International Trade Outlook
for Latin America and the Caribbean
Pursuing a resilient and sustainable recovery
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International Trade Outlook
for Latin America and the Caribbean
Pursuing a resilient and sustainable recovery
International Trade Outlook for Latin America and the Caribbean, 2021 is an annual report prepared by the Division of International Trade and Integration of the Economic Commission for Latin America and the Caribbean (ECLAC).

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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 word “dollars” refers to United States dollars, unless otherwise specified.
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Introduction
This edition of *International Trade Outlook for Latin America and the Caribbean* covers 2021 and is divided into three chapters. Chapter I reviews the recent performance of global and regional trade following the crisis caused by the coronavirus disease (COVID-19) pandemic. Growth in world goods trade for 2021 is projected to be the strongest since 2010, driven by the gradual lifting of mobility restrictions, progress in vaccination efforts and economic stimulus programmes. Latin American and Caribbean goods trade has also recovered substantially in 2021 on the back of higher commodity prices for its main exports, stronger demand from its main trading partners and the pick-up in economic activity in the region. In contrast, exports of regional services have yet to bounce back from the pandemic-induced collapse in international tourism.

The pandemic triggered a significant loss of export capacity in the region, affecting micro, small and medium-sized enterprises in particular. This is largely due to the fall in intraregional trade observed since the beginning of 2019 and exacerbated by the COVID-19 crisis. This situation underscores the urgent need to deepen regional integration to bring about a sustainable and transformative recovery. In a global context in which the major economic powers are looking to enhance their strategic autonomy by advancing their own processes to regionalize trade and production, such integration is imperative. This reflects a number of factors in play that are redefining the organization of international trade, including the increasing digitization and automation of production processes, geopolitical tensions, the rising costs of maritime transport and the need to reduce the environmental footprint of production chains.

Chapter II analyses the region’s trade performance in the health industry. The COVID-19 pandemic has underscored the strategic nature of this industry, not only because of its direct link to public health, but also because it is an innovative sector with significant technological externalities. It has also highlighted how vulnerable the region is made by its heavy dependence on extraregional imports. The analysis focuses on two main sectors: the pharmaceutical industry and the medical devices industry. In the first, the region has registered a significant drop in exports over the last decade and a persistent trade deficit. The region’s export performance in the second sector has been much more robust, although shipments are concentrated almost exclusively in three countries. Another significant difference is the role of the regional market, which absorbs almost half of pharmaceutical exports from Latin America and the Caribbean but a mere 2% of medical device shipments. The chapter concludes with some recommendations for fostering productive self-sufficiency in the region by increasing coordination and integration in the areas of trade, production and health. It is essential to implement policies to promote greater integration of national markets in order to create a large, stable market that will allow for competitive scales of production. Cooperation between national regulatory authorities in the health sector is a prerequisite for the creation of a regional market.

Chapter III examines the contribution of international trade in the transition to a circular economy. Unlike in a linear economy, actors in circular production and consumption chains seek to: (i) reduce the use of material resources, (ii) extend the useful life of goods, and (iii) recover materials and nutrients at the end of the useful life of goods. When countries do not have the scale or technology required at national level for recycling, reuse or remanufacturing processes, trade enables the transfer of products to other countries in which these conditions do exist. Trade can also open up wider markets for developing new products and services based on circular strategies. The greatest potential for Latin America and the Caribbean lies in the valorization of agricultural waste, especially residues from vegetable oil extraction, which can be converted into inputs for new industrial
processes in the food and pharmaceuticals industries and the production of bioplastics. The region also has an opportunity to improve circularity in production chains such as the pulp-paper-paperboard chain and other manufactures as well as in tourism. Leveraging this potential could be achieved by harmonizing trade and circular economy agendas in the region. By integrating the circular economy into trade agreements, the region would benefit from greater access to markets and enhanced cooperation between partners. At the same time, incorporating trade into circular economy agendas would promote the creation of global markets, foster international harmonization of standards and reduce unnecessary trade barriers.
Summary

