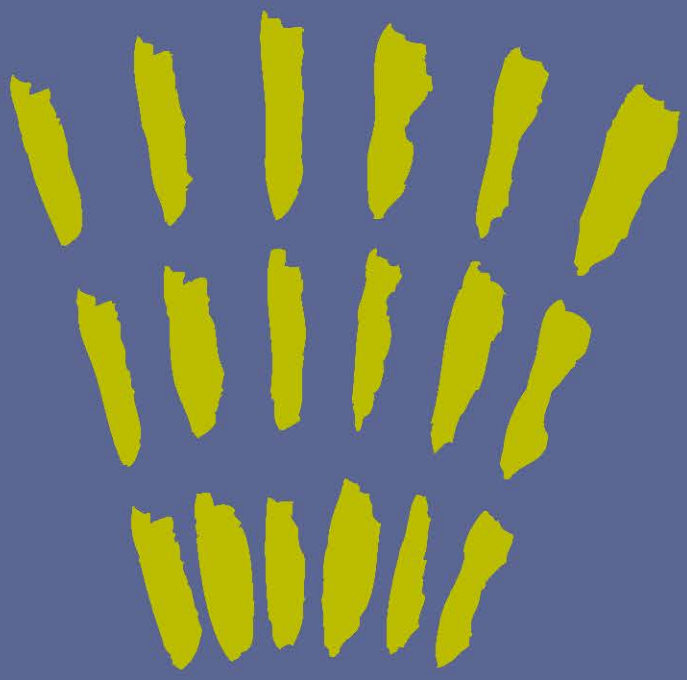
2010-2011



Latin America and the Caribbean **in the World Economy**

The region in the decade of the emerging economies

UNITED NATIONS

ECLAC

2010-2011

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in the World Economy

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Notes

The following symbols have been used in the tables shown in the Survey:
Three dots (…) indicate that data are not available or are not separately reported.
A dash (-) indicates that the amount is nil or negligible.
A full stop (.) is used to indicate decimals.
The word "dollars" refers to United States dollars unless otherwise specified.

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Foreword

The 2010-2011 edition of *Latin America and the Caribbean in the World Economy* considers the topic of the region in the decade of the emerging economies. It is divided into three chapters.

Chapter I looks at the ways in which the difficult international economic environment in 2010-2011 has resulted in emerging and developing regions (the South) increasing their share in world trade and economic variables. The recent economic recovery has developed a starkly two-speed pattern: while the South recovered rapidly from the crisis and its economies have burgeoned, the industrialized countries (the North) remain mired in difficulties. The dynamics of trade for the main groupings of products and countries shows that world trade, driven mainly by China and the rest of emerging Asia, has underpinned recovery from the crisis.

The industrialized countries are facing a complex outlook. The fiscal situation in the European Union, Japan and the United States is heavily compromised, which is sapping the strength from their tentative economic recovery. Fiscal and public debt challenges threaten to plunge these economies into a lost decade of low growth and high unemployment. Conversely, the emerging economies have registered steady growth since the crisis, albeit with some signs of a slowdown by mid-2011. This could, therefore, be the decade of the emerging economies. Nevertheless, the international scenario, with its strong contrasts, holds a number of risks and limits political space for achieving substantive agreements on the governance of globalization. Three factors are impacting in different ways on international trade patterns. First, a new commodity price boom has been under way since early 2009, despite a partial reversal in mid-2011. Second, global trade restrictions have increased slightly since late 2010 and could worsen, given the persistence of major risk factors and the blockage in the Doha Round of trade talks. Third, the number of regional and bilateral trade agreements being concluded in different parts of the world continues to increase rapidly.

Chapter I concludes by briefly describing how the financial crisis hastened two processes which had begun 20 years earlier: the convergence of per capita income between developing and industrialized countries, and the increasing weight of the South in the global economy. In connection with the second of these processes, evidence is presented on the South's growing participation in world aggregates for production, consumption, trade and investment. South-South trade, in particular, has expanded rapidly over the past decade.

Chapter II looks at the main trends, especially in the past decade, in trade and investment between Latin America and the Caribbean and its three main partners outside the region: the United States, the European Union and the Asia-Pacific region. Trade and investment flows are examined overall and by sector and product. Strategic aspects of the linkages with each partner are reviewed, including trade negotiations and economic cooperation initiatives. Section B then briefly discusses the main variables of the region's trade ties with the United States, the European Union and Asia-Pacific. Sections C, D and E examine in more depth the links with each of these partners.

Chapter III discusses some of the main challenges that the transformations occurring in the global economy pose to economic integration efforts in Latin America and the Caribbean. Section B summarizes the changes that will have the most impact on the region's future position in the global economy, and section C briefly reviews the region's main assets vis-à-vis the challenges it faces. Section D examines the performance of trade integration in the region in terms of different variables, including actual and potential intraregional trade as a proportion of the region's total trade and the weight of manufacturing exports in total trade, as well as the weight of trade in parts and components (which is broadly used as a proxy for the presence of value chains). This section also summarizes the main arguments in favour of strengthening integration in order to improve the region's international position. Section E puts forth a number of policy orientations with that in mind. Lastly, section F offers conclusions.

Summary

In mid-2011, conditions deteriorated in the industrialized economies. Early in the year, instability in North Africa combined with other factors to push up fuel prices. Then, in March, the tragedy of the earthquake, tsunami and nuclear disaster in Japan damaged global production chains. Although the impacts of these factors eased in the second semester, concern mounted over the threat of default in Greece, Ireland and Portugal and the repercussions of such an event for larger European economies. In late July, the difficulties in securing congressional approval on the United States public debt ceiling added to the volatility prevailing in financial markets. The downgrading of the United States' sovereign debt rating for the first time ever and lacklustre economic growth rates in the euro area and the United States added to the uncertainty.

Volatility and uncertainty are again reaching worrying levels. Following the agreement by the United States Congress on the country's public debt ceiling and the approval by European authorities and the International Monetary Fund (IMF) of a second support package for Greece, the major stock exchanges have been highly volatile and have seen falls reminiscent of past financial crises. Economic stagnation in the euro area, including in its largest economies, France and Germany, is another cause of volatility. International commodity prices are beginning to reflect this uncertainty and volatility and have declined sharply in a short time span, although they remain above their long-term trend, particularly in the case of metals and minerals.

Leading composite indicators show that slower growth in the industrialized countries is starting to act as a drag on the main emerging economies. Data for mid-2011 suggest that the slowdown in the industrialized countries is affecting China and, particularly, Brazil and India. If these trends continue, exports to Europe and the United States should be expected to slow in 2012 and export growth will be compromised in economies whose exports depend heavily on those markets. As growth slows in the emerging economies and the industrialized economies show increasing weakness, international commodity prices are likely to fall, affecting the trade and current account balances of net commodity exporters.

The industrialized economies will experience slack growth for the next few years. The outlook in these economies is for several years of growth below potential, high unemployment rates and latent financial threats amid considerable instability and jittery financial markets. The inability of political leaders to find credible and sustainable solutions to fiscal deficits and high sovereign debt adds another element of uncertainty. The fiscal adjustments needed in Europe and the United States are highly complex and will need a long process of consolidation, which will prove difficult to achieve without broad political support over several administrations.

This scenario limits the political space for agreement on the governance of globalization. Economic turbulence and high unemployment in the industrialized economies may prompt a resurgence of protectionist forces and reduce the margin for new initiatives for responding to the challenges of globalization. The Doha Round of trade talks, for example, has failed to achieve even the minimal agreements which could conclude the Round after 10 years of unsuccessful negotiations. The early announcements by the Group of Twenty (G-20) on reform of the international financial system appear to have disappeared from its agenda. Successive summits on climate change have not been able to tackle the issues with the required speed. Furthermore, the increasing weight of emerging

economies in the main variables of the global economy seems to have inspired apprehension and defensiveness on the part of the industrialized economies.

The decade 2011-2020 could still be a boom period for the emerging economies. The engines of the global economy will depend increasingly on growth in the emerging economies and on South-South trade and investment. As emerging economies achieve high and stable growth rates and their population growth slows, their per capita income will rise and move towards convergence with the industrialized economies, particularly for the middle class in these countries.

This trend is not without risks. The announcements of the United States Federal Reserve concerning the possibility of a third package of quantitative easing and a near-zero interest rate for the next two years will heighten dollar liquidity in financial markets, amid continuing weakness in the industrialized economies. This may accentuate the diverging monetary cycles between industrialized and emerging economies, generating additional upward pressure on emerging-economy currencies. In the absence of an effective mechanism for currency coordination among the main economies, some emerging economies will find it difficult to avoid taking trade measures to defend their markets from competitive advantages arising from inefficiencies in the international monetary system.

Given the great uncertainty augured for 2012, the main recommendation for Latin American and Caribbean economies is macroeconomic prudence. Financial volatility is affecting economies with deep financial and stock markets in the region and the slowdown in Europe and the United States will limit export growth and depress commodity prices. Fresh quantitative easing in the United States could worsen currency appreciation in those countries already grappling with large capital inflows. In these circumstances, Latin American and Caribbean economies should strengthen macroeconomic management, pursue sustainable fiscal and external accounts, reinforce macroprudential measures, and steer their policy decisions by the long-term behaviour of main economic variables.

Prudent macroeconomic management must be complemented with more strenuous efforts to further regional cooperation. Deeper commitment to integration and regional cooperation, with extra support for intraregional trade, the consolidation of macroeconomic and social achievements made thus far and progress in forming an enlarged regional market, could help to cushion the impacts should international conditions take another turn for the worse. There is room for more initiatives on trade facilitation and greater cooperation on infrastructure, transport, logistics, custom rules, innovation and technology. Initiatives of this sort would not only open opportunities for exports by small and medium-sized enterprises (SMEs) with a stronger manufacturing content, but also make the region a more attractive partner for trade and foreign direct investment (FDI) (see section C).

A. Crisis and convergence on the international front

Three years after the collapse of Lehman Brothers, the global economy has been unable to shake off the legacy of the financial crisis as risk and uncertainty still exact heavy tolls. In the euro area, the sovereign debt crisis and unwieldy fiscal deficits continue to jeopardize the euro, even after the approval of a second rescue package for the Greek economy. In the United States, the budget cuts following congressional approval of the increase of the sovereign debt ceiling could tip the economy into another recession. Private investment remains slack and unemployment high, preventing private consumption from rebounding as strongly as had been expected. Japan is still working through the fallout from the disaster of March 2011 and its impact on the electric power supply, which is hampering the fragile recovery under way in its economy.

The United States economy has weakened more than first thought. Early in 2011, the projected annual growth rate was 3.5%, but revised data for the first two quarters show that the average annualized rate was under 1%, with 0.4% in the first quarter and 1.0% in the second. These GDP data revisions also indicated that the 2009 recession was deeper and longer than had initially been estimated.[1]

In the wake of the agreement to raise the sovereign debt ceiling in the United States, serious concerns have arisen over the weakness of the economy. The United States has entered a phase of self-imposed fiscal austerity and is in

[1] Bureau of Economic Analysis, "Gross domestic product: second quarter 2011 (Advance estimate)", *National Income and Product Accounts*, No. BEA 11-38, July 2011.

the process of phasing out the stimulus programmes, while the real economy and private consumption are showing few signs of picking up. The end of the stimulus programmes could shave 1.5 percentage points off the growth rate for 2012 and it is difficult to see how this gap could be made up, given that the crisis and the predominant views in Congress have drastically reduced the manoeuvring room for fiscal policy. It appears that economic policy continues to be misdirected towards reducing the fiscal deficit rather than boosting employment and growth.[2]

Nevertheless, the United States is in a less fragile situation than Europe. United States Treasury bills continue to be a safe haven in the context of the crisis in industrialized economies, as illustrated by the fact that even the highly unusual downgrading of United States sovereign debt did not prevent a further drop in the medium-term yields of these papers. Banks in the United States are not as compromised as those in Europe, having improved their solvency indicators and risk exposure. Businesses in the United States have made large profits and have built up cash reserves by postponing investment decisions. By contrast, the Greek and Portuguese economies are still mired in recession while accumulating debt at rates which make repayment well nigh impossible. Many European banks are highly exposed to the economies in crisis, and the slowness of the European institutions in responding to the situation adds further uncertainty. Moreover, the euro area economies showed flat growth in the second quarter of 2011 and the outlook appears grim.

