiles and apparel (underwear for men and women, outerwear for infants and women); footwear; crustaceans and fresh fish
Panama	New Zealand	Fresh fish; crustaceans; fresh vegetables; fruits and nuts
South America		
Brazil	Japan	Aircraft and their parts and components; vehicles and automobile parts
Argentina, Brazil and Uruguay	New Zealand	Meats and edible meat offal; starches; dairy products, especially cheese and curd; animal feed
The Caribbean		
Barbados, Belize, Saint Kitts and Nevis, Saint Vincent and the Grenadines	Brunei Darussalam	Halogenated hydrocarbons; alcohols and phenols (methanol); cleaning materials; construction materials
Haiti and Dominican Republic	Viet Nam	Textiles and apparel (underwear for men and women, outerwear for infants and women); footwear; crustaceans and fresh fish

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the United States Department of Commerce database.

In the case of Mexico, the biggest competition in the United States market will come from Japan and, to a lesser extent, Malaysia, whose export baskets have high similarity with that of Mexico. Like Mexico, exports from Japan and Malaysia to the United States are largely made up of medium- and high-technology manufactures, particularly telecommunications equipment, electrical appliances, photographic equipment, automobile parts and vehicles.⁶ In these sectors, the United States applies most-favoured-nation tariffs ranging from 4% to 9%, which, after TPP has entered into force, will, in some cases, be reduced to zero (see figure III.9). This situation could cause a shift in trade in favour of Japan and Malaysia, at the expense of Mexican suppliers. Among the South American countries, exports of various agricultural crops from the Southern Cone countries could face greater competition from New Zealand, and Brazilian exports in the automobile, automobile parts and aerospace sectors could be threatened by Japan.

Central America could face growing competition from Viet Nam in the textiles and apparel, footwear and, in particular, knitwear sectors. Honduras, El Salvador, Guatemala and Nicaragua, together with Mexico, Haiti, Peru and the Dominican Republic, are among the top 20 suppliers of knitwear to the United States. In some cases that sector accounts for more than 40% of the total value of national exports to the United States. The average tariff applied to all of these countries in the United States market is substantially lower than that imposed on Viet Nam (20.3%), because they have signed free trade agreements with the United States or, in the case of Haiti, benefit from unilateral trade preference programmes. Despite this disadvantage, Viet Nam is already the United States' second largest supplier of knitted garments and accessories (see table III.6). The reduction of the average United States tariff applied to the Vietnamese textiles and apparel sector would be almost 10 percentage points in year 1 of TPP (see figure III.9), so United States' imports from Viet Nam could increase rapidly, displacing those originating from Latin America and the Caribbean and other Asian competitors such as China, Indonesia and India.

The concerns expressed by several countries in the region about stiffer competition from Vietnamese clothing manufacturers in the United States market are partly allayed by the TPP agreed rule of origin for this sector, the so-called "yarn forward rule". This requires textiles and clothing manufacturers in Viet Nam—or any other TPP member country—to use as inputs yarns and fabrics originating from other TPP partners, in order to benefit from preferential treatment. This means that (with some exceptions) Viet Nam will not be able to use cheaper Chinese inputs in the garments it exports to the United States under TPP tariff preferences.⁷ This would reduce the competitiveness of Viet Nam in that market compared to apparel exports from Latin American countries, whether they are members of the Partnership or not.

Given the potential for stronger competition from Viet Nam, the Central American countries should make their apparel industry more competitive, not by lowering prices, but by increasing added value and further diversifying production. For example, they could explore both ends of the value chain, such as clothing design and the distribution and marketing of their own brands. Moreover, by taking advantage of their geographic proximity to the United States market, they could develop specialized maquila and delivery services, making delivery times a determining factor. On average, a Central American product takes two days to reach the United States market, compared to 20 days for a Vietnamese one (Cordero, 2016).

Central American apparel exports to the United States would face stiff competition from Viet Nam under TPP.

⁶ Tariffs on automobiles and automobile parts will not start to be eliminated until year 11 of the Partnership's entry into force of the agreement.

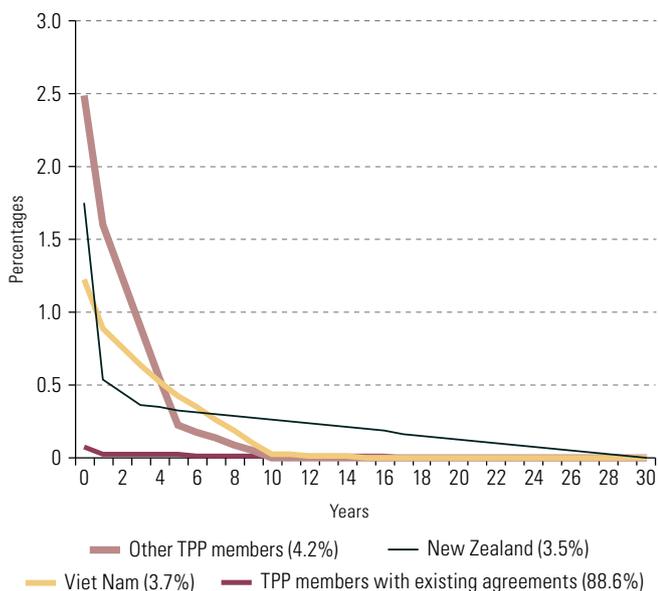
⁷ The exceptions are the 194 inputs on the "limited supply list". These can be procured from non-TPP suppliers (such as China) and incorporated into the final products (apparel) without foregoing the tariff reduction.

Figure III.9

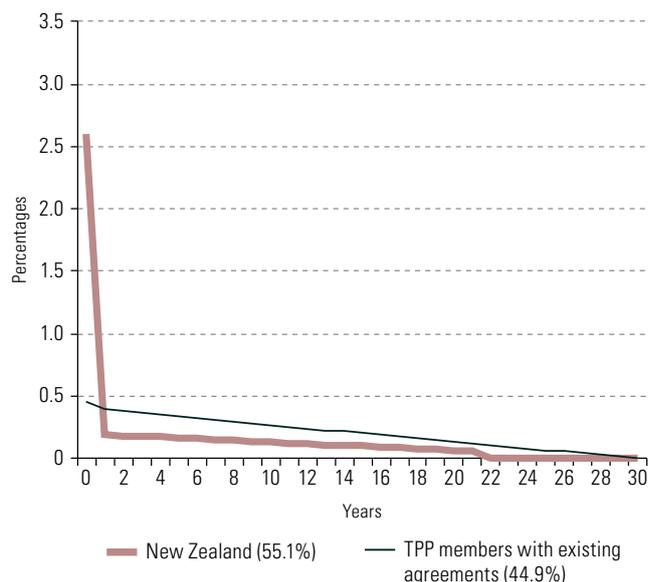
The United States: projected change in average tariffs applied to its Trans-Pacific Partnership (TPP) partners during the tariff elimination or reduction period (30 years), by sector^a
(Percentages)

TPP members that currently do not have trade agreements with the United States will see the largest initial tariff gains in that market under the Partnership