A. Global and regional trade are recovering amid heightened uncertainty
B. The challenge of regional productive self-sufficiency in the health-care industry
C. How international trade contributes to the circular economy
A. Global and regional trade are recovering amid heightened uncertainty

The contraction in the volume of global goods trade in 2020, in the wake of the coronavirus disease (COVID-19) pandemic, was the first since the slump of 2009 caused by the global financial crisis. However, this time the reduction was much smaller: -5.3% compared to -12.6% in 2009. After registering the steepest year-on-year fall since the start of the pandemic (-16.9%) in May 2020, global goods trade has recovered strongly (see figure 1). This is the result of the gradual lifting of mobility restrictions, progress in the vaccination roll-out in the main economies, and the economic stimulus programmes adopted since the outbreak of the pandemic (especially in the developed countries). In this context, the volume of global goods trade is projected to grow by 10.8% in 2021, the largest expansion since 2010. Further growth of 4.7% is projected for 2022, which is double the average growth of world trade between 2012 and 2019 (2.4% per year).

Figure 1
Year-on-year variation in the volume of world goods trade, January 2017–August 2021 (Percentages)

The prediction of a major recovery in world trade in 2021 needs to be tempered for at least three reasons. First, the recovery is only clearly visible in goods trade, while trade in services continues to be hampered by the various movement restrictions affecting international tourism. Second, the buoyancy of global goods trade flows in the first eight months of 2021 has tended to falter in the latter part of the year, suggesting that the recovery largely reflects the statistical effect of the low base of comparison in the first half of 2020. Third, several factors could impede the course of global trade in the coming months. These include renewed COVID-19 outbreaks (such as the new Omicron variant), the unequal distribution of global vaccination coverage, various pandemic-induced disruptions to global supply chains (in particular, the steep rises in maritime freight rates), the problems affecting the real estate sector in China, and the difficulty of sustaining fiscal stimulus measures should the effects of the pandemic persist beyond 2021.
The strongest recovery in export volumes in the first eight months of 2021 occurred in China, followed by Japan and the emerging Asian economies (see table 1). While shipments from Latin America and the Caribbean expanded by less than the global average, the region’s import volumes grew by more than double that average, as economic activity recovered following the 6.8% slump in regional GDP in 2020.

| World and selected groupings and countries: variation in the volume of global goods trade, January–August 2021 relative to same period in 2020 (Percentages) |
|---|---|
| **Exports** | **Imports** |
| World | 12 | 11 |
| Advanced economies | 12 | 10 |
| United States | 10 | 14 |
| Japan | 18 | 5 |
| Eurozone | 12 | 10 |
| Emerging economies | 14 | 15 |
| China | 27 | 12 |
| Emerging economies of Asia (excluding China) | 18 | 21 |
| Eastern Europe and Commonwealth of Independent States | 2 | 11 |
| Latin America and the Caribbean | 7 | 24 |
| Africa and the Middle East | -2 | 2 |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor.

The recovery of goods trade in Latin America and the Caribbean is being driven by three key factors: (i) higher prices for several of the region’s main export commodities (see figure 2); (ii) increased import demand in China, the European Union and the United States; and (iii) the recovery of economic activity in the region itself.

**Figure 2**

Selected products: price variation, January–October 2021 relative to the same period in 2020 (Percentages)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from World Bank, Commodity Markets Outlook: Urbanization and Commodity Demand, October 2021, Washington, D.C.; International Monetary Fund (IMF); Economist Intelligence Unit; Bloomberg; Capital Economics; Energy Information Administration (EIA) and Central Bank of Chile.