Neither the perception that Greece is liable to default nor the threat of contagion spreading to larger European economies has dissipated after the second support package for the Greek economy. Two weeks after the package was approved, Spain's and Italy's risk premiums soared close to the levels which had prompted bailouts for Ireland, Greece and Portugal.[3] Worse still, the measures' ineffectiveness is exacerbated by their slowness, inasmuch as they still have to be approved by a number of European parliaments, which is unlikely to happen before October.

The time has arrived for innovative formulas for deepening European integration. It seems unlikely that Europe can overcome the current crisis without strengthening its mechanisms of regional solidarity and cooperation. The key discussion is whether the way out of the crisis is through more or less integration. If the current policies remain unchanged, the euro could well enter a severe crisis which would have serious implications for integration itself. Sooner rather than later, the recovery of growth will be contingent on massive debt purchases by the European Central Bank or the issue of European debt to replace national liabilities, together with credible commitments to fiscal consolidation.

The European and United States economies will bear the legacy of hefty public debt left by the crisis for many years to come. The crisis produced a deterioration in these economies' fiscal accounts worse than any seen before. The public debt stock in the industrialized economies climbed from 77% of GDP in 2007 to 104% in 2010. According to projections, even if fiscal policy is gradually tightened, the debt-to-GDP ratio could rise to 126% by 2020.[4] Without tougher fiscal measures, this ratio could rise as high as 150% (134% in the case of the United States).

Fiscal and public debt challenges threaten the industrialized economies with the possibility of a "lost decade". Given the magnitude of the challenges, the adoption of technically sound measures will need to be underpinned by firm political consensus allowing the adoption of painful decisions which will take several years to implement. Political leaders are on the horns of a double dilemma: they are caught, first, between medium-term needs and day-to-day electoral pressures and, second between the overall impacts of their decisions and their effects on the next election. The amounts needed for fiscal consolidation and public debt reduction are so large as to cast serious doubt over any recovery in growth in the next three years or more. Given also the fiscal pressures that financing future pensions for an ageing population will exert on the industrialized economies, it is no exaggeration to suggest that the industrialized economies could be entering a lost decade.

After regaining pre-crisis levels of GDP and trade, the main emerging economies began to show signs of a slowdown around mid-2011. Several of these economies were growing above their potential in 2011, running the risk of overheating. The recovery in this group of economies began in China then spread to India, Indonesia and the rest of the Asia-Pacific region, and from there to the rest of the emerging economies. High growth rates in emerging Asia are rooted in stronger domestic demand and a dynamic trade performance. In Latin America and the Caribbean, the monetary and fiscal stimulus measures that supported the post-crisis recovery gave way to an upturn in private consumption and investment, together with an increase in exports. Export growth has also been boosted by favourable terms of trade, particularly for mineral products. As a result, for the last few years emerging and developing countries have accounted for around three quarters of global economic growth (see table 1).

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2 P. Krugman, "The wrong worries", *The New York Times*, 4 August 2011.

3 The steep stock market falls in Europe and the United States following the agreement to increase the sovereign debt ceiling in the United States led the European Central Bank (ECB) to depart from its previous stance and buy bonds from countries under heavy pressure, including Italy and Spain, which helped to lower risk premiums.

4 Deutsche Bank , "Global economic perspectives: A scenario analysis of public debt by 2020", July 2011.

Table 1
INDUSTRIALIZED AND DEVELOPING COUNTRIES AND GROUPINGS: CONTRIBUTION TO GLOBAL GDP GROWTH, 2008-2011
(Percentage points)

Country/grouping	2008	2009	2010	2011
Industrialized countries	0.12	-1.79	1.55	1.22
United States	0.00	-0.53	0.56	0.53
European Union	0.15	-0.87	0.36	0.35
Japan	-0.07	-0.37	0.23	0.08
Others	0.04	-0.02	0.40	0.25
Developing countries and regions	2.74	1.27	3.46	3.18
Sub-Saharan Africa	0.13	0.07	0.12	0.14
Latin America and the Caribbean	0.37	-0.15	0.52	0.40
Developing Asia	1.64	1.66	2.29	2.10
China	1.13	1.19	1.40	1.37
Middle East and North Africa	0.25	0.09	0.19	0.20
Central and Eastern Europe	0.11	-0.12	0.15	0.12
World	2.87	-0.52	5.01	4.40

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

The rise of China and the rest of the South is associated with the geographical fragmentation of global production and the spread of global value chains. Global value chains are a key feature of today's organization of international trade, in which the exchange of finished goods among nations is gradually losing ground to trade in intermediate goods, along with increased specialization in tasks or phases of production. The distribution of value added within value chains reveals their inherent governance structure, in which control is often exerted by one or a few firms, both in terms of suppliers (upstream) and sellers (downstream). Even though value chains have developed mainly in China and the rest of East Asia, they are spreading to other geographical regions. In Latin America and the Caribbean, the increasing importance of trans-Latins reflects this trend.

International trade contributed much to recovery following the economic and financial crisis of 2008 and 2009. International trade and open markets prevented the crisis from worsening and swiftly transmitted the recovery in final demand. The significant contribution of international trade to GDP growth is explained in part by several effects that temporarily increased the trade elasticity of output. Also, the international trading system was able to contain the protectionist outbursts prompted by the worst international crisis in 80 years. The agreements brokered by G-20 from 2008 onwards also help to ensure this outcome.

South-South trade, led by China and the rest of emerging Asia, is the main engine of world trade growth. Exports from developing and emerging countries grew 17% by volume in 2010, compared to 13% for the industrialized economies and a global average of 15%. Within this group, China showed the highest rate of trade recovery, since its exports jumped by 28% in volume terms in an impressive reversal of the 10% drop registered in 2009 and almost doubling the rate of global trade growth for that year. Imports by developing and emerging countries grew 18% by volume in 2010, compared to 11% for the industrialized economies. As a result, the developing and emerging economies had regained pre-crisis import and export values by late 2010. These groups of countries accounted for almost 60% of the growth in global export values between 2005 and 2008 and in 2010, and represented a smaller share of the drop in world trade in 2009. The industrialized countries are thus benefiting from dynamic external demand from developing and emerging economies while their own domestic demand remains weak.

The value of goods exports from the Latin American and Caribbean region is projected to rise 27% in 2011. Prices will contribute most —18 percentage points— of this rise, whereas volumes will contribute 9 percentage points (see table 2 and figure 1). This breakdown of 2011 export growth is similar to the pattern for 2010. The 2011 projection is based on an assumption of second-semester growth in external demand for the region's products similar to that seen in the first semester, and on stable commodity prices for the remainder of the year.

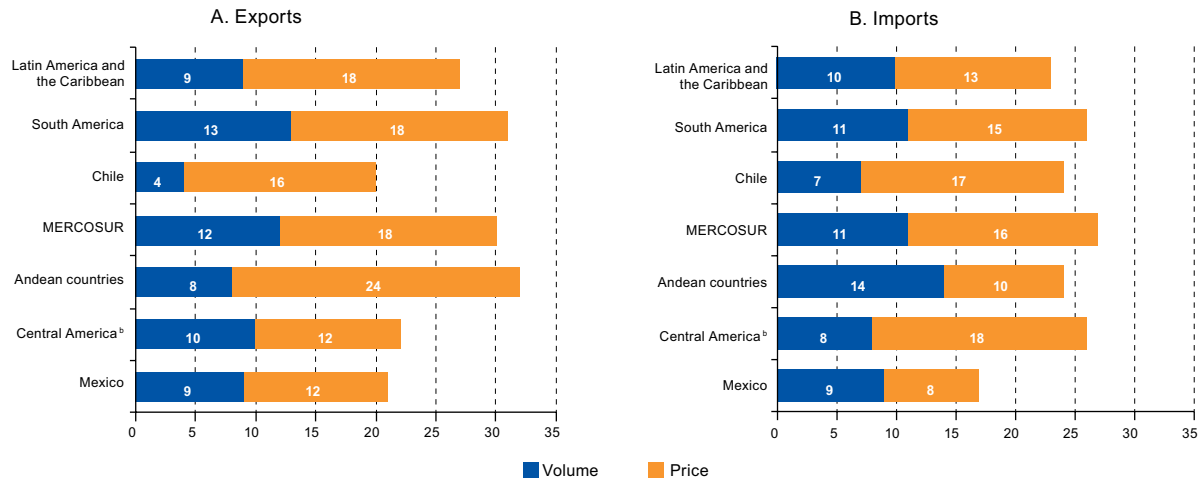
The value of imports by Latin America and the Caribbean is projected to rise 22% overall, but more sharply in the case of fuels (46%). Slower growth in imports than in exports may result in a regional trade surplus of around US$ 80 billion at year-end, in particular with the United States and, to a lesser extent, with the European Union. The region overall will widen its trade deficit with China and the rest of Asia, but with a differentiated subregional pattern since South America will register a surplus and the rest of the region, a deficit.

Table 2
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL TRADE VALUES, 2009-2011
(Annual growth rates in percentages)

Country/grouping	Exports			Imports		
	2009	2010	2011 [a]	2009	2010	2011 [a]
Latin America and the Caribbean	-22.6	26.7	27.0	-25.0	29.5	23.0
Latin America (19)	-21.9	27.0	27.0	-24.9	30.4	23.0
Southern Common Market (MERCOSUR)	-21.9	29.8	30.0	-27.3	42.2	27.0
Andean countries	-27.7	20.7	32.0	-20.9	19.9	29.0
Central American Common Market	-11.6	15.2	29.0	-24.3	19.0	24.0
Other countries	-19.9	28.9	21.0	-25.0	28.8	19.0
Chile	-18.5	31.5	20.0	-30.9	38.3	24.0
Dominican Republic	-18.7	20.3	25.0	-23.1	24.4	22.0
Mexico	-21.2	30.0	21.0	-24.1	28.5	17.0
Panama	7.8	1.8	20.0	-10.9	20.3	28.0
Caribbean Community (CARICOM)	-43.4	10.8	28.0	-25.5	3.5	18.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Projections.

Figure 1
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF GROWTH IN GOODS TRADE BY VALUE, 2011 [a]
(Rates of variation in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official monthly data.
[a] Projections.
[b] Includes the Central American Common Market and Panama.

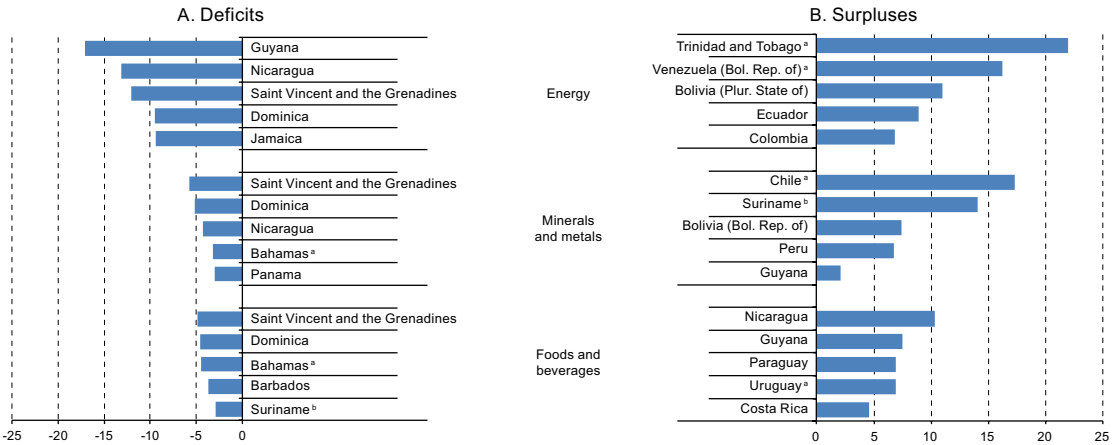
Commodity prices have been booming since early 2009, benefiting net commodity exporters. These prices began to rise more sharply in the second half of 2010 and came to exceed pre-crises levels for many products. By contrast, prices for manufactured goods have increased only slightly in the past few years. The commodity price boom is driven chiefly by demand factors, both real demand from emerging economies and speculation in a context of low financial returns in industrialized economies. In the case of agricultural products, higher prices in 2010 were also attributable to poor climate conditions in producer countries.