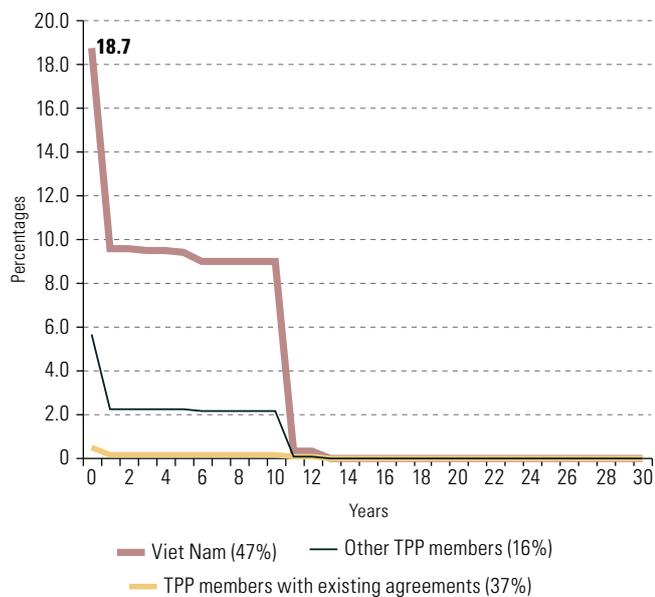
A. Food, beverages and tobacco



B. Dairy products



C. Textiles and apparel



D. Leather articles and footwear

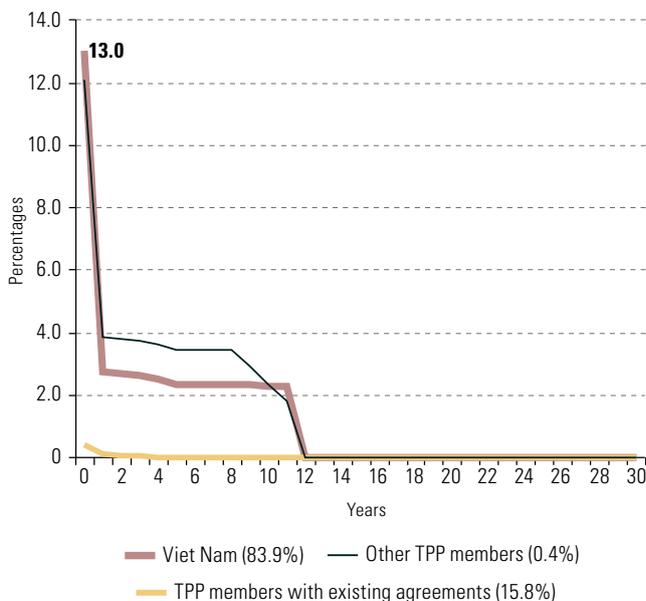
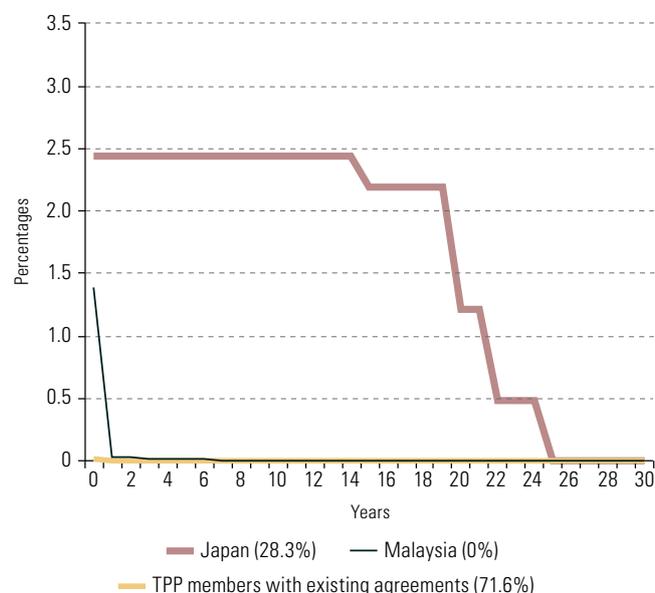
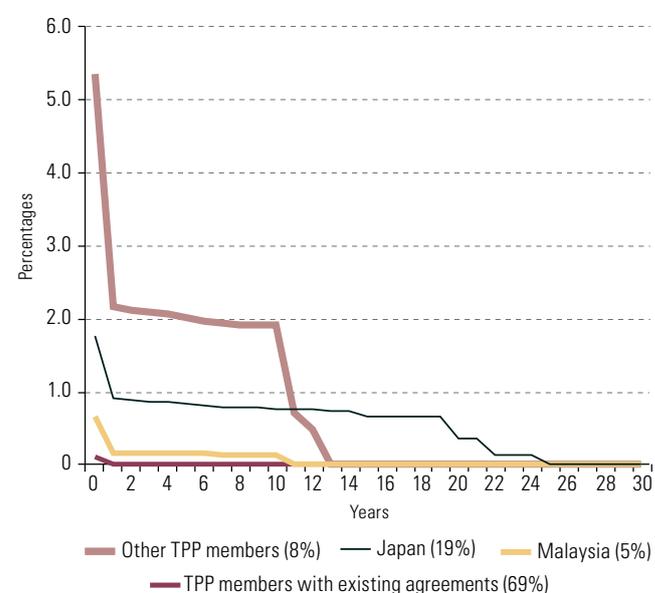


Figure III.9 (concluded)

E. Automobiles



F. Other manufactures



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the United States Department of Commerce database and the United States tariff reduction schedules for its various TPP partners.

^a The numbers in parentheses indicate the share of each country or grouping in United States imports from the rest of the TPP zone in the corresponding sector.

Table III.6

United States: main suppliers of knitted garments and accessories, 2015
(Millions of dollars and percentages)

Viet Nam is already the second largest exporter of clothing to the United States, despite facing high tariffs

Position	Country	Total imports (millions of dollars)	Share of total imports	Share of domestic exports	Average tariff applied ^a
1	China	16 169	34.7	3.2	17.6
2	Viet Nam	6 114	13.1	15.4	20.3
3	Indonesia	2 642	5.7	12.8	20.5
4	Honduras	2 205	4.7	44.0	0.4
5	Cambodia	1 878	4.0	59.8	18.4
6	El Salvador	1 680	3.6	64.2	0.7
7	India	1 607	3.5	3.4	15.1
8	Bangladesh	1 435	3.1	23.1	17.3
9	Mexico	1 282	2.8	0.4	1.0
10	Guatemala	1 134	2.4	25.6	5.7
11	Sri Lanka	1 103	2.4	36.4	18.0
12	Nicaragua	1 049	2.3	31.9	7.2
13	Jordan	942	2.0	61.7	0.1
14	Pakistan	909	2.0	23.3	16.0
15	Thailand	752	1.6	2.5	18.9
16	Haiti	724	1.6	74.4	0.1
17	Philippines	646	1.4	6.1	19.8
18	Peru	544	1.2	10.1	0.3
19	Dominican Republic	477	1.0	10.0	0.3
20	Egypt	407	0.9	27.5	0.2
	Top 20 suppliers	43 698	93.9	4.4	14.3
	Other suppliers	2 857	6.1	0.2	11.3
	Total imports	46 555	100.0	2.0	14.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the United States Department of Commerce database.