The region’s service exports contracted much more sharply than its goods exports in 2020 (-36% and -10% in value terms, respectively). This mainly reflected the slump in tourism (-64%), which was hit hard by mobility restrictions. The recovery has not yet extended to service exports, the value of which was down by 9.9% year-on-year in the first half of 2021. Their performance in the coming months will depend on how the reopening of tourism progresses. As of August, international tourist arrivals were still well below their peak level in 2019.
For 2021 as a whole, the Economic Commission for Latin America and the Caribbean (ECLAC) projects a 25% increase in the value of regional goods exports, based on a 17% rise in prices and an 8% expansion in volume. The value of goods imports is expected to increase by 32%, as a result of a 20% increase in volume and a 12% rise in prices. South America is forecast to record the largest increase in export value in 2021 (34%), since its export specialization means that it will benefit especially from higher commodity prices. The Caribbean is in a similar situation and can expect to benefit from the high prices of oil, gas and bauxite exported by Guyana, Trinidad and Tobago and Jamaica, respectively. At the opposite extreme, Mexican exports (which consist mostly of manufactured goods) are expected to grow by 17% in value terms, driven mainly by increased volumes, with a similar situation prevailing in Central America. In the case of imports, values are expected to grow by more than 25% in all subregions and also in Mexico (see figure 3).

Figure 3
Latin America and the Caribbean (subregions and selected countries): projected variation in goods trade, 2021 (Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs services and statistical institutes of the countries of the region.
Among the region’s main trading partners, the most dynamic flows in 2021 are projected to be those with Asia and those within the region itself (see figure 4). The projected 35% increase in the value of exports to China is consistent with the structure of shipments to that country. These consist almost exclusively of raw materials and processed natural resources, so their value is increasing because of the higher prices of these products. Intraregional trade has recovered in 2021 following the slide that began in February 2019 and accelerated abruptly during the pandemic. Several manufacturing sectors, such as metalworking (+83%), automotive industry (+66%) and textiles, apparel and footwear (+54%), posted high year-on-year increases in intraregional shipments during the first half of the year. Nonetheless, the regional market share in total goods exports is expected to be 13% in 2021, well down from its peak of 21% in 2008.

Figure 4
Latin America and the Caribbean: projected annual variation in goods trade value by main partner, 2021
(Percentages)

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

In the South American countries, the faster rise in the prices of goods exports compared to those of imports signal an improvement in the terms of trade in 2021. This will mainly be the case in hydrocarbon exporting countries, whose terms of trade are projected to rise by 15%, followed by exporters of agroindustrial products (Argentina, Uruguay and Paraguay) and mining products (Chile and Peru) (see figure 5). Brazil is likely to benefit the most, as a result of higher prices for iron ore and other minerals, oil and various agribusiness products. In contrast to the outlook for South American countries, the terms of trade of subregions and countries that depend heavily on imports of fuels and other raw materials are projected to deteriorate. This is the case of Central America, most Caribbean countries and Mexico.
The region as a whole is expected to report a US$ 24 billion surplus in its goods trade in 2021 (see figure 6). This is less than in 2020 owing mainly to the robust recovery of import volumes. The joint surplus of members of the Southern Common Market (MERCOSUR) is set to grow from US$ 55 billion in 2020 to US$ 82 billion in 2021. In contrast, the Central American and Caribbean countries will see their 2020 trade deficit widen.
The recovery of regional trade displays major similarities with the recent trend in world trade, and its short-term prospects are subject to similar risks. However, there are specific factors that determine the evolution of trade in the region, which stem from its export specialization pattern. In goods trade, the recovery of shipments in 2021 will be driven to a much greater extent by exogenous factors (the rise in commodity prices) than by the capacity to increase the volume exported. Although the prices of many commodities exported by the region are at high levels, there are no data to confirm the presence of a new super-cycle. In the case of trade in services, the region’s reliance on tourism far exceeds the world average; so the uncertainty surrounding the reopening of this sector is weighing on the prospects of several economies, especially in the Caribbean.