The commodity price boom was interrupted in mid-2011, as uncertainty mounted amid the sovereign debt problems of Europe and the United States and the stagnation of their economies. Sharp volatility on main stock exchanges and the dollar's loss in value against gold, the Swiss franc and the yen also contributed to the commodity price drop. It is too soon to draw firm conclusions about the trajectory of commodity prices, but their volatility is evident. Accordingly, global mechanisms are needed to soften both price shocks and their transmission to domestic economies through saving of temporary inflows, structural fiscal rules and other measures that facilitate public expenditure planning on the basis of medium-term revenues.

The effect of higher commodity prices is highly positive for most South American countries but negative for most countries in Central America and the Caribbean. The largest benefits accrue to South America, particularly Paraguay and Uruguay in the case of food and beverages, Chile, Peru and Plurinational State of Bolivia in the case of metals and minerals; and

Bolivarian Republic of Venezuela, Colombia, Ecuador and, here again, Plurinational State of Bolivia in the case of energy products. In contrast, higher commodity prices hurt terms of trade for most Central American and Caribbean countries. The Caribbean countries are even more vulnerable than those of Central America, because they run a trade deficit in food and beverages, metals and minerals, and energy products, whereas the trade deficit of the Central American countries is concentrated in this last category (see figure 2).

Figure 2
LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE BY TYPE OF PRODUCT, AVERAGE 2009-2010
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Data for 2009 only.
[b] Data for 2010 only, using mirror statistics for minerals and metals.

Disequilibria between the current accounts of the major economies and those of their trading partners are growing again, largely as a result of real-exchange-rate trends. In the United States, the dollar has been depreciating more or less steadily since late 2001. China's real effective exchange rate has been appreciating since 2006, but not quickly enough to rebalance its current account.

After almost 10 years of negotiations, the Doha Round of the World Trade Organization (WTO) has reached a critical point. For most of this time the greatest disagreements have concerned agriculture, but recently differences have centred on the liberalization of trade in manufactures in the main emerging economies (particularly Brazil, China and India). Discussions on the future of the Doha Round will likely dominate the Eighth Ministerial Conference of the World Trade Organization, which will take place on 15-17 December 2011. It will be difficult to complete the Round in 2012, as several large member countries (including France, India and the United States) are due to hold elections that year.

Growth rates can diverge only so far between emerging and industrialized countries. Until now, emerging countries have withstood the impacts of the 2008-2009 crisis better then the industrialized countries, recovered more swiftly and maintained higher growth rates —bearing out to some extent the theory of decoupling between the two groups of economies. However, the stock market turmoil during the first half of August 2011 has already hurt commodity prices and if the economic slowdown persists in Europe and the United States, exports to these economies will inevitably suffer. In other words, even a slackening in economic growth in the industrialized countries will cloud the growth outlook of emerging markets. An even more pessimistic scenario in the rich economies would have larger consequences, in all likelihood forcing governments to implement new stimulus programmes to safeguard employment and economic growth as in 2009. This, of course, would depend on these countries having the policy space for such measures. For all these reasons, macroeconomic prudence and a close watching brief on the international economic situation head the economic policy agenda of emerging economies.

The consequences of the subprime mortgage crisis —the largest and deepest since the Great Depression— are still being felt four years after it broke out, yet the drive for reforms has dissipated. The declarations made by G-20 leaders at their Washington Summit on Financial Markets and the World Economy, held in Washington D.C. on 14-15 November 2008, called for major reforms to the international financial system and regulatory

practices. As stimulus packages and the containment of protectionist measures diminished the likelihood of a global depression, however, the appetite for reforms and international cooperation also waned. Recent meetings of G-20 have been dominated by national interests, not a collective effort to reform the system and policies that allowed the crisis to happen.

More global cooperation is needed to avoid a new international economic crisis. Several themes should be on this agenda. In the economic sphere, agreements must be reached in the short term on the regulations governing sovereign debt, on the functioning of sovereign debt rating agencies, on measures to resolve the European crisis, and on mechanisms that could dampen the volatility of commodity prices. Key issues for the medium term include financial early warning mechanisms, the need to resolve excessive current account disequilibria to avoid emerging economies having to bear the brunt of adjustment through currency appreciations disconnected from productivity gains and, lastly, regulations requiring banks to hold provisions proportional to the risk of their operations.

Emerging markets need to have a stronger voice within global cooperation efforts. All the matters discussed here impinge increasingly upon the growth prospects of emerging economies although they refer to forces that have taken shape basically in the industrialized world. It is therefore only logical that the emerging economies, which underpin most of global economic growth today, should have something to say about the origins and trajectories of these disequilibria and their effect on the globalization process. A fresh round of quantitative easing in the United States and the repurchase by the European Central Bank of European countries' bonds would give rise to abundant international liquidity, which could worsen the current difficulties for emerging economies. To avoid these potential growth constraints, emerging economies should improve their coordination within G-20, with well thought-out diagnosis and proposals. The three Latin American members of G-20 should also seek closer coordination with the rest of Latin America and the Caribbean, inasmuch as their voice in G-20 would undoubtedly be strengthened if they represented concerted regional views on the aforementioned international issues.

The recent global financial and economic crisis and the different growth paths followed by emerging and industrialized economies thereafter has accelerated convergence in per capita income both the two groupings. Steady expansion in emerging economies, led by China, compared with flat growth in industrialized countries, has brought forward productive, technological and industrial convergence between the two. Thus, in mid-crisis, emerging economies improved their position in the world economy. Increasing trade links between developing countries helped these economies to decouple to some extent from the adverse cycle in which the most developed OCED economies were caught up.

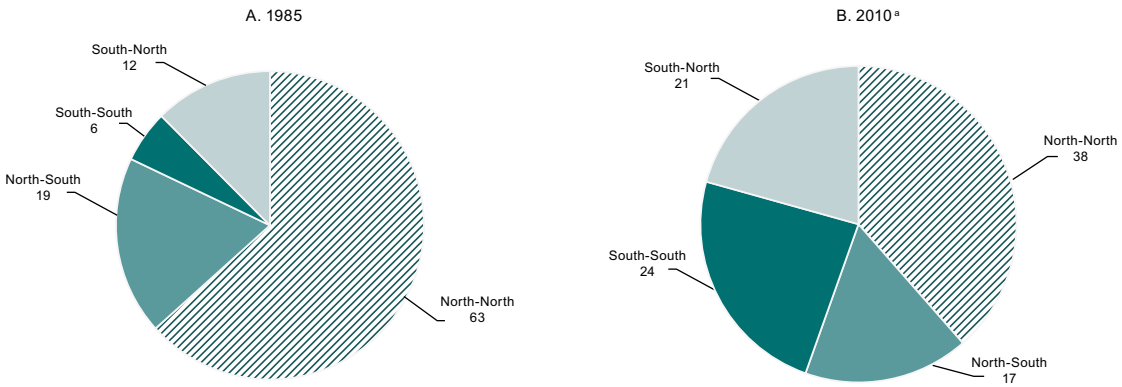
The Latin American and Caribbean region managed to reduce its per capita income gap relative to the industrialized countries during the boom in world growth between 2003 and 2008 and in the two years post-crisis. In contrast to the two previous decades, from 2004 to 2010 the region's income gap with respect to the advanced economies narrowed. China and the newly industrialized Asian countries (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) have achieved constant per capita income convergence for several decades. Stagnation in the advanced economies in 2010 and 2011 and rapid, steady growth in most emerging economies have hastened the reduction of global per capita income gaps.

Since the recent crisis, the emerging countries have gained a larger share in the main variables of the world economy. First, the contribution of emerging economies to global GDP growth increased from a third in 2000 to three quarters in 2007 and almost 100% in 2008 and 2009. Projections indicate that by 2016, emerging economies will account for three quarters of total growth in world GDP. China is the single largest driver of growth both among the emerging countries and globally.

Regarding the participation of the South in world consumption, the Asia-Pacific region is likely to represent two thirds of the world's middle class by 2030. China's middle class is already the world's second largest in absolute terms, after the United States. Rapid expansion of the middle class in China and India could compensate for some of the stagnation expected in middle class growth in the United States and Europe.

Trade has grown much faster for the emerging economies than the industrialized countries in the past few decades. South-South trade has been particularly dynamic: having accounted for only 6% of world trade in 1985, growth in this trade gathered pace during the past decade, taking its share in world trade from 14% to 24%. During that time, South-North trade expanded from 12% to 21% and the share of North-North trade dropped significantly (see figure 3). The crisis reduced exports from the South in 2009 but does not seem to have affected long-term trends. If South-South trade continues to increase more rapidly than other trade combinations, its share in global trade will exceed that of North-North trade by about 2018. The rapid growth in South-South trade mostly reflects increased trade between Asian developing countries, with China as the centerpiece. Almost 85% of South-South trade is among Asian emerging economies or between these and other regions in the South.

Figure 3
WORLD: DISTRIBUTION OF EXPORTS, 1985 AND 2010 [a]
(Percentages of world trade)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Estimate on the basis of 90% of world exports.

The South has gained more ground as a recipient of global FDI than it has as an originator of this type of investment. Between 1970 and 2007, the South's share in global FDI inflows rose from a fourth to a third. The financial crisis may have further increased the weight of emerging countries in FDI inflows by some way: in 2010 the South represented over half of world FDI inflows for the first time. Developing and transition countries are gaining share of global outflows of FDI, as well, of which they represented 22% in 2010.

The current variable-speed global economy is fraught with uncertainties. The economies of the United States, Japan and the European Union are stagnant and are facing severe fiscal difficulties and have virtually depleted their monetary policy space. The emerging countries could find their good prospects tarnished if the industrialized countries fail to resolve these difficulties. Economies which have a major trade link with the United States —including Mexico and the Central American and Caribbean countries— could find their exports to that market slackening if growth there continues to slow during the second semester of 2011 and into 2012. Industries with significant exports to the European Union may also be affected unless they redirect trade towards more dynamic markets.

The world economy still faces major risks that could lead to an increase in protectionist measures. These risks include the persistence of global disequilibria between countries running deficits and those running surpluses; high levels of unemployment in the industrialized economies; the deep-reaching fiscal consolidation process under way in Europe, particularly in Greece, Ireland, Portugal and Spain; and food price volatility. The large capital flows entering emerging economies may fuel pressures to increase protection, as the local currency appreciation they induce benefits imports relative to locally produced goods and services.

B. Relations between the Latin American and Caribbean region and its main non-regional trading partners

Asia has become a much more important trading partner for Latin America and the Caribbean over the past decade, while the United States has lost share in the region's trade and the portion going to the European Union has stood still. The United States is still the region's largest trading partner, but its share has declined significantly. Exports to the region's second largest trading partner, the European Union, rose slightly during the past decade, while imports from the bloc remained constant (see table 3).

Table 3
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SELECTED PARTNERS IN TOTAL EXPORTS AND IMPORTS, 2000 AND 2010
(Percentages)

	Asia-Pacific [a]		United States		European Union		Latin America and the Caribbean		Rest of the world	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Exports	5.3	17.2	59.7	39.6	11.6	12.9	16.0	19.3	7.4	11.0
Imports	10.6	27.2	50.4	29.1	14.2	13.7	15.3	22.7	9.5	7.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE); official information from the countries and International Monetary Fund (IMF), Direction of Trade Statistics database (DOTS).
[a] Includes Australia, Brunei Darussalam, Cambodia, China, Philippines, India, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, Republic of Korea, Singapore, Thailand and Viet Nam.