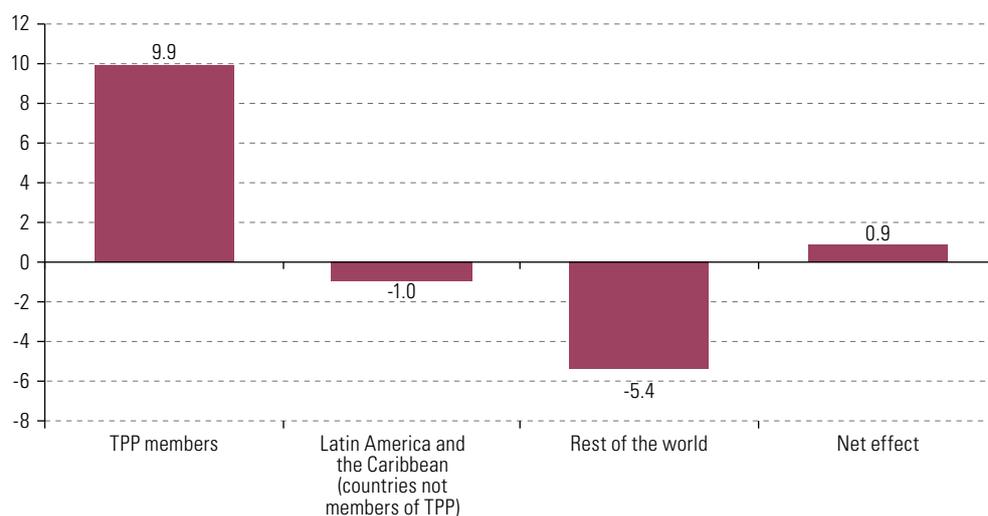
^a Calculated from the actual duty levied on imports from each trading partner.

Using a partial equilibrium model, it is estimated that United States tariff cuts in year 1 of TPP would result in a 0.9% increase in the value of its total goods imports, compared with 2015.⁸ This effect is broken down into growth in imports from TPP member countries of around 10% and a 5.4% reduction in imports from the rest of the world (see figure III.10).

Figure III.10

The United States: expected variation in the value of imports from different origins after the first year of the Trans-Pacific Partnership (TPP) (Percentages compared with 2015)

The value of United States imports from the region would fall by 1% in year 1 of TPP



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of a partial equilibrium model.

The projected increase in United States imports from TPP members is particularly significant in those sectors that would qualify for the largest tariff cuts in year 1 of the agreement, such as textiles and apparel, leather articles and footwear, rubber and plastic, other manufactures, and food, beverages and tobacco. Likewise, the expected growth in imports would be concentrated in the group of TPP member countries that do not have prior trade agreements with the United States. Thus, New Zealand could capture 86% of the expected increase in United States imports from TPP in the agriculture, hunting and fishing sector (see table III.7). In the agro-industrial sector, New Zealand and Malaysia are set to increase their exports to the United States, together with Australia and Canada. The main benefits for New Zealand would be seen in the dairy products and meat sectors, as well as exports of various fruits and vegetables (New Zealand Ministry of Foreign Affairs and Trade, 2016).

Viet Nam would benefit the most from the expected increase in United States imports from the TPP zone in the textiles and apparel and leather articles and footwear sectors, accounting for 73% and 97%, respectively. Viet Nam could also take a significant share of the increase in some manufactures in the chemicals and pharmaceuticals

⁸ This result is similar to other impact assessments that consider both trade creation and diversion following the entry into force of TPP (Li and Whalley, 2012, and Petri and Plummer, 2016).

and non-metallic minerals sectors, as well as in metals and metal products and other manufactures. Meanwhile, Japan would capture the bulk of trade created in the main manufacturing sectors, particularly chemicals and pharmaceuticals, rubber and plastics, non-metallic minerals and other manufactures.

Table III.7

The United States: projected increase in imports from Trans-Pacific Partnership (TPP) member countries in year 1 after its entry into force
(Percentages)

Japan, Mexico, Canada and Viet Nam account for 92% of the projected increase in United States imports from TPP member countries in year 1 of the Partnership

Sector	Share of total imports from the TPP zone	Average pre-TPP tariff	Average tariff in year 1 of TPP	Projected increase in imports	Percentage distribution of the projected increase in imports by country
Agriculture, hunting and fishing	3.6	0.0	0.0	2.2	New Zealand (86), Canada (5), Viet Nam (4), Australia (1)
Oil and mining	7.6	0.1	0.0	7.4	Canada (100)
Food, beverages and tobacco	4.5	0.2	0.1	4.3	Canada (26), New Zealand (17), Malaysia (14), Australia (10), Peru (5), Viet Nam (4)
Wood, paper and cardboard	2.5	0.1	0.0	1.6	Japan (36)
Textiles and apparel	2.7	9.9	6.6	37.1	Viet Nam (73), Malaysia (9); Japan (3)
Leather articles and footwear	0.8	11.0	3.5	63.1	Viet Nam (97)
Chemicals and pharmaceuticals	8.7	0.3	0.0	8.0	Japan (76), Canada (12), Mexico (4), Malaysia (5)
Rubber and plastics	1.8	1.0	0.5	15.3	Japan (56), Canada (13), Malaysia (12), Mexico (11), Viet Nam (5)
Non-metallic minerals	0.7	0.5	0.1	10.2	Japan (54), Viet Nam (12), Malaysia (1)
Metals and metal products	5.6	0.3	0.1	7.3	Japan (46), Viet Nam (5), Malaysia (5)
Machinery and equipment	30.5	0.4	0.1	13.4	Japan (46), Mexico (34), Canada (11), Malaysia (6), Singapore (2)
Automobiles and automobile parts	22.7	0.6	0.5	6.6	Canada (76), Mexico (12), Japan (7), Malaysia (1), Viet Nam (1)
Other manufactures	8.4	0.2	0.0	3.2	Japan (63), Mexico (14), Canada (14), Malaysia (5), Singapore (2)
Total	100.0	0.7	0.4	9.9	Japan (36), Mexico (23), Canada (18), Viet Nam (15), Malaysia (5), New Zealand (1)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of a partial equilibrium model.

In some manufacturing sectors, Canada and Mexico will share with Japan the gains linked to the expected increase in United States imports in year 1 after TPP enters into force, in particular in automobiles and machinery and equipment, industries in which Canada and Mexico (NAFTA members) will enjoy better tariff conditions for access to the United States market than the other TPP members for the first 10 years of the agreement. This will allow them to continue to benefit from foreign investment originating mainly from Japan. In the transition period, before the biggest cuts are made to the tariffs applied by the United States to the other TPP members, Mexican manufacturers have an opportunity to consolidate the advantage of their geographical

proximity to the United States by strengthening value chains with suppliers from Japan, Malaysia and other Asian TPP member countries.

With regard to the effect of trade diversion on the countries of the region that are not TPP members, it is estimated that the largest diversion will occur in the textiles and apparel, chemicals and pharmaceuticals and a wide range of manufacturing sectors. In the agricultural and agro-industrial sectors, the countries most affected are in South America and, to a lesser extent, Central America. In manufacturing sectors, the greatest diversion effects will be seen in Brazil, Argentina and Colombia in South America, in Costa Rica and Honduras in Central America, and in Trinidad and Tobago in the Caribbean (see table III.8). In general, the results are consistent with the analysis based on similarity indices.

