Latin America and the Caribbean in the World Economy

The region amid the tensions of globalization
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**Explanatory notes:**

- Three dots (...) indicate that data are not available or are not separately reported.
- A dash (-) indicates that the amount is nil or negligible.
- A full stop (.) is used to indicate decimals.
- The term “dollars” refers to United States dollars, unless otherwise specified.
- A slash (/) between years (e.g. 2013/2014) indicates a 12-month period falling between the two years.
- Figures and percentages in tables may not necessarily add up to the corresponding totals due to rounding.
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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, regulatory coherence 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 swaths of the population in these countries are questioning the benefits of trade and investment by foreign companies (see figure 1).

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

<table>
<thead>
<tr>
<th>Statement</th>
<th>France</th>
<th>Italy</th>
<th>Japan</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade destroys jobs</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Trade lowers wages</td>
<td>50%</td>
<td>40%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Foreign companies buying domestic companies is bad</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
<td>30%</td>
</tr>
</tbody>
</table>


Global median excludes the four countries presented individually.

The rising resistance to hyperglobalization stems from different types of growing 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%).

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) and trigger a financial crisis (see figure 3).
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 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 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.
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)

<table>
<thead>
<tr>
<th></th>
<th>Latin America and the Caribbean</th>
<th>Developing Asian countries</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total goods</td>
<td>5.7</td>
<td>5.5</td>
<td>20.0</td>
</tr>
<tr>
<td>High-technology goods</td>
<td>8.0</td>
<td>5.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Total services</td>
<td>4.1</td>
<td>3.4</td>
<td>14.0</td>
</tr>
<tr>
<td>Modern services*</td>
<td>2.4</td>
<td>1.9</td>
<td>6.4</td>
</tr>
</tbody>
</table>

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

* 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.
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)

<table>
<thead>
<tr>
<th>Category</th>
<th>A. Projected annual rate of variation, 2016</th>
<th>B. Share in total imports, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
<td>-4</td>
<td>Consumer goods (19)</td>
</tr>
<tr>
<td>Capital goods</td>
<td>-7</td>
<td>Capital goods (16)</td>
</tr>
<tr>
<td>Intermediate inputs</td>
<td>-10</td>
<td>Intermediate inputs (55)</td>
</tr>
<tr>
<td>Fuels</td>
<td>-21</td>
<td>Fuels (10)</td>
</tr>
</tbody>
</table>

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

On 4 February 2016, 12 countries from Latin America and the Caribbean, North America, Asia and Oceania\(^1\) 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 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 accords 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.

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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)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Projected variation</th>
<th>Main potential winners (TPP members)</th>
<th>Main potential losers (Latin American and Caribbean countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TPP members</td>
<td>Latin America and the Caribbean</td>
<td></td>
</tr>
<tr>
<td>Agriculture, hunting and fishing</td>
<td>2.2</td>
<td>-0.1</td>
<td>New Zealand, Canada and Viet Nam</td>
</tr>
<tr>
<td>Oil and mining</td>
<td>7.4</td>
<td>-0.6</td>
<td>Canada</td>
</tr>
<tr>
<td>Food, beverages and tobacco</td>
<td>4.3</td>
<td>-0.3</td>
<td>Canada, New Zealand and Malaysia</td>
</tr>
<tr>
<td>Wood, paper and cardboard</td>
<td>1.6</td>
<td>0</td>
<td>Japan</td>
</tr>
<tr>
<td>Textiles and apparel</td>
<td>37.1</td>
<td>-1.4</td>
<td>Viet Nam, Malaysia and Japan</td>
</tr>
<tr>
<td>Leather and footwear</td>
<td>63.1</td>
<td>-0.1</td>
<td>Viet Nam and Malaysia</td>
</tr>
<tr>
<td>Chemicals and pharmaceuticals</td>
<td>8.0</td>
<td>-0.7</td>
<td>Viet Nam</td>
</tr>
<tr>
<td>Rubber and plastic</td>
<td>15.3</td>
<td>-0.1</td>
<td>Japan, Canada and Mexico</td>
</tr>
<tr>
<td>Non-metallic minerals</td>
<td>10.2</td>
<td>-0.1</td>
<td>Japan, Canada and Malaysia</td>
</tr>
<tr>
<td>Metals and derivatives</td>
<td>7.3</td>
<td>-0.3</td>
<td>Japan and Viet Nam</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>13.4</td>
<td>-0.5</td>
<td>Japan, Viet Nam and Malaysia</td>
</tr>
<tr>
<td>Automobiles and auto parts</td>
<td>6.6</td>
<td>-0.2</td>
<td>Japan, Mexico and Canada</td>
</tr>
<tr>
<td>Other manufactures</td>
<td>3.2</td>
<td>-0.1</td>
<td>Canada, Mexico and Japan</td>
</tr>
<tr>
<td>Total</td>
<td>9.9</td>
<td>-1.0</td>
<td>Japan, Mexico and Canada</td>
</tr>
</tbody>
</table>

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

* Excluding Chile, Mexico and Peru.

** 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

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

* 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 effect. 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.