The surge in trade between the Latin American and Caribbean region and Asia-Pacific largely reflects the dynamic trade relationship with China. In the first half of the last decade, China displaced Japan as the region's largest trade partner in Asia-Pacific. Trade with China exceeded US$ 100 billion for the first time in 2007 and reached US$ 187 billion in 2010, and accounts for half the region's total trade with the Asia-Pacific region. China's significance as a destination market varies from one country to another within Latin America and the Caribbean, however. China has become a key market for (in decreasing order of importance) Cuba, Chile, Brazil, Peru, Argentina and Bolivarian Republic of Venezuela. By contrast, it represents less than 3% of total exports for Paraguay, Ecuador, Mexico, Central America (except Costa Rica) and most of the Caribbean countries. India, despite its rapid growth in the past two decades, represents only 6.4% of the region's total exports and 3.4% of imports to Asia-Pacific, ranking below the Republic of Korea as a trading partner for Latin America and the Caribbean. Asia-Pacific is a more significant trading partner for imports into the region than for its exports, which has led to a growing trade deficit for the region, particularly for Mexico and Central America.

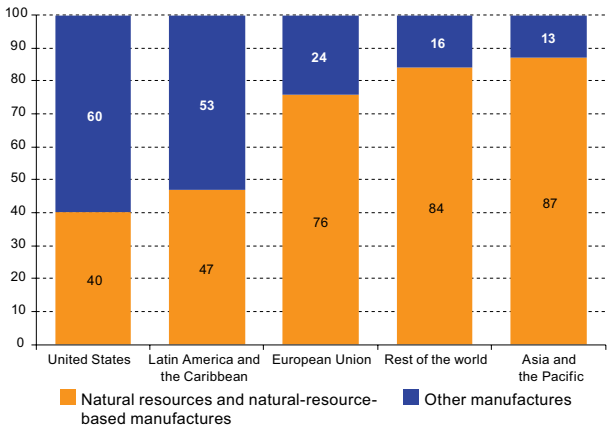
In 2005-2010, the Latin American and Caribbean region was the fastest-growing trading partner for China and the second fastest for Japan. China's exports to and imports from Latin America and the Caribbean expanded nearly twice as fast as its total exports and imports in that period. As a result, the region's share in China's trade gradually rose from a very low base to nearly 6% in 2010 for both exports and imports. During the same period, Japan's exports to Latin America and the Caribbean outgrew those to any other destination market and its imports from the region were surpassed only by those from the Community of Independent States (CIS).

The Latin American and Caribbean region is also an increasingly important trading partner for the United States. During the past two decades, the United States' trade with the region has increased more rapidly than with its other partners, with the notable exception of China. In 2010, Latin America and the Caribbean became the largest buyer of United States goods exports, accounting for 23% of the total. That year, 19% of total United States goods imports were sourced from the region, which positioned it similarly to China in the United States import ranking. Bilateral trade between Latin America and the Caribbean and the United States is concentrated in few countries, with Mexico representing more than two thirds of the region's exports to and half of its imports from that market. The Andean countries are the region's second largest supplier of exports to the United States market and, together with the Southern Common Market (MERCOSUR), represent a quarter of the value exported to that country from the region in 2010. In the case of imports into the region, the order is reversed: MERCOSUR is the second largest importer from the United States, followed by the Andean countries.

Contrasting with the region's importance as a trading partner for the United States, China, and Japan, it represents only a fraction of the European Union's international trade. The share of the Latin American and Caribbean region in the total trade of the European Union has hovered at around 3% for the past three decades. Although the European Union remains the region's second largest trading partner, it could lose this position to China towards 2015. Latin American and Caribbean trade with the European Union is concentrated in a few countries, with MERCOSUR representing almost half of the total. The five MERCOSUR countries and Mexico together represent 61% of the region's total exports to the European Union and 69% of its total imports from that bloc.

The Latin American and Caribbean region's intraregional exports and those to the United States show a larger proportion of manufactures not based on natural resources than those to Asia-Pacific and the European Union. Notably, however, exports to the United States in this category chiefly reflect the large proportion of Mexico's manufacturing exports in the region's total exports to the United States. At the other extreme, primary products and natural-resource-based manufactures account for almost 90% of the region's exports to Asia-Pacific (see figure 4).

Figure 4
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY MAIN DESTINATION, AVERAGE 2008-2010
(Percentages of the total)



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

Although during the past decade the Latin American and Caribbean region has considerably increased the range of products it exports to all destination markets, no market outside the region comes close to matching the intraregional market in terms of the number of exported products. By 2010, the intraregional market was receiving the largest range of export products, followed by the United States, the European Union and —at a considerable distance— the Asian markets. On average, in 2008 and 2009, the number of products exported within the region itself exceeded those exported to China by a factor of 10, and those exported to the rest of Asia by a factor of 4. This confirms the growing importance of the intraregional market as a destination for manufacturing exports and as a vehicle for the development of regional value chains.

The current priorities of United States trade policy do not include a strategic vision for Latin America and the Caribbean. The region is barely mentioned in the trade policy agenda the President of the United States presented to Congress in March 2011, and then only in reference to the administration of existing agreements, the President's intention to seek congressional approval for the agreements negotiated with Colombia and Panama, and his interest in expanding and diversifying economic relations with Brazil. There have been no significant developments in terms of trade talks between the United States and Latin America and the Caribbean since 2007. The sole exception came in 2010 with negotiations to broaden the Trans-Pacific Strategic Economic Partnership (also known as the Trans-Pacific Partnership, or TPP). Chile and Peru participate in this initiative, but its main focus is clearly the Asia-Pacific region. This is in contrast to the dynamic negotiating activity between many Latin American and Caribbean countries and European and Asian partners.

In this context, ECLAC has proposed a new hemispheric alliance between the United States and Latin American and Caribbean region to tackle common challenges and seek closer integration with the global economy. The main points of this agenda include:

- The reinstatement of the Plurinational State of Bolivia as eligible for the benefits of the Andean Trade Promotion and Drug Eradication Act (ATPDEA).
- The renewal in 2011 of ATPDEA and the Generalized System of Preferences (GSP) for a sufficient period to provide the region's countries with a stable system.
- Congressional approval in 2011 of free trade agreements with Colombia and Panama.[5]
- A definitive settlement to the dispute over admittance of Mexican trucks into the United States.
- Cumulation of origin to be allowed among the different free trade agreements between the United States and countries in the region, in order to promote a more integrated production structure and help to develop regional value chains.
- Adherence of interested countries in the region to TPP negotiations, aiming for a balance between results in traditional areas and on new issues (intellectual property rights, investment, services, labour and environmental standards, and regulatory coherence), as well as other issues of interest to the developing countries party to the talks (antidumping, market access for agricultural products, migration and so forth).

Latin America and the Caribbean and the European Union have sought to inject renewed vigour into their relations in recent years. In a context of low growth and great uncertainly in the European Union, the region has become an increasingly attractive market for European exporters and investors. Accordingly, the European Union concluded negotiations in 2010 for an association agreement with Central American countries (including Panama) and a trade agreement with Colombia and Peru. Also in 2010, negotiations were resumed on an association agreement between the European Union and MERCOSUR. Including the agreements already in place with Chile, Mexico and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), by 2012 or 2013 the European Union could have preferential agreements with 30 countries in the region. This points to the need to promote cumulation of origin between all these agreements, along the lines of the European Union's practice regarding its agreements with the Mediterranean countries. This would boost the integration of production and the development of regional and interregional value chains.

[5] This approval was still pending in August 2011.

In addition to free trade, the association agreements negotiated between the European Union and the region include the pillars of cooperation and of political dialogue. As such, these agreements are fundamental for promoting a virtuous relationship between political consensus-building, economic and trade development, and social cohesion, and they represent a more comprehensive view of development than agreements confined solely to trade. Another important difference between the agreements the region has negotiated with the European Union and those negotiated with other partners is that the first include as explicit goals negotiations between regions and the achievement of substantial advances in integration in all the Latin American and Caribbean subregional groupings.

Latin America and the Caribbean and the European Union also have strong investment ties. In the first decade of the 2000s, the share of the region —including financial centres— in FDI flows from the European Union exceeded that of Asia, as the European Union became the main source of FDI in the region. In the wake of the many economic reforms implemented since the 1990s, FDI flows into the region expanded strongly, especially from firms in European countries, which took advantage of privatization in banking, telecommunications and other services. FDI from the United States also increased, but at a slower pace. This produced a shift in the composition by origin of cumulative flows and the European Union became the largest source of FDI in the last decade, with 43% of total flows.

Great potential exists for cooperation between the region and the European Union in such areas as green technology and corporate social responsibility. The European Union is a global leader in environmental protection, in efforts to combat climate change and in corporate social responsibility, all of which contribute to broader and more inclusive development. The European Union contributed between 30% and 38% of all patents issued globally between 2004 and 2006 in environmental technology categories. European Union institutions have been promoting systematic inclusion of the concept of corporate social responsibility in corporate strategies for over a decade. From this perspective, strengthening corporate ties between the region and Europe should advance the goals of achieving growth with greater equality and developing a less carbon-intensive competitive advantage, which should steer public policies in Latin America and the Caribbean in the next few years.

In the past few years integration in Asia-Pacific has evolved from a de facto situation towards a more formal structure. The Association of South-East Asian Nations (ASEAN) has positioned itself at the heart of this de jure integration process through various trade liberalization initiatives with other Asian countries. As a result of the many trade agreements existing in the Asia-Pacific region, nearly half of all intra-Asian trade is now covered by some form of preferential tariff treatment. At the same time and for many reasons (particularly efforts to secure better market access), Australia, China, Japan, India, Republic of Korea and Singapore, among others in the Asia-Pacific region, have signed free trade agreements and established strategic partnerships with Latin America.

The ongoing removal of barriers to trade among Asian countries could divert trade at the expense of Latin America and the Caribbean. China, India, Japan and the Republic of Korea, among other Asian economies, maintain high tariffs on key sectors for Latin American and Caribbean exporters, including agriculture, textiles, clothing, and some machinery sectors. The lowering or elimination of these tariffs in the context of treaties between ASEAN members and the four counties mentioned above, as well a new agreement in the form of ASEAN+3, therefore favours ASEAN countries at the expense of Latin America and the Caribbean. The resulting trade diversion could be significant unless the region actively pursues policies to secure bilateral or subregional trade agreements that would even out market access conditions in the main Asian markets.

As a result, trans-Pacific trade agreements are increasing rapidly in number. The most active countries in the region in this regard have been Chile and Peru, the two for which the Asia-Pacific region represents the greatest share of total exports. Costa Rica has recently followed suit and has signed free trade agreements with China and Singapore. Colombia is currently negotiating an agreement with the Republic of Korea. These initiatives reflect efforts by the Latin American countries to structure their relations with Asia-Pacific over a longer horizon, but do not yet amount to any sort of shared strategic framework.

In the case of China, an issue that must be carefully addressed is the sensitivities triggered by its industrial exports. Concerns in this regard have emerged in Argentina, Brazil and Mexico, as a result of loss of market share within the region and the threat of displacement in third markets. Here, a coordinated, medium-term approach may be needed between Chinese and Latin American producers with a view to find building on complementarities and cooperation opportunities. Otherwise trade conflicts are likely to grow and prompt new accusations of dumping behaviour and fresh non-tariff barriers.

Although processed mineral products still represent 80% of its total imports from Latin America and the Caribbean, Asia is starting to import new products from the region. Though some of these products belong to the category of primary products, they are not commodities inasmuch as they can, to an extent, be differentiated by

quality. As long as household incomes continue to rise in Asia, and its consumption patterns gradually approach those of the West, Asian demand for these products could expand significantly in the near future, presenting growing opportunities for Latin America and the Caribbean. In addition, the competition that the region faces in the Asia-Pacific markets, including the competition from Asian economies themselves, could open opportunities for interesting commercial, productive, and technological alliances. These could include joint investment and strategic alliances in commercial and technological areas that would enable better response to Asian and Chinese demand, with benefits for both regions.

Given that Asia-Pacific is the most dynamic region of the world economy, the Latin American and Caribbean countries must redouble their efforts to forge a new trans-Pacific relationship. China, specifically, is emerging from the global crisis with a strengthened productive, technological and financial base, and with tighter ties to the Asia-Pacific economies. Recent estimates suggest that by 2016 China's GDP, measured in terms of purchasing power parity, will surpass that of the United States, making China the world's largest economy. Accordingly, and given ongoing uncertainty over the economic future of Europe and the United States, Latin America and the Caribbean should strive to identify and seize the opportunities offered by greater integration with the Asia-Pacific countries. These efforts will be more fruitful if the region adopts a coordinated approach, such that trade and investment initiatives may benefit from existing synergies, economies of scale and combined political will, thereby opening the door to more ambitious goals.