Table III.8

The United States: projected decrease in imports from Latin American and Caribbean countries that are not Trans-Pacific Partnership (TPP) members in year 1 after its entry into force
(Percentages)

In the region, the Bolivarian Republic of Venezuela, Brazil and Colombia would suffer the biggest drops in exports to the United States in year 1 of TPP

Sector	Imports structure and average tariffs applied in year 1 after the entry into force of TPP			Effect of trade diversion	
	Share of total imports from Latin America and the Caribbean ^a	Average tariff applied to Latin America and the Caribbean	Average tariff applied to Asian TPP members	Projected decline in imports	Percentage distribution of the projected decline in imports by country
Agriculture, hunting and fishing	8.7	0.6	0.3	-0.1	Ecuador (21), Brazil (14), Guatemala (13), Costa Rica (12), Colombia (11)
Oil and mining	20.0	0.1	0.0	-0.6	Colombia (34), Bolivarian Republic of Venezuela (33), Ecuador (18), Brazil (12)
Food, beverages and tobacco	9.8	1.5	0.7	-0.3	Brazil (29), Colombia (16), Argentina (11), Dominican Republic (9), Guatemala (8), Nicaragua (5)
Wood, paper and cardboard	1.9	0.5	0.0	0.0	Brazil (89)
Textiles and apparel	10.2	2.1	6.9	-1.4	Honduras (27), El Salvador (20), Guatemala (15), Nicaragua (15), Dominican Republic (9), Haiti (9)
Leather articles and footwear	0.9	2.4	2.4	-0.1	Brazil (39), Dominican Republic (39), Argentina (5)
Chemicals and pharmaceuticals	18.0	0.5	0.0	-0.7	Bolivarian Republic of Venezuela (37), Brazil (22), Trinidad and Tobago (19), Argentina (5)
Rubber and plastics	0.8	1.2	1.1	-0.1	Brazil (35), Costa Rica (25), Dominican Republic (17),
Non-metallic minerals	1.2	2.6	0.2	-0.1	Brazil (86), Colombia (8), El Salvador (2), Costa Rica (1), Argentina (1)
Metals and metal products	6.2	0.3	0.5	-0.3	Brazil (65), Trinidad and Tobago (8), Argentina (7), Colombia (4)
Machinery and equipment	7.7	0.3	0.1	-0.5	Brazil (33), Costa Rica (26), Dominican Republic (18), Honduras (7), Argentina (4)
Automobiles and automobile parts	3.7	0.1	1.7	-0.2	Brazil (96), Honduras (2)
Other manufactures	10.9	0.2	0.0	-0.1	Brazil (31), Colombia (21), Ecuador (8), Plurinational State of Bolivia (6), Costa Rica (5), Honduras (3)
Total	100.0	0.7	1.2	-1.0	Brazil (28), Colombia (14), Bolivarian Republic of Venezuela (14), Ecuador (7), Honduras (5), Trinidad and Tobago (4)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of a partial equilibrium model.

^a Excluding Chile, Mexico and Peru.

2. Investment: in search of a better balance between the rights of foreign investors and the right of host States to regulate

The TPP investment chapter is almost identical to the respective chapters of free trade agreements signed by Chile, Mexico and Peru with the United States and to the model followed by the latter in its bilateral investment treaties. The substantive obligations are very similar and include standards such as national treatment, most-favoured-nation, prohibition on performance requirements,⁹ the free transfer of funds related to an investment and guarantees in the event of expropriation, among others. These commitments are aligned with the regulatory frameworks in place in Chile, Mexico and Peru; thus, the obligations under TPP are not more ambitious than those already imposed by national laws and practices. Moreover, and in line with their existing agreements with the United States, the three Latin American countries reserved the right not to comply with several of the obligations with regard to certain sectors or measures.¹⁰

In line with the standard practices of the United States in its trade and investment agreements, TPP includes a mechanism for settling disputes between investors and States. It allows foreign investors to sue Parties directly in international arbitration¹¹ if they believe that their rights under the agreement have not been respected. In recent years, both developed and developing countries have raised questions about this mechanism. The main criticisms include the possibility that Parties might refrain from enacting regulation in the public interest for fear of being sued (*regulatory chill*), together with concerns about institutional bias, a lack of coherence between rulings on similar issues, conflicts of interest, a lack of transparency and awarding excessive compensation to foreign investors (Productivity Commission of the Australian Government, 2010; UNCTAD, 2015).

Including an investor-State dispute settlement mechanism in TPP was a fundamental objective of the United States. Globally, United States-based companies are the primary users of such mechanisms, having initiated 138 of the 696 registered cases as of the end of 2015, 20% of the total (UNCTAD, 2016a). However, Chile, Mexico and Peru had already accepted this clause in their respective free trade agreements with the United States and several other countries, and in numerous bilateral investment promotion and protection agreements. This is therefore not a new obligation imposed by TPP.

In response to some of the criticisms raised, TPP reaffirms Parties' right to regulate "to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental, health or other regulatory objectives"¹² This language is broader than the wording of the free trade agreements signed by Chile and Peru with the United States, which refer only to a Party's right to regulate "to ensure that investment activity in its territory is undertaken in a manner sensitive to environmental concerns."¹³ In addition, TPP members may refuse to submit claims relating to tobacco control measures to investor-State dispute settlement proceedings. Lastly, TPP makes several changes to the investor-State dispute settlement mechanism compared with the free trade agreements signed by Chile, Mexico and Peru with the United States (see box III.2).

⁹ Compared with these agreements, the only addition to the list of prohibited performance requirements under TPP is the host State's imposition of requirements concerning the technology that foreign investors may use, including the requirement to purchase or give preference to locally-produced technology. Such practices have often been criticized by the United States, particularly when used by China.

¹⁰ Among the sectors about which the Latin American countries expressed reservations are energy, mining, oil and gas, telecommunications and air transport in Chile; audiovisual services, legal services, oil and gas, air and sea transportation in Mexico; and audiovisual services, legal services, oil and gas, sea and land transportation in Peru (USITC, 2016).

¹¹ Pursuant to article 9.19, an investor can initiate international arbitration at the International Centre for Settlement of Investment Disputes (ICSID) or other international arbitration body to which both parties have agreed.

¹² Article 9.16 ("Investment and Environmental, Health and other Regulatory Objectives").

¹³ Articles 10.12 of the free trade agreement between Chile and the United States, and 10.11 of the free trade agreement between Peru and the United States.

Box III.2

Changes to the investor-State dispute settlement mechanism introduced in the Trans-Pacific Partnership (TPP)

- An expedited review of frivolous claims, with claimants possibly being ordered to pay corresponding costs and fees.
- A code of conduct and ethics for arbitrators.
- The claimant (the foreign investor) bears the burden of proving all claims.
- The time period during which an investor can initiate a dispute with an international tribunal is limited to three and a half years from the date of actual or constructive knowledge of an alleged breach.
- At the request of one of the parties, the tribunal must share a proposed version of its decision with both parties and give them 60 days to submit written comments.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Foreign Trade Information System “Chapter 9. Investment” [online] http://www.sice.oas.org/TPD/TPP/Final_Texts/English/Chapter9.pdf, and S. Lincicome and B. Picone “Evaluating the Trans-Pacific Partnership”, *Client Alert, White and Case*, May, 2016 [online] http://www.whitecase.com/sites/whitecase/files/files/download/publications/evaluating_the_trans-pacific_partnership_0.pdf.