The pandemic caused a substantial erosion of the business fabric, particularly affecting micro, small and medium-sized enterprises (MSMEs) that export to the regional market. This is consistent with the shrinking of intraregional trade observed since early 2019, which worsened as a result of the pandemic. This situation should trigger reflection on the urgent need to deepen regional economic integration, especially in a global context in which the major economic powers are seeking to advance their own processes of regionalization in trade and production. Advancing towards an integrated regional market is essential, not only to generate efficient production scales and promote production and export diversification processes but also to achieve greater self-sufficiency in strategic sectors. This latter objective has become particularly important in the context of the disruptions to global supply chains caused by the pandemic.

B. The challenge of regional productive self-sufficiency in the health-care industry

The health-care industry encompasses production activities in which biology and technology are applied to improve health, such as biopharmaceuticals, medical technology, genomics, diagnostics and digital health. The COVID-19 pandemic has underscored the strategic nature of this industry, not only because of its direct link to public health, but also because it is an innovative sector with significant technological externalities. Global exports of health-care industry products totalled about US$ 1.1 trillion in 2020, equivalent to 6% of global trade in goods in that year. The pharmaceutical industry (drugs and their raw materials) contributed just over US$ 700 billion (66%), with the remainder (US$ 364 billion) being accounted for by medical devices (34%). While the value of global goods exports fell by 7.5% in 2020 as a result of the COVID-19 pandemic, the value of health industry shipments grew by 9%.

Health industry exports are concentrated in developed countries. The main exceptions are India in medicines and China in the case of medical devices (see figure 7). While India is the world’s leading exporter of generic drugs, China became the world’s leading exporter of medical devices in 2020. Mexico was the only Latin American or Caribbean country among the top 40 global exporters of medicines in 2020, ranked thirty-fourth, with a share of 0.15%. In the case of medical devices, Mexico ranked ninth (3%), followed by Costa Rica in eighteenth place (1.1%).
Latin America and the Caribbean accounted for 1.1% of global exports of pharmaceutical products between 2018 and 2020. The value of its shipments dropped by 28% from a peak of US$ 9.845 billion in 2012 to just over US$ 7 billion in 2020. The region runs a persistent deficit in its trade in pharmaceutical products, and the value of its imports in 2020 was almost five times that of its exports (see figure 8). Virtually all countries in the region have trade deficits in this sector. The heavy dependence on extraregional supplies of patented medicines with valid patents and active ingredients for the manufacture of generic drugs explains the persistent trade deficit. This pattern is consistent with the region’s tiny share of pharmaceutical patents granted worldwide, which is less than 1%. 

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, UN Comtrade Database [online] https://comtrade.un.org/.
In contrast to the pharmaceutical sector, regional exports of medical devices grew by 86% in value terms between 2010 and 2019, to US$ 16.4 billion (twice the value of pharmaceutical exports in the same year). The region accounts for 5.5% of global exports of medical devices and even ran a trade surplus in this segment between 2016 and 2019.

Argentina, Brazil and Mexico account for 58% of the total value of the region’s exports of pharmaceutical products in 2018–2020 (see figure 9.A). Among the smaller economies, the Dominican Republic is the fifth largest regional exporter. In that period, the main destinations for regional exports were the region itself (46%) and the United States (25%). The main source of the region’s imports of pharmaceutical products is the European Union, which supplied 50% of the total on average between 2018 and 2020, followed by the United States (19%). Although imports from the region itself accounted for just 13% of the total, the intraregional share of purchases by the smaller economies is much higher. In Brazil and Mexico, the region’s two largest producers of pharmaceutical products, only 1%–2% of imported pharmaceutical inputs came from the region in 2019, which displays scant intraregional integration of production.
The region’s export dynamism in the medical devices sector is almost entirely explained by the performance of Costa Rica, Mexico and, to a lesser extent, the Dominican Republic, which accounted for 94% of the total value of shipments between 2018 and 2020. Exports from these three countries are mainly by transnational United States and European firms that have set up manufacturing plants there and use large amounts of imported inputs. In 2020, 89% of regional exports of medical devices went to the United States, while just 2% stayed in the region itself (see figure 9.B). This shows that the presence in some countries of major production centres operated by transnational corporations is not necessarily a guarantee of regional productive autonomy, since decisions about the destination of this production are taken at these firms’ headquarters. In 2020, the main suppliers of medical devices in the region were the United States and China, accounting for 33% and 32%, respectively. During the pandemic, China’s share of the region’s purchases more than doubled in just one year, from 14% in 2019. Only 4% of regional imports in 2020 came from the region itself.
The region’s exports of medical devices are highly concentrated by product. The two main products exported (instruments and devices not elsewhere classified, and syringes, needles, catheters and similar products) accounted for 62% of the total value of shipments in 2019. The region’s export profile is concentrated in low- and medium-complexity products, with a deficit in the high technology-intensive segment.