Economic and trade conditions are highly favourable for pursuing a new relationship between the two regions. The good outlook for growth in both regions represents a unique opportunity to cement the foundation of a new phase in their trade and investment relations. To bring this about, progress must be made in: (i) diversifying the region's exports to Asia-Pacific; (ii) creating new interregional trade alliances; (iii) increasing the volume of mutual investment flows, emphasizing infrastructure in Latin America and the Caribbean and the introduction of the region's products into Asian value chains; (iv) substantially increasing cooperation efforts in innovation, technology and human capital; and (v) establishing high-level forums for dialogue between the region's governments and their counterparts in Asia-Pacific.

C. Securing a better position in the global economy: challenges for the region

The profound transformations taking place in the world economy present the region with the challenge of rethinking its international position and its global alliances. The weak recovery and great uncertainty prevailing in the United States and Europe, which will probably persist for some years, are contributing to the growing share of the developing economies in the different economic variables. At the same time, production, trade and investment are increasingly structured around regional and global value chains. Faced with these changes, the Latin American and Caribbean region has sought closer links with other emerging regions, particularly Asia.

In the coming decades, the quality of the region's international economic position will be strongly determined by its links with other developing economies. The main channel for these linkages today is trade between the region and other developing countries (South-South trade). Another, increasingly important channel is investment, both the attraction of FDI and other capital from Asia and investments made by companies from the region —in particular the large internationalized corporations known as "Trans-Latins"— in Asia and other developing regions. Moreover, ample space exists to develop alliances between firms from the region and those in other emerging regions through a variety of production modalities (including franchising, licensing, manufacturing contracts and services subcontracting) which are playing growing roles in the context of global value chains.

The Latin American and Caribbean region has important assets for conquering a higher-quality role in the international economy. First, the region has absorbed important macroeconomic policy lessons, the benefits of which were made clear by the recent global financial crisis. The region's production, employment and social indicators were not left unscathed by the impacts of the crisis but they held up better than during previous episodes of smaller magnitude. Second, improvements in the region's social indicators and the expansion of its middle class in recent years have upped the strategic value

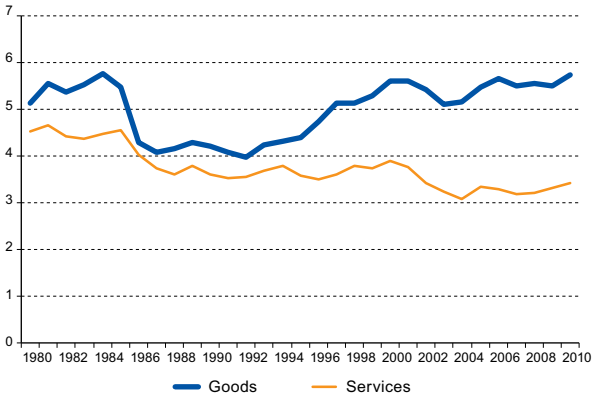
of the Latin American and Caribbean market. This larger consumer market makes the region more attractive as a trade and investment partner.

The region's abundant endowment of natural resources constitutes another strategic asset. Latin America and the Caribbean is a major agricultural producer, particularly in soybean (accounting for almost half of the world's production), beef (of which it produces almost a third) and dairy (almost a quarter). A similar situation prevails in the mining sector: Latin America and the Caribbean generates over 45% of the world's copper production and over 20% of molybdenum, zinc and tin. In energy, the region accounts for 30% of global biofuel production. Latin America and the Caribbean also boasts the largest fresh water reserves —a third of the world's total. Lastly, a third of the world's potential crop land lies in the region. These factors are all strategic advantages, since the world's population is projected to grow to 9 billion by 2050, with the resulting nutritional needs.

Despite its assets, the region has been unable to significantly increase its share in world exports of goods and services in the past three decades. Between 1980 and 2010, the share of Latin America and the Caribbean in world merchandise exports rose only marginally, from 5.1% to 5.7%. To a large extent, this flat growth was determined by the slackening of Mexico's exports, while the rest of the region increased its share. Over the same period, the region's share in world services exports fell from 4.5% to 3.4% (see figure 5), with an especially weak performance in the "Other commercial services" category —the fastest-growing at the global level in the past decade and the most closely linked to knowledge-intensive activities. In short, against a backdrop of a growing participation by developing economies in world exports, the region's performance has resembled more of a stagnation.

Although there are important differences between the export orientations of each subregion, they share the problems of insufficient value added and inadequate incorporation of knowledge and technology. The South American countries have become increasingly specialized in the export of natural resources, in both primary and processed forms. This pattern has been reinforced by strong demand from Asia, particularly China. The Central American countries and Mexico have specialized in manufacturing industries intensive in assembly activities, and the Caribbean countries in certain services niches. The common denominator among these three patterns is specialization based on static comparative advantages such as abundant unskilled labour and natural resources, and the lack of value added and knowledge embodied in both final products and productive processes.

Figure 5
LATIN AMERICA AND THE CARIBBEAN: SHARE IN WORLD EXPORTS OF GOODS AND SERVICES, 1980-2010
(Percentages)



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

The emergence of global value chains and the growing importance of innovation in world production and trade make it imperative for the region to take new steps in terms of its international participation. The market opening and trade liberalization processes that have taken place since the 1980s have provided a necessary yet insufficient condition for sustained economic growth through trade expansion. In the current international economic environment the region must go further and make parallel progress on three related fronts: (i) from trade opening and export orientation to strategies for the internationalization of its firms; (ii) from interindustrial participation in international trade to integration into global value chains (or in specific niches of high-technology products or specialized services, especially in the case of small countries); and (iii) from a competitiveness model based on national efforts alone to one in which public-private alliances and regional cooperation are a growing component.

This last point represents a two-pronged challenge. On the one hand, a strategic vision must articulate policies dealing with export promotion and diversification, innovation and technology dissemination, attraction of FDI and skills development. On the other, public-private alliances must be promoted to support both the setting of objectives on a mutually agreed basis and concerted work to accomplish them. This would enable the region to emulate —with the necessary adaptations to different national situations— the experiences of several countries in Europe, Asia and Oceania that have positioned themselves successfully in the world economy.

In the new international setting, the region must take advantage of its growing links with other developing regions and enhance its competitiveness by strengthening regional integration. Here, the concept

of open regionalism put forward by ECLAC almost two decades ago is still relevant.[6] Open regionalism is aimed at developing regional strengths to better meet global challenges. It complements integration into the main world markets with the stimulus provided by intraregional trade and, in so doing, it favours intra-industry trade, export diversification and a stronger presence of SMEs in export flows. The larger scale provided by an integrated regional market would not only boost intraregional trade but would also help to attract FDI and pave the way for the creation and expansion of more trans-Latin firms. Moreover, the regional framework would provide enabling conditions for still incipient regional production chains and would help to spread and leverage innovation processes. Equity in the region would also benefit from greater internationalization of SMEs and the creation of employment in activities that embed more value added and knowledge than those that produce most of the region's exports to extrarregional markets today.

To these traditional arguments in favour of integration is added the fact that in today's globalized economy competitiveness increasingly incorporates regional elements. Regional or subregional coordination is essential to achieve objectives such as an adequate transport, energy and telecommunications infrastructure, since coordinated action among governments yields better results than isolated national efforts. These objectives are crucial to boosting the countries' international competitiveness, particularly given the needs in terms of infrastructure, logistics, customs facilities, and so forth stemming from trade with "mega markets" such as the United States, the European Union and (increasingly) Asia.

Compared to other regions, intraregional trade in Latin America continues to be limited in relation to its total exports, and is intensive in final goods. Over the past two decades, intraregional exports have never exceeded 20% of the total exports by Latin America and the Caribbean, a much lower figure than the 46% for East Asia and the Pacific. Intraregional trade in Latin America and the Caribbean has a strong manufacturing component, but continues to be dominated by finished goods. By contrast, the steep rise in Asia's intraregional trade has been closely linked to the growing geographical fragmentation of production in value chains, and has therefore been characterized by strong growth in trade in parts and components in the sectors of machinery, transport equipment and electronics.

The small proportion of intraregional trade in total Latin American and Caribbean exports is partly a result of the natural-resource-oriented export pattern of many of its economies, but it also has to do with the lack of an integrated economic space. In particular, non-tariff barriers persist which, often being opaque and rather discretionally applied, can dampen trade even more than tariffs. The development of value chains in the region is limited not only by remaining obstacles to trade in goods and limitations on cumulation of origin, but also by the uneven treatment of regulatory issues, such investment, services, competition policy and technical standards. The experiences of East Asia and Central and Eastern Europe seem to bear out the idea that value chains require a certain minimum level of regulatory harmonization among participating countries in order to function.

Taking better advantage of the considerable potential offered by the regional market will require action on at least six fronts. First, there is room for greater convergence among the different components of the region's economic integration architecture. Given the size of the economies concerned, the main missing link to complete the network of preferential trade relationships within the region is between Mexico and MERCOSUR. Within this context, the negotiations on a strategic integration agreement between Brazil and Mexico which were announced in late 2010 could infuse momentum into the entire Latin American economic integration process. Nevertheless, at the time of writing the negotiations had yet to start. Other initiatives are also under way to advance convergence between countries and integration schemes. Progress is being made, for example, in talks between Mexico and the Central American countries on merging the existing three free trade agreements between them into a single accord. Another noteworthy development is the creation, in April 2011, of the Pacific Alliance, which is intended to establish a deep integration area between Chile, Colombia, Mexico and Peru.

South American countries should re-engage with the economic and trade convergence agenda, as is already happening in Mesoamerica. A very useful first step would be to allow cumulation of origin among the countries of the region. With the exception of the three economic complementarity agreements between MERCOSUR and the Andean countries, most agreements negotiated in the framework of the Latin American Integration Association (LAIA) do not include cumulation of origin. This reduces the potential for developing regional and subregional value chains and hence for achieving greater productive integration. A second step would be to preserve as much as possible of the tariff and other commitments between

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6 ECLAC, *Open Regionalism in Latin America and the Caribbean. Economic integration as a contribution to changing productions patterns with social equity*, Libros de la CEPAL, No. 39 (LC/G.1801/Rev.1-P/I), Santiago, Chile, 1994. United Nations publication, Sales No. E.94.II.G.3.

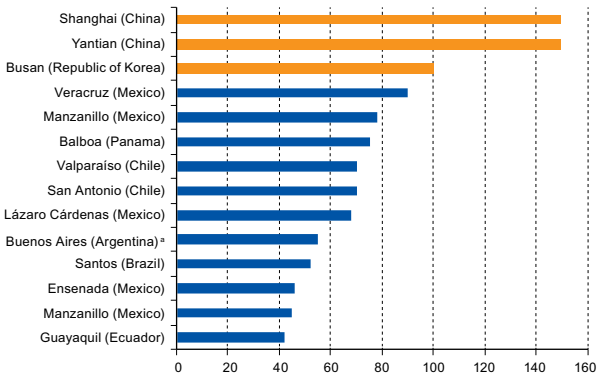
the members of the Andean Community and the Bolivarian Republic of Venezuela, with whom Ecuador and the Plurinational State of Bolivia have already concluded bilateral agreements to that effect.

Second, the region needs to invest heavily in trade facilitation, as it lags behind the world leaders in terms of the costs associated with foreign trade. This is partly a result of the region's large infrastructure deficit, which will take large investments over several years to close (see the next point). Nevertheless, significant efficiency gains can be reaped over shorter time frames and at a lower cost by rationalizing customs and other procedures that affect merchandise trade at national borders. Although such reforms are primarily the domain of individual governments, coordination of national efforts at the regional or subregional level can create useful synergies, as evidenced by subregional cooperation experiences in trade facilitation in Central America.