The definition of “fair and equitable treatment” in TPP is an improvement on that included in the aforementioned agreements. In fact, it explicitly states that the mere fact that a Party takes an action that results in lower profits than expected by the foreign investor or that a Party does not issue, renew or maintain a subsidy, does not constitute a breach of the obligation known as the minimum standard of treatment (linked to fair and equitable treatment). The ambiguity in the interpretation of this obligation has allowed companies in numerous cases of investor-State dispute settlements to allege a breach on the grounds that their expected profits were affected by actions of the State (UNCTAD, 2015). Therefore, the clarification introduced in TPP could reduce uncertainty surrounding the interpretation of fair and equitable treatment in future disputes, strengthening the position of host States.

Notwithstanding these developments, TPP does not address some problematic aspects of investor-State disputes. For instance, it does not include the option of a screening process that allows the governments of the two countries involved in a potential dispute to decide whether to pursue or drop the case. Screening could prevent investing companies from initiating disputes where their economic interests are clearly opposed to the host State’s legitimate public policy objectives. Similarly, TPP does not establish an appeal stage for arbitration rulings, unlike the WTO dispute settlement mechanism and standard practices of national tribunals.¹⁴ It would be advisable to include an appellate procedure to correct any flawed rulings and to provide the system with greater coherence, predictability and legitimacy.¹⁵ This has been recognized by the European Union, which has proposed the introduction of such a permanent mechanism within the framework of the Transatlantic Trade and Investment Partnership negotiations. However, the United States has opposed this proposal. Given the high political sensitivity of the matter in European public opinion, it has become one of the main sticking points in the negotiations.

Another investment-related issue that has provoked considerable controversy in the trade negotiations with the United States is that of capital controls. Through its free trade agreements, the United States has sought to restrict its partners’ ability to apply capital controls, even temporarily and in order to preserve financial stability. In this context, Chile, and later Peru, obtained a limited degree of flexibility in their bilateral agreements with the United States. In comparison, TPP appears to reflect greater acceptance of this tool, in line with the evolution of the position of the International Monetary Fund

¹⁴ Under the Convention on the Settlement of Investment Disputes between States and Nationals of other States, arbitral awards are final and binding.

¹⁵ The standard dispute settlement mechanism under TPP, which is intergovernmental in nature and applies to all obligations contained in the Partnership, except for those relating to investment, also does not have an appellate instance.

(IMF), which has recognized the usefulness—in certain circumstances—of capital controls in dealing with speculative capital flows (IMF, 2011). In this context, TPP provides that its members may adopt or maintain restrictions on payments or transfers related to capital movements: (i) in the event of serious balance-of-payments and external financing difficulties or threats thereof; or (ii) if, in exceptional circumstances, payments or transfers relating to capital movements cause or threaten to cause serious difficulties for macroeconomic management. While these restrictions shall not exceed 18 months in duration, they may be extended, in exceptional circumstances, for up to one year.

In short, TPP investment provisions appear to reflect an effort to move towards a more suitable balance between protecting foreign investors and host States' right to regulate in the public interest. Clearly, the extent to which that objective has been achieved can only be gauged once the Partnership has entered into force and been put into practice. Lastly, TPP offers Chilean, Mexican and Peruvian investors better protection standards in those member countries with which Chile, Mexico or Peru have not signed free trade or investment promotion and protection agreements, or with which their trade agreements do not cover investment commitments.¹⁶

3. Intellectual property: protection levels continue to rise

Intellectual property (IP) covers a wide range of categories, including patents, copyright and related rights, trademarks, geographical indications and industrial designs. How these are protected has a direct impact on several aspects of economic and social life, and therefore on public policies, especially those related to education, culture, health, science and technology and industrial development. This impact is particularly relevant in the context of the knowledge economy and explains why IP is historically one of the most controversial issues in North-South trade negotiations. In particular, over the past two decades, the United States has used trade agreements to provide ever greater protection under different IP categories compared with the minimum standards established in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Chile, Mexico and Peru had to accept a number of provisions in their free trade agreements with the United States that are stricter than those of the TRIPS Agreement. These include: (i) extending the copyright term of protection from 50 to 70 years after the author's death or from the date of the first publication; (ii) effectively extending the term of a patent to compensate for potential administrative delays that occur in granting the patent, thus exceeding the 20-year term of protection from the filing date, stipulated by the TRIPS Agreement; (iii) not disclosing information concerning the safety and efficacy of a pharmaceutical or agricultural chemical product for a period of 5 years and 10 years, respectively; (iv) establishing a patent linkage system between health authorities and the patent office for pharmaceutical products (discussed in detail below); and (v) introducing IP enforcement mechanisms that go beyond those covered by the TRIPS Agreement (Roffe and Santa Cruz, 2010).¹⁷ Several of these provisions have been particularly controversial in the field of public health, given the potential for delays in bringing generic medicines to market.

¹⁶ As is the case, for example, for Mexico with Malaysia and Viet Nam, and for Chile and Peru with Viet Nam.

¹⁷ Not all of these provisions are included or reflected in the same manner in NAFTA or the free trade agreements signed by Chile and Peru with the United States. The latter two agreements were signed well after NAFTA (in June 2003 and April 2006, respectively, while NAFTA was signed in December 1992) and therefore include a greater number of provisions that are stricter than those in the TRIPS Agreement.

The TPP negotiations followed this same pattern, characterized by tension between the positions of the United States (sometimes supported by Japan) and those of most of the other members. The analysis presented below focuses on five particularly relevant topics and is not an exhaustive assessment of the IP chapter; not least because such an assessment will only be possible once the provisions of the agreement have entered into force and have been put into practice. Often the provisions agreed are, to a certain extent, open to interpretation by the Parties, which can in some instances create conflict or in others prevent it.

Firstly, TPP increases substantially the range of patentable inventions (known as patentable subject matter) compared with NAFTA and the bilateral free trade agreements signed by Chile and Peru with the United States. In accordance with the provisions of the TRIPS Agreement, under these three treaties, patents may be awarded for any product or process that is new, involves an innovative step and is capable of industrial application. However, in line with United States legislation, TPP adds that patents shall be available for new uses of a known product, new methods of using a known product, or new processes of using a known product. The scope of this wording could allow patent holders to introduce minor innovations and thus extend the monopoly that those patents grant them, which in turn could delay the widespread dissemination of new technological advances.

Secondly, TPP is the first free trade agreement that explicitly includes provisions to protect test data required for granting marketing approval of a biologic medicine (Lincicome and Picone, 2016). The United States' initial proposal was that all TPP members should agree to 12 years of protection, as is the case under federal law. However, in the face of strong opposition, two alternative protection systems were agreed upon:

- (i) a period of at least eight years of protection for undisclosed data on the safety and efficacy of a new pharmaceutical product that contains a biologic, from the date of first marketing approval of that product in that Party; or
- (ii) a period of at least five years of data protection in combination with "other measures" (not specified in the text) that provide a level of protection comparable to that of the first option.