The disruptions that the COVID-19 pandemic has caused in the supply of medicines, active ingredients and medical devices have highlighted how vulnerable the region is made by its heavy dependence on extraregional imports. Since 2020, there have been multiple initiatives to promote the local production of vaccines, mechanical ventilators and personal protective equipment. These efforts have generally been channelled through partnerships involving private companies, universities, research centres, public institutions and pharmaceutical laboratories from outside the region. The quest for greater production autonomy in the health sector is currently a shared concern both worldwide and also in the region. This is evidenced by the request made to ECLAC in March 2021 by the Government of Mexico, in its capacity as President pro tempore of the Community of Latin American and Caribbean States (CELAC), to develop a regional health-care self-sufficiency plan. Although the guidelines and proposals set forth in that document refer specifically to the production of vaccines and medicines, most of them are also applicable to the medical devices sector —for example, the need for greater regional coordination and integration in the trade, production and health spheres.

In the vast majority of the region’s countries, the local market is not large enough to support a competitive scale of production in either the pharmaceutical or the medical devices sector. This situation highlights the importance of implementing policies to promote greater integration of national markets in order to create a large, stable market that produces the incentives required to expand regional production.

The production and marketing of medical products are heavily regulated because of their direct impact on people’s health and lives. Cooperation between the national regulatory authorities is therefore an indispensable prerequisite for the creation of a regional market. Three lines of action are particularly important in this area: (i) using public procurement mechanisms strategically; (ii) implementing a regional platform for clinical trials; and (iii) strengthening mechanisms for regulatory convergence and recognition. What is proposed is to move towards the creation of a network of countries with harmonized regulations in which, under ideal conditions, a drug is registered in one country and, by means of an expedited procedure, this registration is recognized in the rest of the countries in the network. The logic of regulatory convergence in the field of medicines is equally applicable to medical devices, and in fact often involves the same national regulatory authorities. Although the optimal scale for these initiatives would encompass the region as a whole, in the short term they can be implemented within the various subregional integration mechanisms and subsequently expanded through mutual agreements.

C. How international trade contributes to the circular economy

The crisis caused by the COVID-19 pandemic, compounded by increasingly frequent extreme weather events, have intensified pressures on governments, businesses and consumers to implement circular-economy-based strategies. The circular economy focuses on a more sustainable and efficient use of materials, based on a life-cycle approach. It is about preserving the value and usefulness of materials and products for as long as possible. Circular strategies include actions such as eco-design and turning products into services.
International trade can foster the transition to circular economies if it contributes towards extending the useful life of products and materials and facilitates their reincorporation into production cycles. This happens through the international movement of goods for recycling, reuse, refurbishment, remanufacturing and valorization of bio-waste through composting, anaerobic digestion or the use of waste as inputs in other industries. As only a few countries have the appropriate technology or scale for these processes, the goods in question are exported to other destinations with the capacity to make the activities economically viable. International trade also generates demand for new and improved products, and also for business models based on circular strategies. Trade in services can also collaborate in the replacement of certain products by rental and business models based on the shared use of products through collaborative platforms.