Third, it is necessary to enhance regional and subregional cooperation to reduce the infrastructure gap in Latin America and the Caribbean. Infrastructure in the region falls short of the average for South-East Asia in all of the countries, and short of the broader world average in most of them, which stymies efforts to improve their integration into the world economy. This lag is exemplified by the region's ports, most of which underperform in relation to more efficient ports in Asia (see figure 6). ECLAC has estimated that the region would need to devote an annual investment of around 5.2% of GDP to infrastructure between 2006 and 2020 simply to meet the needs arising from its projected economic growth.[7] Regional and subregional cooperation can create synergies between national efforts in this area. Cross-border development conduits, including bi-oceanic corridors, help to reduce the transport time and costs associated with foreign trade, both within and outside the region. They also contribute to more harmonious territorial development between countries and between regions within countries. The Initiative for Regional Infrastructure Integration in South America (IIRSA) and the Mesoamerica Project are notable examples of such schemes.

The region could gain greater benefits from Aid for Trade to overcome its shortcomings in physical infrastructure and trade facilitation. The Latin American and Caribbean region receives a relatively small share (9% in 2009) of total Aid-for-Trade flows. This is partly because most of the countries in the region are classified in the middle-income category. Nevertheless, Latin America and the Caribbean could still secure a larger share of such flows if the countries were to define priorities and identify and present relevant projects that could unlock fresh resources. In this context, priority should be given to attracting grants for projects such as IIRSA and the Mesoamerica Project, which involve several countries and have a clear trade facilitation component.

Figure 6
LATIN AMERICA AND ASIA: PRODUCTIVITY OF SELECTED PORTS, 2008-2010
(Containers per ship hour)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the ports.
[a] Refers to the average for two terminals (BACTSSA and Exolgan, S.A.).

Fourth, social factors —and their complementarity with the economic and trade agenda— must be afforded greater prominence in regional cooperation efforts. Great inequality both within and between countries is unfortunately a hallmark of Latin American and Caribbean. This is manifested in large disparities in indicators such as per capita GDP and social spending (see table 4). The integration modalities promoted must therefore contribute to reducing these stark asymmetries of development, as a necessary condition for the sustainability and legitimacy of the broader integration process.

All integration schemes should adopt systems of asymmetric benefits in favour of relatively less developed economies. This principle has long been expounded in the proposals of ECLAC regarding open regionalism. In particular, structural funds aimed primarily at those economies must be strengthened, building on the positive experience of the Structural Convergence Fund (FOCEM) of MERCOSUR and similar initiatives in other subregional schemes. It is also important to make the markets of the larger integration partners more open to exports from the relatively less developed members and to redouble efforts to integrate firms from these countries into subregional value chains.

[7] ECLAC, "The economic infrastructure gap in Latin America and the Caribbean", *FAL Bulletin*, No. 293, Santiago, Chile, 2011.

Table 4
LATIN AMERICA AND THE CARIBBEAN: ASYMMETRIES IN PER CAPITA INCOME AND SOCIAL SPENDING, 1990-2010
(Dollars at constant 2000 prices, ratios and percentages)

		Lowest	Highest	Average	Highest-lowest ratio	Lowest as a percentage of the average	Highest as a percentage of the average
		(dollars at constant 2000 prices)					
Per capita GDP	1990	516	17 373	3 546	33.7	15	490
	1995	413	15 752	3 801	38.1	11	414
	2000	427	17 977	4 116	42.1	10	437
	2005	384	18 407	4 380	48.0	9	420
	2010	360	17 242	5 024	47.9	7	343
Per capita social spending	1990	40	1 114	335	27.9	12	333
	1995	46	1 526	395	33.2	12	386
	2000	51	1 652	454	32.4	11	364
	2005	103	2 002	645	19.4	16	311
	2008 [a]	104	2 173	707	20.9	15	307

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] Figures were calculated on the basis of the available information that was closest to 2008 (in some cases it corresponds to 2006 or 2007).

Fifth, the region must increase regional cooperation on innovation and competitiveness. The Latin American and Caribbean region lags significantly in the area of international competitiveness, as shown consistently in international indices. For example, only two countries in the region (Chile and Barbados) rank among the top 50 in the Global Competitive Index (GCI), which is compiled annually by the World Economic Forum. The Global Innovation Index (GII) 2011, which is prepared by the French business school INSEAD together with other institutions, including the World Intellectual Property Organization (WIPO), captures data on 125 countries to reflect a broad view of innovation. Of the 20 Latin American countries included in GII, only Chile, Costa Rica and Brazil rank in the top 50 (at positions 30, 45 and 47, respectively).

Given the limited individual capacity of many countries in the region to substantially boost their investment in research and development (R&D), it is imperative to pool national efforts and adopt a concerted approach. This could be accomplished, for example, by integrating national technological centres into multinational research efforts on common topics, thereby creating synergies and a regional critical mass of human and financial resources. At the national level, this approach also requires: (i) greater coordination among the different public agencies working on competitiveness issues; and (ii) the formation of public-private partnerships to share information and define objectives of common interest. These general guidelines can lead to concrete actions such as the creation of a regional cooperation fund for innovation, which would finance programmes or actions defined jointly by the countries in the region.

Sixth, the link with Asia-Pacific could be tapped to deepen regional integration. During 2011, the Chinese authorities have repeatedly expressed a willingness to cooperate in promoting the diversification of Latin American and Caribbean exports to that country. Another key challenge for regional integration is the facilitation of investments from China and the rest of Asia through a single regional window. Such investments, especially if they were made in infrastructure, energy, transport and logistics, would not only help to strengthen trade links with Asia-Pacific, but would also create positive externalities for the region's internal integration process.

The region should, in the near term, prepare a document setting forth lines of action for forming closer strategic ties with China. China took the first step in this direction in November 2008, when it issued a policy paper on Latin America and the Caribbean. The coordination needed to prepare a response to China's document could pave the way for the holding of a first Summit of Heads of State of China and Latin America and the Caribbean in the coming years. A meeting of this sort would provide the opportunity to agree upon a shared agenda of trade and investment projects. The recently created Community of Latin American and Caribbean States (CELAC) could build this issue into its agenda of work.

Chapter I

Crisis and convergence in the international arena

A. Introduction

The global economy is currently growing at different speeds. While the emerging areas (the South) recovered rapidly from the crisis and are already recording high growth rates, the industrialized countries (the North) are experiencing serious difficulties. In fact, it is some time since the major emerging economies regained their pre-crisis GDP and trade levels; several of them have been growing above potential in 2011 and even running the risk of overheating. The industrialized economies, on the other hand, in addition to their struggle to regain their pre-crisis levels, are facing unprecedented challenges in terms of fiscal consolidation and sovereign debt sustainability. In the absence of any precise or effective signals of how these challenges will be tackled, the world economy will continue to be plagued by high levels of volatility and uncertainty.

Three years after the collapse of Lehman Brothers, the world economy has been unable to shake off the legacy of the financial crisis and risk and uncertainty are still exacting heavy tolls. Sovereign debt crises and huge fiscal deficits continue to plague the euro, even after the second bailout package for the Greek economy. Fiscal consolidation and the limit on the public debt in the United States are keeping the world economy on tenterhooks and on the verge of a possible recessionary shock, lest Congress fail to arrive soon at a consensus as to how to cope with this challenge. Notwithstanding the huge monetary and fiscal support programmes for reviving the United States economy, the trend at the moment bears no resemblance to the typical pattern of post-war recovery. Private investment remains slack and unemployment high, preventing private consumption from rebounding as strongly as had been expected. Japan is still working through the fallout from the disaster of March 2011 and its impact on the electric power supply, which is hampering the fragile recovery under way in its economy.

This situation is speeding up income convergence globally. Per capita income in many emerging countries is growing at a fast pace and tending to converge more rapidly with that of the industrialized countries. A structural

change is taking place in the geography of world growth with the first group of countries being the Asia-Pacific economies, led by China. Admittedly, the per capita income gap remains substantial. However, indications are that these gaps will shrink fairly rapidly, at rates that were unimaginable a few years ago. The movements in the different global economic variables underlying this fundamental trend deserve some attention and not only in terms of average magnitudes. Indeed, the South still has only a minority share in world GDP and world trade, although for some years now it has been contributing more than the industrialized countries to the growth of both variables.

The faster growth of the emerging countries reduces the North-South divide in world production and consumption. The South still has a minority share in trade in goods and services, but its role in those aggregates is growing rapidly. For example, it accounts for a majority share of production and consumption of various commodities (including aluminium, copper, grains, oil and soybean). Within the group of emerging economies, China stands out in terms of its high growth and demand for commodities, its expansionary policy in the monetary and foreign-exchange spheres and its investments worldwide. Commodity prices and exports worldwide are increasingly influenced by China, which favours commodity-exporting countries. China is, moreover, an increasingly influential stakeholder in the global business world with investments in Europe, Asia, Africa and Latin America and the Caribbean, and has been the main underwriter for the debt of the United States and other advanced countries.

Among the emerging countries, China holds a prominent position. It is now the second leading economy in the world, the largest exporter and the second-largest world importer of goods. For several Latin American, Asian and African countries, the most or second-most important destination for their exports or source of their imports is China. This grants them increasing relevance in South-South trade. Similarly, companies in the South are beginning to invest in various continents, with special emphasis on South-South investments. China is gaining ascendancy in the world economy, trade and global finance, to the extent that it continued to perform robustly even at the height of the international crisis, thanks to a vigorous recovery programme underpinned by expansion of the domestic market. Globally, China accounted for over 30% of cotton and rice production (in 2008-2009) and more than 20% of maize production. It also accounted for more than 20% of soybean flour and oil production. In terms of world imports, China bought 53% of soybean exports, 28% of soybean meal and 23% of soybean oil.

The emergence of China and the rest of the South is closely linked to the geographic fragmentation of world production and the spread of global value chains (GVC). Value chains are a key feature of the way international trade is currently organized. Exports of finished goods account for a smaller share in global trade, with trade in inputs and intermediate goods on the rise and increased specialization in specific phases of production. The challenge for firms in developing economies is not only to participate in those value chains that are most closely linked to their comparative advantages, but also fundamentally to attempt to position themselves in those segments of the chains that are most innovation- and knowledge-intensive.[1] In practice, control over the governance of these chains is exerted by one or a handful of companies in relation to their providers (upstream) as well as their purchasers (downstream). In this regard, the GVCs focus attention on the globalization process of companies in the region with emphasis on the quality of international partnerships that could be forged in production, foreign trade, innovation and exchange of technology. The value chain phenomenon is particularly widespread in China and the rest of East Asia, but it has gradually been gaining ground worldwide. In Latin America and the Caribbean, the growing importance of trans-Latins is a clear expression of this trend.

In the future, the South and, in particular, the middle class in these countries will be the principal locus and engine of growth in the coming decades. Asia-Pacific, in particular, is expected to account for two thirds of the global middle class in 2030. The middle class in China is already the second-largest in the world, after that of the United States (Kharas, 2010). The increase in per capita income forecast for the coming decades will contribute to an increase in purchasing power in these countries, particularly for the middle class. For example, growth in per capita income in China, India and Asia-Pacific —and the diversification of consumption concomitant with this process —will make these economies the major market for food products. As producers of these products, several Latin American economies enjoy significant comparative advantages.

Overall, while the current multi-speed world economic situation is accelerating income convergence, this is unsustainable. While the emerging areas have recovered rapidly from the crisis and are recording high growth rates, the industrialized countries are continuing

[1] Of course, this means that it will be necessary to build up critical masses of human, financial and technological resources. These are dealt with in chapter III of this document.

to be beset by serious difficulties: high unemployment, lacklustre growth and serious fiscal and financial difficulties. The crisis marked a generalized fall in economic growth and in trade for the vast majority of larger countries in the world in 2009.[2] However, 2010 and the first half of 2011 proved that there is a significant divergence between the industrialized and the emerging countries, notwithstanding the fact that the recovery in all regions has been supported by international trade. The emerging economies enjoyed a rapid recovery and by the end of 2010 had already regained their pre-crisis levels of GDP and trade. In fact, as already mentioned, several of the main emerging economies have been exceeding their growth potential and face the risk of overheating.