Chile has chosen the second option, since its industrial property law grants five years of protection for test data on all types of pharmaceutical products, whether chemical or biological. The Government of Chile understands that it does not need to amend its legislative framework to comply with the provisions of TPP.¹⁸ Mexico and Peru availed themselves of transition periods of five and ten years, respectively, to adapt their legislation to TPP obligations in this area. The ambiguity surrounding the "other measures" that would complement the five years of data protection could lead to bilateral arrangements to determine what would constitute compliance with this obligation (Artecona and Plank-Brumback, 2016).

A third important issue for Latin American countries is the linkage between the health authorities and patent office of each country. This obligation seeks to ensure that the health authority does not grant marketing approval for a generic pharmaceutical product until the patent protecting the original version has expired. This directly affects how and when the population can access generic medicines. There are two types of patent linkage: (i) "hard" linkage, which prohibits the marketing of a generic version of a medicine until the dispute between the patent holder and the party requesting the marketing approval is resolved in court; and (ii) "soft" linkage, which only requires the State to notify patent holders when a marketing approval application is made for a generic version of a protected medicine and to give them a reasonable period of time to take legal or administrative action.

¹⁸ See DIRECON, [online] <http://www.direcon.gob.cl/tpp/propiedad-intelectual/>.

TPP allows its members to choose between either a soft or a hard patent linkage system. Conversely, the free trade agreement between Chile and the United States only provides for the hard option, which has led to serious interpretive differences between the two countries in its implementation. In the end, they agreed that, upon the entry into force of TPP, its soft patent linkage system would replace the linkage disciplines of their bilateral free trade agreement. Thus, according to the Government of Chile, once TPP enters into force, only a court ruling can prevent health authorities granting a sanitary permit for generic pharmaceutical products during the period of protection of the patent (until its expiration).¹⁹ In the case of Peru, its national legislation and the disciplines of its free trade agreement with the United States are in line with soft linkage system and, therefore, its regulatory framework need not change. Therefore, on this issue, TPP is more flexible than some of the free trade agreements negotiated by countries of the region with the United States.

A fourth issue that has given rise to controversy in various TPP member countries, including those of the region, is copyright protection in the digital environment. The United States' original proposal in this area was to replicate its national "notice and take down" system in TPP partner countries. Under this system, if an Internet service provider receives notice that certain content on networks or sites that it administers would infringe a copyright, they must be taken down immediately to avoid any liability and penalties. TPP contains provisions similar to this system, but with some exceptions and greater flexibility. Chile, for example, will be able to maintain the regulations implemented in 2010, based on the disciplines of its bilateral free trade agreement with the United States, which require a court ruling before content can be taken down or deleted.²⁰ The same is true for Peru, whose free trade agreement with the United States contains similar provisions, and which noted that TPP leaves room for the development of domestic policies on access to information (MINCETUR, 2015). Meanwhile, Mexico has availed itself of a three-year transitional period to implement TPP obligations in this area.

A fifth controversial issue is the requirement that TPP member countries accede to the 1991 International Convention for the Protection of New Varieties of Plants (UPOV Convention). This Convention governs the International Union for the Protection of New Varieties of Plants (UPOV), an intergovernmental body that seeks to promote the creation of new varieties of plants. To this end, it grants breeders of these varieties a sui generis type of protection (the breeder's rights) for a period of at least 20 years and of at least 25 years in the case of trees and vines. During this period, the following acts in respect of the propagating material of the protected variety shall require the authorization of the breeder: (i) production or reproduction; (ii) conditioning for the purpose of propagation; (iii) offering for sale; (iv) selling or other marketing; (v) exporting; (vi) importing; and (vii) stocking for any of the aforementioned purposes.²¹

In the framework of the 1991 Act of the UPOV Convention, the conditions of protection for a plant variety are that it is new, distinct, uniform and stable. This can be achieved by traditional methods or, alternatively, by creating genetically modified (transgenic) organisms. The latter process raises a number of concerns, including about its potential impact on human health, its adverse effects on the environment and biodiversity, and the lack of regulatory frameworks in some countries for the control of these products. It has also been argued that the Convention could restrict the so-called "farmer's privilege" (the right to use for seed the harvest of a protected plant variety on their own land) and seed exchange between smallholders (Alfaro, 2016). Seed exchange is a long-standing tradition in many developing countries, including in Latin America. There is also concern about the potential concentration of breeders' rights in the hands of a few multinational corporations.²²

TPP rules on intellectual property are stricter than WTO provisions.

¹⁹ Ibid.

²⁰ Ibid.

²¹ TPP also requires its members to offer patent protection for inventions derived from plants.

²² At the time of writing, a merger had been agreed upon between two of the world's largest agrochemical companies, Bayer and Monsanto.

Chile had already undertaken to accede to the 1991 Act of the UPOV Convention within the framework of its free trade agreements with the United States, Japan and Australia; so TPP does not contain any major obligations for Chile in this regard. However, the inclusion of the Convention provisions in Chilean regulations has been highly controversial, and a bill to do that was withdrawn from Congress in March 2013, so that it could be redrafted.²³ Peru made the same commitment in its free trade agreement with the United States and acceded to the Convention in 2011. Mexico however is not yet a party to that treaty, but has a four-year transition period from the entry into force of TPP in which to join.

As TPP was a plurilateral negotiation, the United States faced a greater counterweight than in previous bilateral negotiations. As a result, it had to forgo several of its initial IP demands, such as the extension of the term of protection of copyright to 90 and even 120 years after the death of the author, 12 years of protection for test data on biologic medicines and the obligation to patent plants and animals (except microorganisms) and surgical procedures, among other matters. However, in other areas, TPP substantially raises IP protection levels compared with previous agreements signed by Chile, Peru and particularly Mexico with the United States (see table III.9). A striking example, with profound implications for innovation policies, is the expansion of patentable subject matter. Overall, TPP is the free trade agreement with the highest levels of IP protection in the world to date.

Table III.9

Comparison of the intellectual property provisions of the Trans-Pacific Partnership (TPP) with the North American Free Trade Agreement (NAFTA) and the free trade agreements signed by Chile and Peru with the United States

TPP intellectual property obligations far exceed those contained in NAFTA

Issue	NAFTA	Free trade agreement between Chile and the United States	Free trade agreement between Peru and the United States
Definition of patentable subject matter	+	+	+
Exclusivity of test data for biologic pharmaceuticals	+	=	+
Linkage between health authorities and the patent office for pharmaceutical products	+	-	=
Copyright protection in the digital environment	+	=	=
Accession to the International Convention for the Protection of New Varieties of Plants	+	=	=

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of analysis of the respective agreements' legal texts.

Note: The plus sign (+) indicates that the TPP commitment is more demanding than in the earlier agreement; the minus sign (-) signifies that it is less demanding; and the equal sign (=) that it is identical or equivalent to that of the earlier agreement.