The goods associated with the circular economy that can be identified in the six-digit Harmonized Commodity Description and Coding System are divided into four groups: (i) waste for recycling (including glass waste, minerals, metals and derivatives, plastics, textiles and leather that can be recycled and transformed into new resources); (ii) waste and co-products from crop and livestock farming, fisheries and aquaculture, processed food and wood that are valorized (after undergoing other processes, these products also form inputs for new production cycles); (iii) used goods that are exported to be reused, repaired, refurbished or remanufactured; and (iv) goods that have already been recovered or made from recycled or remanufactured materials.

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2 Recycling processes transform non-organic waste into new inputs (for example, scrap metal turned into recycled metal); and valorization transforms organic waste into new inputs (such as through composting or nutrient extraction for the food or pharmaceutical industry).
The exported volume of these goods has been increasing over the last decade, both globally and regionally (see figure 10). Worldwide, the main export category corresponds to products for recycling, especially waste and scrap metal. In Latin America and the Caribbean, the majority of exports correspond to products for valorization, in particular residues from soybean oil extraction. These products are mainly exported to Southeast Asian countries to be used to produce animal and fish feed.

Figure 10
(Billions of tons)

A. World

B. Latin America and the Caribbean

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Centre for International Prospective Studies and Information (CEPII), International Trade Analysis Database (BACI).
The forestry-pulp-paper industry in Latin America is an example of a regional value chain that is moving towards circularity. This industry has developed a circular product circuit based on the recycling of paper and paperboard, which serve as inputs for a special pulp that is used to produce recycled paper (testliners). The use of secondary raw materials contributes to export diversification and the reduction of deforestation in the region, since exports of recycled paper are increasing and can be used as an input for several other products. The promotion of the circular economy in the sector generates multiple savings in raw materials, energy and water, thereby making it a more efficient and environmentally friendly production alternative. The production of one ton of pulp from recycled secondary inputs is up to four times more efficient than production from virgin inputs.

Several countries in the region are defining standards and forming action plans for the circular economy, including several aspects related to international trade. In particular, they focus on certain strategic (export) sectors, the promotion of circular enterprises and products, access to markets and the search for foreign direct investment or international financing for circular economy ventures, especially for small and medium-sized enterprises (SMEs). Some countries are taking steps to establish registers of circular suppliers, which would make it possible to map supply in terms of export potential. In sustainable public procurement systems, the vast majority of countries are seeking to add circularity criteria, with a view to promoting new business models, especially among SMEs. Some countries are coordinating their national strategies around the circular economy, as exemplified by the initiative on the sustainable management of plastics launched by the Pacific Alliance in 2019.

Tariff and non-tariff barriers applied to potentially circular products can hinder their international trade. For example, in some countries of the region, food industry waste faces higher tariffs than metal waste. Non-tariff measures can also impede the transition to a circular economy. One example is import bans on used goods and waste in general. For example, several countries in Latin America and the Caribbean have banned imports of used cars; others restrict entry according to their age, giving preference to newer models; and a third group applies strict emission standards for the entry of this type of vehicle.

The more stringent production standards through which advanced countries are promoting the circular economy can provide opportunities for producers in Latin America and the Caribbean to add value to local production, gain access to demanding markets, and increase production efficiency through better management of waste and co-products. International trade can thus act as a vehicle for speeding up the transition to the circular economy; and the region’s countries should seek to capitalize on this opportunity as a way to hasten the sustainable economic development process.

Going forward, the contribution made by trade to the transition to a circular economy depends on how it interacts with national and international policies aimed at removing barriers and developing public policies (in partnership with the private sector) that promote the conservation of the value and utility of materials and products. There is a need to liberalize trade in goods and services that contribute to circularity at each stage of production and consumption, especially at the end of the life of the goods in question. These products need to be more precisely defined in both national and international trade classifications. Subregional integration mechanisms are an ideal vehicle for sharing experiences, harmonizing standards and promoting joint solutions. At the regional level, steps could be taken to design environmental regulations that transcend national borders. At the same time, the development of standards and certifications that endorse the circularity of processes could encourage firms to adopt sustainable practices.