The current process of convergence is marked by uncertainty. The economies of the European Union, Japan and the United States are grappling with severe fiscal difficulties and the available margin for monetary policy is virtually exhausted. The good prospects of the emerging countries could be undermined if the industrialized countries do not manage to overcome these difficulties. If the slower growth trend persists in the second half of 2011 and in 2012, the economies in the region with the strongest export ties with the United States, namely, Mexico, the Caribbean and Central America, could see their exports to that market slow, their foreign direct investment (FDI) inflows dry up and their inward remittances from migrant workers slump. Those categories of products that the region exports to the European Union could also be affected if niches are not found in more robust markets. To the extent that the sluggish growth trend may last for several years in the industrialized countries, one strategic approach would be to seek to diversify export markets, optimize intraregional trade and pursue better ways of taking advantage of South-South trade.

Capital and investment flows continue to be highly volatile. In 2011, the global economy has had to cope with successive stresses: the North African crisis and its impact on oil prices; the earthquake and subsequent tsunami and nuclear crisis in Japan, which seriously disrupted global supply chains in several advanced technology areas in which Japan plays an important role; the deepening of the Greek crisis and the contagion that spread to Portugal, Ireland, Spain and even Italy; rising food prices, due to market factors, including intense weather phenomena, and the famine striking several areas in the Horn of Africa and, lastly, the inability of the political system in the United States to reach a formula for tracing out a sustainable path for dealing with the country's debt and fiscal deficit. All of this has deepened the climate of uncertainty that has halted investments, loans and private spending.

The most likely scenario for the coming years in the industrialized economies is one of slow growth and financial turmoil. The fiscal difficulties and sovereign debt in Europe and the United States are likely to lead to a scenario of low growth, high unemployment and sluggish adjustment of corporate and household loan portfolios. For the time being, capital is taking refuge in currencies such as the Swiss franc or in gold or investments in commodities. This is increasing the volatility of the prices for these items. Meanwhile, other investors are seeking high returns in the emerging markets which withstood the financial crisis and maintain high growth rates. These trends are once again increasing global imbalances. It was during the 2008-2009 crisis that global disequilibria started to correct themselves (high current account deficits in the United States and surpluses in China, the emerging economies and oil-producing countries). However, once the risk of a depression in the world economy had dissipated, the disequilibria that had set off the 2008-2009 crisis reappeared. In this climate of high uncertainty, a prudential stance is preferable and international cooperation efforts aimed at resolving complex global economic dilemmas should be pursued in a coordinated way.

Policy coordination is hampered by inadequate global governance. Changes in the world economic structure have accelerated following the 2008-2009 crisis, and adjustments are required in institutions responsible for economic governance. The stronger impact of the emerging countries on macroeconomic variables justifies their claiming more scope and a more prominent role in those bodies. Although some steps have been taken in this direction, more must be done to ensure that they are recognized in international forums.[3] Once the South has acceded to a more prominent role in international governance, it will be in a position to make more substantive contributions towards solving global challenges.

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[2] Of the countries that recorded positive performance in 2009, China, India and Indonesia accounted for 81% of growth.

[3] The former G7 was expanded in 2005 to include a group of emerging countries, which resulted in the formation of the current G20. In the World Trade Organization, the former G-4 became the G-6, and Brazil, Russian Federation, India and China (the BRICs) emerged as a bloc (except for the Russian Federation, which is still negotiating its accession to WTO as a full member).

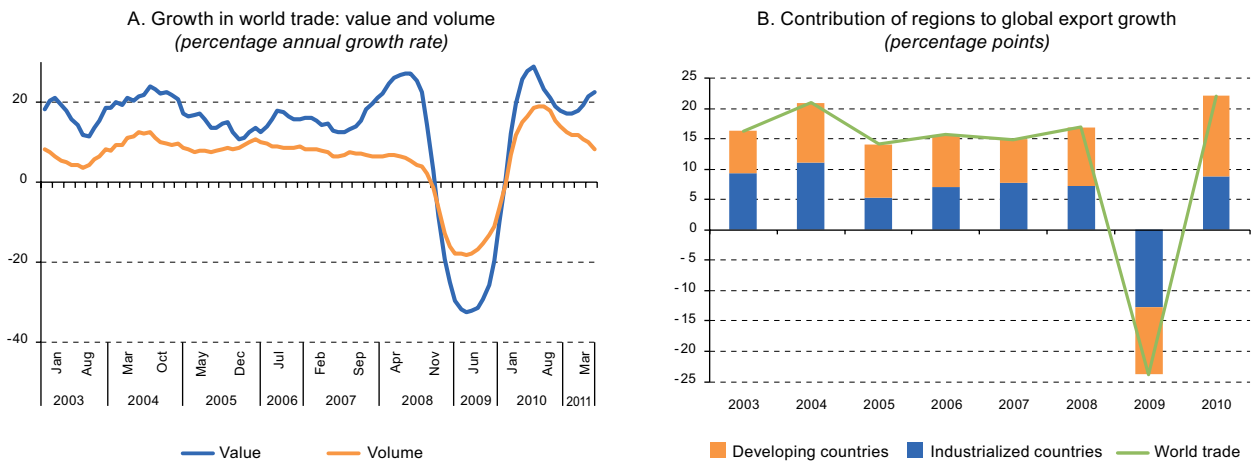
B. Emergence from the crisis led by international trade

1. The rally in trade originated in the South

International trade has contributed significantly to the economic upturn following the 2008-2009 economic and financial crisis. Free trade and open markets averted a worsening of the crisis and subsequently transmitted the signals of a rebound in demand for end products. The substantial contribution of international trade to gross domestic product (GDP) growth is explained in part by various effects that have temporarily increased the output elasticity of trade.[4] The international trading system managed to contain protectionist excesses during the worst international crisis of the past 80 years. Agreements by the Group of the 20 leading economies (G20) since 2008 to curb protectionist measures contributed to this outcome.

There was a strong upsurge in international trade following the crisis in 2010, in particular in the emerging economies. In fact, the volume of trade grew at its fastest rate (15%) since records were first taken 60 years ago. This rally more than reversed the 12% fall in the previous year (see figure I.1). In value terms, world trade rebounded by 22% in comparison with the previous year, thanks in part to the upturn in commodity prices and the depreciation of the United States dollar against the other main currencies (WTO, 2011; CPB, 2010).

Figure I.1
REGIONS ACROSS THE WORLD: GROWTH AND CONTRIBUTION OF TRADE, 2003-2011
(Index 2000=100)



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

[4] First, demand for durables (such as transport equipment or machinery) recovered more than demand for other, non-durable goods (such as food and garments), generating a "composition" effect. Normalization of financial conditions was another factor which re-established access to credit and strengthened the composition effect, since easier access to credit facilitates the acquisition of consumer and capital durables produced in international value chains. Faced with the rally in demand, companies rebuilt their stocks, which fuelled demand and stimulated the operation of production units at the upper end of the chain (the bullwhip effect).

South-South trade, led by China and the rest of emerging Asia, is the main engine of growth in world trade. Of the emerging countries, China recorded the strongest rate of recovery in trade in 2010. Exports grew by 28% in volume, in an impressive reversal of the 10% fall in volume registered in 2009. This growth was almost twice the global growth rate observed in the same year and was not confined to China. In fact, exports from the developing countries grew by 17% in volume terms in 2010, compared with 13% for the industrialized countries and a world average of 15%. Developing country imports grew by 18% in 2010, compared with 11% in the industrialized countries. By the end of 2010, the exports and imports of the emerging economies overtook their pre-crisis levels in value terms. These emerging regions accounted for almost 60% of the growth in the value of global exports between 2005 and 2008 and again in 2010, and contributed less to the fall in 2009. Thus, the industrialized economies are still benefiting from the robust external demand of the developing countries at a time when their domestic demand is still faltering.

Commodity exports from Africa, Latin America and, to a lesser extent, Asia benefited the most from China's strong demand for imports. The economies of these regions benefited from a sharp rally in demand for foodstuffs, hydrocarbons, metals and minerals. These products accounted for more than a third of the increase in imports in 2010. The value of imports from Africa and Latin America climbed to 55% and 41%, respectively (see table I.1). Africa consolidated its position as a key oil supplier to China, as reflected in various energy and investment agreements in countries such as Angola, Gabon, Kenya, Niger, Nigeria and Sudan. South Africa has also become a key supplier of metals and other raw materials. Within Latin America, the countries that took advantage of China's high demand for foodstuffs, metals and oil were those of South America.

Table I.1
CHINA: INCREASE IN IMPORTS AND CONTRIBUTION TO EXPORTS OF COUNTRIES AND REGIONS, 2010
(Percentages)

Countries/regions	China's imports		Exports to China	
	Growth by country of origin, 2010 (*percentages*)	Structure by country of origin, 2009 (*percentages*)	China's share of exports, 2009 (*percentages*)	China's contribution to the increase in exports, 2010 [a] *(percentage points)*
North	36.7	40.0	5.1	12.0
United States	32.1	7.8	6.7	10.3
Canada	23.7	1.2	3.1	4.3
European Union	31.9	12.8	2.6	8.1
Germany	33.4	5.6	4.6	14.5
Rest of European Union	30.7	7.2	1.9	5.5
European Free Trade Area (EFTA)	102.9	1.0	2.6	5.7
Japan	35.0	13.1	19.0	21.2
Australia and New Zealand	53.3	4.2	20.3	34.6
South	39.6	60.0	10.7	20.2
Africa	55.2	4.1	6.7	22.3
Developing Asia	36.1	40.7	13.0	21.8
Latin America and the Caribbean	41.1	6.4	7.4	11.8
Middle East	54.2	5.6	3.2	22.0
Commonwealth of Independent States	35.7	3.1	6.1	12.7
World	38.5	100.0	9.6	17.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Data Base (COMTRADE) and the World Trade Organization (WTO).
[a] China's share in the increase in exports in 2010 is calculated as the absolute variation in each country or region's exports to China between 2010 and 2009 over the total variation in world exports in 2010.

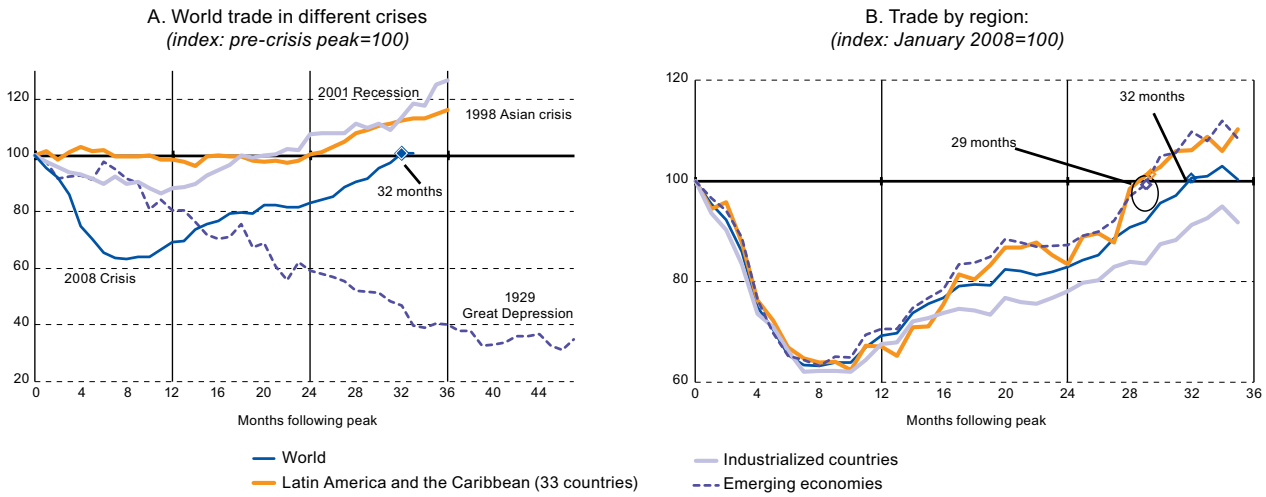
Other beneficiaries of the robust demand from China are the sellers of spare parts, components and capital goods. Many of these countries (in Asia, Germany and the United States) participate in global value chains concentrated in China. These countries sell spare parts and components to China, which, in turn, assembles the end-product. Following the crisis, this "factory Asia" benefited from the modest recovery

in demand in the United States and Europe and a more buoyant consumption of durable goods in China and other emerging countries, which boosted production and trade, at least temporarily, thus adjusting inventories. At the same time, Germany, whose exports to China consist mainly of heavy machinery and electrical equipment, benefited from the increase in demand spurred by the infrastructure stimulus programme launched in 2008.