4. E-commerce: a new regulatory framework for the digital economy of the twenty-first century?

The world economy is going through a period of intense digital globalization (see chapter I and ECLAC, 2015). While world trade in physical goods has lost a considerable amount of momentum since the global crisis of 2008-2009, cross-border digital flows have grown by a factor of 45 between 2005 and 2014. Currently, approximately 12% of the global goods trade is conducted via digital platforms, such as Amazon, eBay or Alibaba, and nearly half of world's traded services are already digitized (McKinsey Global Institute, 2016).

²³ See DIRECON [online] <https://www.direcon.gob.cl/tpp/upov-91/>.

In some industries, there is a high degree of substitution between physical goods and their digital equivalents, such as books, films and music recordings. The growing importance of digital goods is blurring the line between goods and services, posing new challenges to the regulation of world trade. Meanwhile, the development of 3D printing technology allows imported inputs to be replaced in various industries, stimulating the incipient reshoring processes seen in some countries, especially the United States. This trend should accelerate in the coming years, reconfiguring regional and global value chains.

In this context, one of the most notable features of TPP is its emphasis on regulating the digital economy. This stems from the United States' interest in preserving its leading role in the face of emerging competitors such as China, which in recent years has pursued an aggressive digital industrial policy (Azmeah and Foster, 2016). While the space for developing traditional industrial policies (for example, through tariff protection, subsidies and domestic content requirements) has been reduced markedly as a result of WTO agreements and North-South trade and investment arrangements, the digital economy remains largely unregulated. This means that governments have more room to implement measures such as blocking specific Internet sites, imposing network location server requirements or compelling foreign providers to reveal the source code of their software.

TPP is the first trade agreement that contains detailed provisions regulating e-commerce. While its scope would be limited to its member countries in the short term, the agreed disciplines—together with those that may emerge during the Transatlantic Trade and Investment Partnership (TTIP) negotiations—could become a model for a future WTO multilateral agreement. In this context, the TPP chapter on e-commerce reflects objectives previously set by the United States in its digital trade agenda, including:

- Prohibiting digital customs duties or other favourable treatment of national suppliers of digital products
- Not requiring foreign suppliers to locate computing facilities (for example, data centres) in a Party's territory as a condition for conducting business in that territory²⁴
- Not requiring foreign suppliers to transfer the source code of their software as a condition for the import, distribution, sale or use of such software, or products containing such software
- Prohibiting the arbitrary blocking of access to Internet sites
- Allowing the cross-border transfer of information by electronic means by companies, subject to certain restrictions adopted to achieve legitimate public policy objectives, such as protecting consumer privacy.

Several of these provisions are clearly meant to counter measures that China has implemented in recent years in an effort to gain ground on the United States. While very few developing countries have adopted such an aggressive digital industrial policy as China, acceding to TPP severely limits the scope for them to do so in the future.

²⁴ Companies that provide cross-border financial services are exempt from this prohibition.

5. State-owned enterprises: in search of competitive neutrality

Today, State-owned enterprises have a large share in global trade and increasingly compete with private firms, sometimes benefiting from preferential financial or legal treatment by their respective governments. This is particularly the case in Asian countries such as China or Viet Nam. In general, trade agreements have had little effect on the actions of these enterprises. In this context, TPP establishes a legal framework designed to level the playing field between State-owned and private enterprises in trade and investment, in line with the principle of competitive neutrality.

TPP defines State-owned enterprises as those in which a Party: (i) directly owns more than 50% of the share capital; (ii) controls, through ownership interests, the exercise of more than 50% of the voting rights; or (iii) holds the power to appoint a majority of members of the board of directors or any other equivalent management body. Following TPP provisions, these companies must act in accordance with commercial considerations in their purchase or sale of goods or services; in other words, granting most-favoured-nation treatment and non-discriminatory treatment to companies from other TPP partners. Therefore, non-commercial assistance shall not be provided to State-owned enterprises (for example, financing on terms more favourable than those commercially available) with respect to the production and sale of a good and the supply of a service, which could cause adverse effects to the interests of another Party. These obligations are subject to dispute settlement.

A key objective in the State-owned enterprises chapter is to achieve greater transparency. All Parties to TPP must make publicly available a list of their State-owned enterprises. In addition, if a Party believes that the activities of a State-owned enterprise may be affecting trade or investment, it may submit a written request for information to the relevant Party concerning the activities, shares, profits and losses, financial reports and audits of that entity, among other things. Moreover, TPP provides that national courts shall have jurisdiction over civil claims against a State-owned enterprise based on a commercial activity.

The Latin American Parties to TPP excluded some State-owned enterprises from these obligations. For example, Mexico excluded, among others, *Petróleos Mexicanos* (PEMEX) and the National Centre for Natural Gas Control (CENEGAS). Chile exempted the National Petroleum Corporation (ENAP), the National Copper Corporation (Codelco), the National Mining Corporation (ENAMI), and the Metro Transportation Company. Lastly, Peru excluded *Petróleos del Perú* (PETROPERU).

6. Labour and environmental issues: towards greater coherence between trade regulation and sustainable development?

TPP provisions on labour issues include various commitments based on the International Labour Organization Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted in 1998. TPP stipulates that Parties must adopt and maintain a legal framework that recognizes: (i) the freedom of association and the effective recognition of the right to collective bargaining; (ii) the elimination of all forms of forced or compulsory labour; (iii) the effective abolition of child labour and other labour protections for children and minors; and (iv) the elimination of discrimination in respect of employment and occupation. These commitments are in line with

those in the most recent free trade agreements signed by the United States with Peru, Colombia, Panama and the Republic of Korea. In addition, TPP contains other provisions designed to raise Parties' labour standards, such as the following:

- Prohibiting the encouragement of trade or investment by weakening labour laws, including in free trade zones.
- Discouraging, through appropriate initiatives, the importation of goods produced by forced labour, including forced child labour.
- Encouraging enterprises to adopt corporate social responsibility initiatives on labour issues.

The provisions agreed to in the chapter on labour are binding and therefore subject to dispute settlement. However, the Parties must submit to a mandatory labour consultation procedure before they can have recourse to dispute settlement.

TPP stipulates that Parties shall not waive their environmental laws in a manner that weakens or reduces the protection afforded in those laws in order to encourage trade or investment. Other binding agreements include a requirement for each Party to operate a fisheries management system that regulates marine wild capture fishing, in order to prevent overfishing and overcapacity, reduce bycatch and promote the recovery of overfished stocks. Similarly, subsidies shall not be granted or maintained for fishing or for any fishing vessel that negatively affect fish stocks that are in overfished condition.

The agreement also includes commitments previously agreed to in multilateral environmental agreements, in particular measures to: (i) control the production and consumption of substances that can deplete and otherwise modify the ozone layer; (ii) prevent the pollution of the marine environment; and (iii) combat the illegal take of and illegal trade in wild fauna and flora. Chile, Mexico and Peru are already signatories of the respective international agreements on which these obligations are based.

Furthermore, TPP includes a set of voluntary measures. For example, it seeks to encourage the transition to a low emissions and resilient economy, based on domestic circumstances and capabilities, and driven by collective action. Areas of cooperation to this end include energy efficiency, alternative energy sources, sustainable transport and urban infrastructure development, emissions monitoring and the development of low emissions technologies.

The binding obligations contained in the environment chapter are subject to the TPP dispute settlement mechanism. However, as with labour disputes, there is an extensive prior consultation procedure aimed at finding a mutually satisfactory resolution, which Parties must exhaust before a dispute can be initiated.

D. Strategic implications for the region and the world

In the light of the challenges facing WTO as a forum for negotiating the new rules of world trade, commitments negotiated under megaregional agreements such as TPP could well become global standards. The potential significance of TPP is even greater in the context of the downturn in international trade seen since 2011. Meanwhile, some of the TPP provisions (on labour, the environment and small and medium-sized enterprises, among others) appear to reflect an attempt to achieve greater coherence between the governance of international trade and the pursuit of sustainable development, embodied in the recent 2030 Agenda for Sustainable Development.

TPP is the first trade agreement that contains detailed provisions regulating e-commerce.

The United States has attempted to achieve three strategic objectives through TPP: to strengthen its presence in the dynamic Asia-Pacific region, counterbalancing China's growing influence; to write new rules for global trade and investment in the coming decades; and to update the provisions of NAFTA, which are nearly 25 years old. In particular, TPP provisions on e-commerce, intellectual property, services and investment create a regulatory framework aimed at strengthening United States leadership in the digital economy. Consequently, the Partnership should not be evaluated solely or mainly on the basis of traditional market access criteria.

For TPP to enter into force, it must be ratified by at least six of its members, who together represent at least 85% of the total GDP of the 12 signatory countries. This means that its entry into force is impossible without ratification by the United States and Japan. Consequently, the opposition of the President-elect of the United States to TPP means that its entry into force is in serious doubt.

TPP has an accession clause, under which new countries can accede to the agreement once it enters into force. This would increase its commercial and strategic value, especially in the case of large economies deeply embedded in Asian value chains, such as the Republic of Korea and Thailand. Both countries have, at different times, expressed their interest in acceding to the Partnership. Similarly, in the region, Colombia, Costa Rica, Honduras and, most recently, Nicaragua have shown an interest in acceding.

As indicated in the introduction, two basic evaluation criteria of TPP are to what extent it will contribute to the productive and export diversification processes in Chile, Mexico and Peru and to what degree it may restrict their policy space. With regard to the first criterion, at the aggregate level, market access benefits for those countries will be minimal. However, the opening of markets under the agreement would create new opportunities for their agricultural and agro-industrial exports to countries with high purchasing power, such as Canada and Japan, or with high economic and demographic growth, such as Viet Nam. Likewise, allowing the cumulation of origin between Chile, Mexico and Peru and with other TPP partners could promote production chains and better integrate them into international value chains. In any case, industrial, technological and innovation policies are needed to take advantage of these are opportunities. The experience of the countries of the region with free trade deals suggests that the entry into force of TPP would not, by itself, be sufficient to initiate productive and export diversification processes.

As for the restrictions on policy space, TPP would promote a process of regulatory harmonization among its members, despite their very different levels of economic and institutional development and diverse political and legal systems. However, the intensity of this process will vary greatly from one country to another. It can be concluded from this analysis that the burden of new obligations under TPP would be less onerous for the three participating Latin American countries than for the other developing countries that are TPP members. This is mainly because Chile, Mexico and Peru have had treaties in force with the United States for many years, under which they have made commitments in highly sensitive areas, such as on intellectual property, investment, services, government procurement and labour and environmental issues, which were subsequently reflected in TPP. In contrast, Brunei Darussalam, Malaysia and Viet Nam, which had no pre-existing free trade agreements with the United States, will have to make greater efforts to modify their regulatory frameworks in various areas in order to comply with TPP.²⁵ Nevertheless, a full evaluation of the

²⁵ For example, under the intellectual property chapter, Chile did not avail itself of a transition period for the implementation of any obligation, Peru did with respect to 2 obligations, Mexico with respect to 6, Brunei Darussalam with respect to 7, Malaysia with respect to 12, and Viet Nam with respect to 26. Brunei Darussalam, Malaysia and Viet Nam are also the only Parties to TPP that had to negotiate their own labour consistency plans with the United States to adapt their labour laws and practices to the commitments contained in that agreement.

implications of TPP for participating Latin American countries requires an in-depth analysis of the results in all areas of negotiation.

Assessing the potential impact of TPP on countries of the region that are not parties to the agreement is an even more complex task. Some of these countries may see a significant displacement of their exports to TPP markets, particularly the United States, as they do not benefit from tariff and other preferences negotiated by TPP members. They could also receive reduced FDI inflows directed at exports to TPP markets. However, the scale and sectoral composition of these displacements will depend on factors such as the importance of TPP markets for each country, the type of products exported to those markets and the existence of trade agreements linking them to TPP members. Nevertheless, the reduction of non-tariff barriers to trade among TPP countries, as a result of the expected regulatory harmonization, may also favour trade with third countries. This is because commitments such as the harmonization of technical regulations or documentation for foreign trade are, by their very nature, applied on a most-favoured-nation (i.e. non-preferential) basis.

If it enters into force, TPP will coexist with the numerous pre-existing agreements among its members. Such overlapping regulations could lead to conflicting interpretations where an issue is subject to the provisions of two or more agreements. This would undermine one of the main anticipated advantages of TPP: to establish a common set of rules for trade and investment relations among its members. Thus hypothetically, TPP could (at least initially) accentuate, rather than mitigate, the spaghetti bowl effect that is increasingly the hallmark of trans-Pacific trade relations.

In the medium term, TPP could form the foundation for a Free Trade Area of the Asia-Pacific (FTAAP) among the 21 economies that make up the Asia-Pacific Economic Cooperation (APEC) forum. This project, which was first discussed by APEC leaders in 2004, has been given fresh impetus since 2014, mainly by China.²⁶ Establishing FTAAP would probably require a gradual convergence between TPP and other large-scale economic integration projects currently under negotiation in the Asia-Pacific region, in particular the Regional Comprehensive Economic Partnership (RCEP). Seven RCEP participants (Australia, Brunei Darussalam, Japan, Malaysia, New Zealand, Singapore and Viet Nam) are also Parties to TPP. In any case, any convergence between these two projects would be highly complex, as the diverging views of the United States and China on the regulation of trade and foreign investment would have to be reconciled.

Lastly, if it should enter into effect, TPP would also have important implications for the future of regional economic integration processes in Latin America and the Caribbean. The three Latin American Parties to the agreement are also members of the Pacific Alliance, while the fourth member of the Alliance, Colombia, has expressed an interest in acceding to TPP. A hypothetical scenario in which the Pacific Alliance is, in effect, subsumed by TPP could harden the Alliance's negotiating position in a possible process of convergence with MERCOSUR. If that were to happen, it would make it more difficult to reach agreements that tap the potential of an expanded regional market, which is imperative given that regional megablocs are being created around the world. It is therefore crucial that Chile, Mexico and Peru maintain autonomous spaces that allow the Pacific Alliance to continue to play a constructive role in regional convergence processes in the years to come.

²⁶ The APEC Economic Leaders Summit, held in Beijing in November 2014, endorsed a road map to accelerate efforts on realizing FTAAP, although it does not set a time frame.

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