China's buoyant imports contribute significantly to the increase in its partners' exports (the marginal variation), but these imports account for a smaller absolute percentage of their export basket. This is shown in table I.1, where the fourth column indicates that the weight of the Chinese market in exports in 2009 was only 5% for the industrialized (Northern) countries and 11% for the developing (Southern) countries. However, the percentage contribution of China's demand to the 2010 rise in exports of each partner was more than double (see fifth column). In some cases such as Germany, the rest of the European Union and Africa, this contribution was more than three times the absolute weight. This stronger marginal role points to major changes in future weights.

World trade picked up more slowly than after other recent crises. In this crisis, world trade (exports plus imports) started to fall in July 2008. By March 2009, following eight months of decline, the value of trade bottomed out at a level 37% below its pre-crisis peak. The subsequent full recovery took two years. This period is longer than after the Asian crisis (1998) and the global recession of 2001, which is partly due to the fact that the two previous crises were not as deep. Nevertheless, recovery from the current crisis was more rapid than following the 1929 crisis, which was similar in intensity to the current one. As shown in figure I.2, the decline in trade in the recent crisis was more rapid than in the 1929 crisis, but this trend was reversed in March 2009, thanks to the comprehensive countercyclical measures adopted especially in the G20 countries, to these countries' agreement to avoid protectionist measures and, not least, to the renewed buoyancy of China and Asia (see figure I.2).

Figure I.2
RECOVERY IN TRADE IN THE POST-CRISIS PERIOD (IN VALUE TERMS)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CPB Netherlands Bureau of Economic Policy Analysis, *Statistical Yearbook of the League of Nations*, 1932-1933, Geneva 1933 and *Monthly Statistical Bulletin*, Geneva.

The Latin American and Caribbean region regained its level of trade in December 2010, one month earlier than the rest of the emerging regions and well before the industrialized economies. The region's trade had fallen more sharply than that of emerging regions as a group, because of the drop in both volumes and prices of its commodity exports. Up to July 2011, the advanced economies had not yet regained their pre-crisis trade performance level. This is because they are still mired in the post-crisis phase, which has undermined domestic and external demand.

2. Dynamism by groups of products and regions

The rapid recovery in trade in the emerging areas masks widely diverse performances. Commodity exporters, in particular Latin America and the Caribbean and Africa, recorded smaller expansions in volume. Conversely, exports from manufacturers such as China and other countries in emerging Asia achieved higher average rates of growth in volume (see table I.2).

Table I.2
SELECTED COUNTRIES AND REGIONS: EXPORTS OF GOODS IN VOLUME TERMS, 2000-2010
(Annual growth rates)

	2008	2009	2010	2000-2010	2005-2010
Sub-Saharan Africa	1.3	-2.6	2.4	4.0	2.8
Latin America and the Caribbean	0.6	-8.3	11.1	2.9	1.4
Members of the Association of South-East Asian Nations (ASEAN-5) [a]	1.9	-5.0	16.5	4.3	3.2
China	8.3	-11.0	33.8	16.7	11.3
United States	6.3	-12.0	14.7	3.0	3.9
Japan	-1.8	-26.0	24.1	12.0	2.5
European Union [b]	1.5	-12.5	10.4	2.3	1.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of International Monetary Fund (IMF) (2011), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, 2011 and for the European Union, United Nations, Global Economic Outlook Data, 2010.
[a] Include Indonesia, Malaysia, Philippines, Thailand and Vietnam.
[b] In this case, the calculation was based on the number of tons exported.

The pace of recovery in trade varied considerably in the group of industrialized countries as well. For the United States, the export and import volume growth rate was close to the world average. The performance of the European Union was more sluggish partly owing to its slow recovery and the fiscal position and complicated sovereign debt situation of several countries in the euro area. This not only depresses domestic demand and imports, but also has a dampening effect on the growth of its exports, since their regional market absorbs two thirds of their overall exports. Moreover, their two main extra-regional markets (the United States and Japan) have staged a weak economic recovery. One exception within the European Union is Germany, which recorded higher GDP and trade growth rates, in part because its close trade linkage with China boosted its exports substantially. Lastly, in 2010, Japan had the highest growth rates for exports and imports among the industrialized countries. This is due to sharper falls in its trade in the previous year and to its increasingly close trade ties with China. The earthquake and tsunami in April 2011 had a significant human and social impact but the implications for trade have been limited.

World trade in manufactures continues to be dominated by products with a higher technology content. Growth in trade in manufactures was higher in volume terms but lower in value terms than growth in commodities trade. Towards the end of 2010, exports of manufactures came close to the pre-crisis peak (see table I.3). Nevertheless, some categories such as medium-technology products (for example, motor vehicles) and resource-based manufactures, including iron and steel, remained below pre-crisis levels. In the case of the motor vehicle industry, this is partly due to the fact that this was the sector that recorded the steepest fall during the crisis (down 51%). Nevertheless, world trade in high-technology products such as office and telecommunications equipment declined less than other products and their recovery has been more than proportional. Among the low-technology products, world trade in textiles and garments fluctuated less than that of other products (down by 14% in 2009 and up by 11 % in 2010).

Table I.3
WORLD: TOTAL EXPORTS BY TYPE OF PRODUCT IN VALUE TERMS, 2000-2010
(Annual growth rates)

	2007	2008	2009	2010 [a]	2000-2005	2000-2010
Total	13.7	15.3	-22.1	20.9	10.0	8.8
Natural resources	8.2	36.6	-29.0	22.8	11.9	10.8
Manufactures	14.6	12.0	-20.8	20.6	9.8	8.5
Resource-based	15.8	17.6	-25.5	22.5	11.9	10.1
Low-technology	16.6	9.6	-20.1	19.3	9.1	7.8
Medium-technology	17.4	11.2	-25.7	28.2	10.5	8.7
High-technology	8.6	6.1	-13.0	22.2	7.9	7.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE), Statistical Office of the European Communities (EUROSTAT) and national sources.
[a] Growth rates in 2010 were worked out on the basis of information relating to 85% of world trade (77.5% from the COMTRADE database; 7.5% EUROSTAT-Austria, Latvia, Malta, Netherlands, Poland and Spain). For those categories for which there were no reporting countries, mirror statistics were used, supplementing the missing bilateral relations with structural information for 2009 and the growth rate reported by the World Trade Organization (WTO). This applies to India, Philippines, Republic of Korea and Singapore. The same procedure was followed for the Latin American countries, with information on national sources for 2010.

World trade in services grew by 8% in 2010, compared with 2009. This lower growth rate in comparison with the upturn in trade in goods largely reflects the more limited decline in trade in services during the 2009 crisis. Unsurprisingly, transport was the most vibrant services category, given that it is closely linked to trade in goods, which recorded a strong recovery. Tourism and business travel as items of world trade grew at a similar pace as trade in services as a whole, while other services were below average.

C. The problematic situation of the industrialized countries

The industrialized economies are still suffering from the repercussions of the financial crisis with low economic growth rates and an unhealthy fiscal situation. In 2010 and in the first half of 2011 growth in the United States was stronger than in the euro area but lower than in Japan (see figure I.3). Forecasts for the entire year 2011 for the United States and Japan are being revised downward for various reasons. The euro area, Japan and the United States also share other features: high fiscal deficits and public-debt-to-GDP ratios, a vulnerable financial system (especially the euro area), slow credit recovery (especially in the United States and the European Union) and still-expansionary monetary policies. Furthermore, in all three cases, the space left for monetary policy is limited. All the industrialized countries marked an upturn in their exports in 2010, with the intensity varying with the extent of the fall of 2009. For 2011 an export growth slowdown is expected, especially in Japan. Although the higher commodity prices pushed up inflation and inflation expectations in these countries, the rates are still under control since the economies have been growing below their potential and, with unemployment high, labour costs have not increased.

Figure I.3
UNITED STATES, JAPAN, UNITED KINGDOM AND THE EURO AREA: GDP, FISCAL DEFICIT, INFLATION AND GOODS EXPORTS, 2008-2011

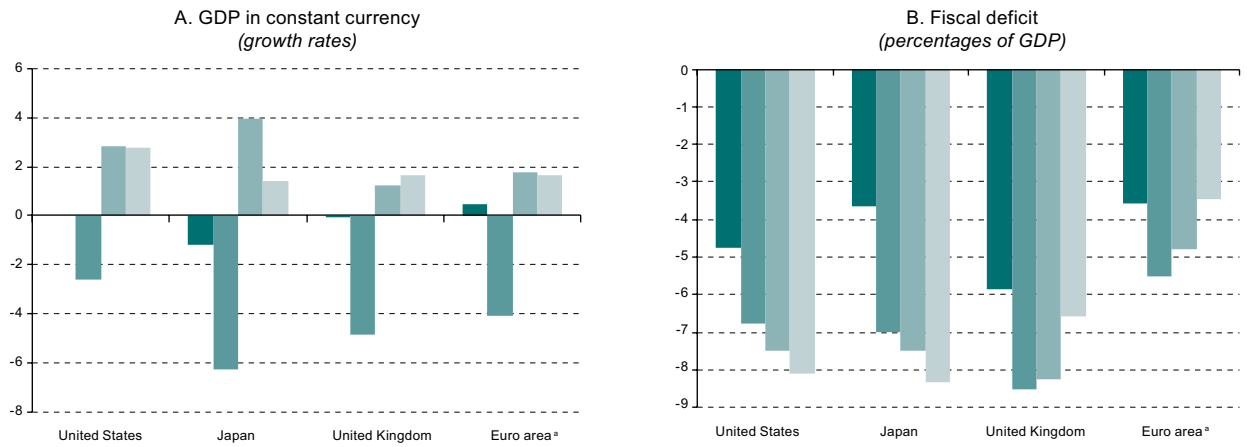
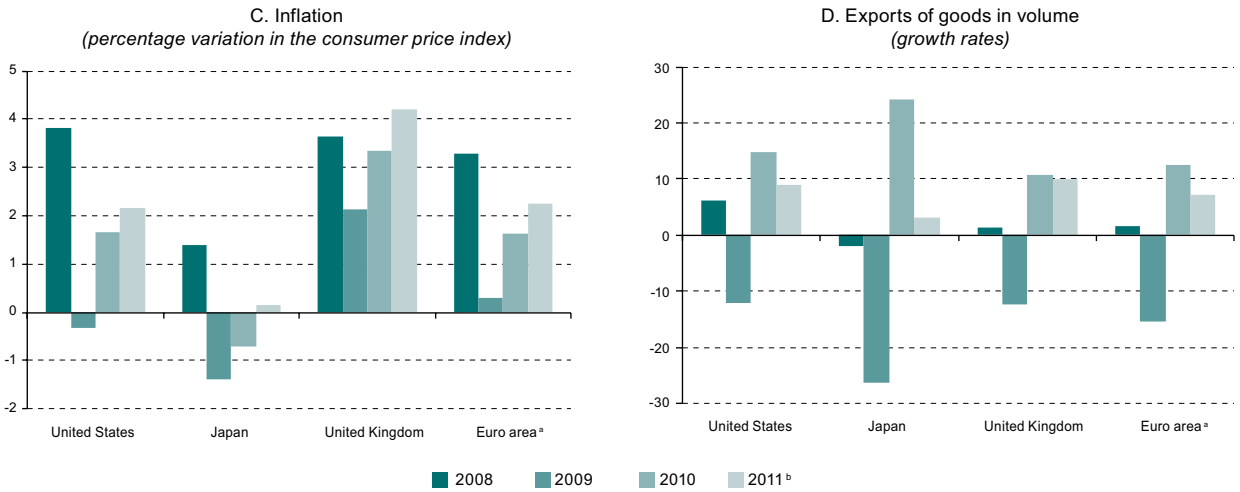


Figure I.3 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) (2011a), "World Economic Outlook Database," *World Economic and Financial Surveys*, [database] <http://www.imf.org/external/ns/cs.aspx?id=28> [11 April 2011].

[a] Simple average of its member States, excluding Estonia and Luxembourg, due to the lack of data.

[b] Forecasts.

1. United States

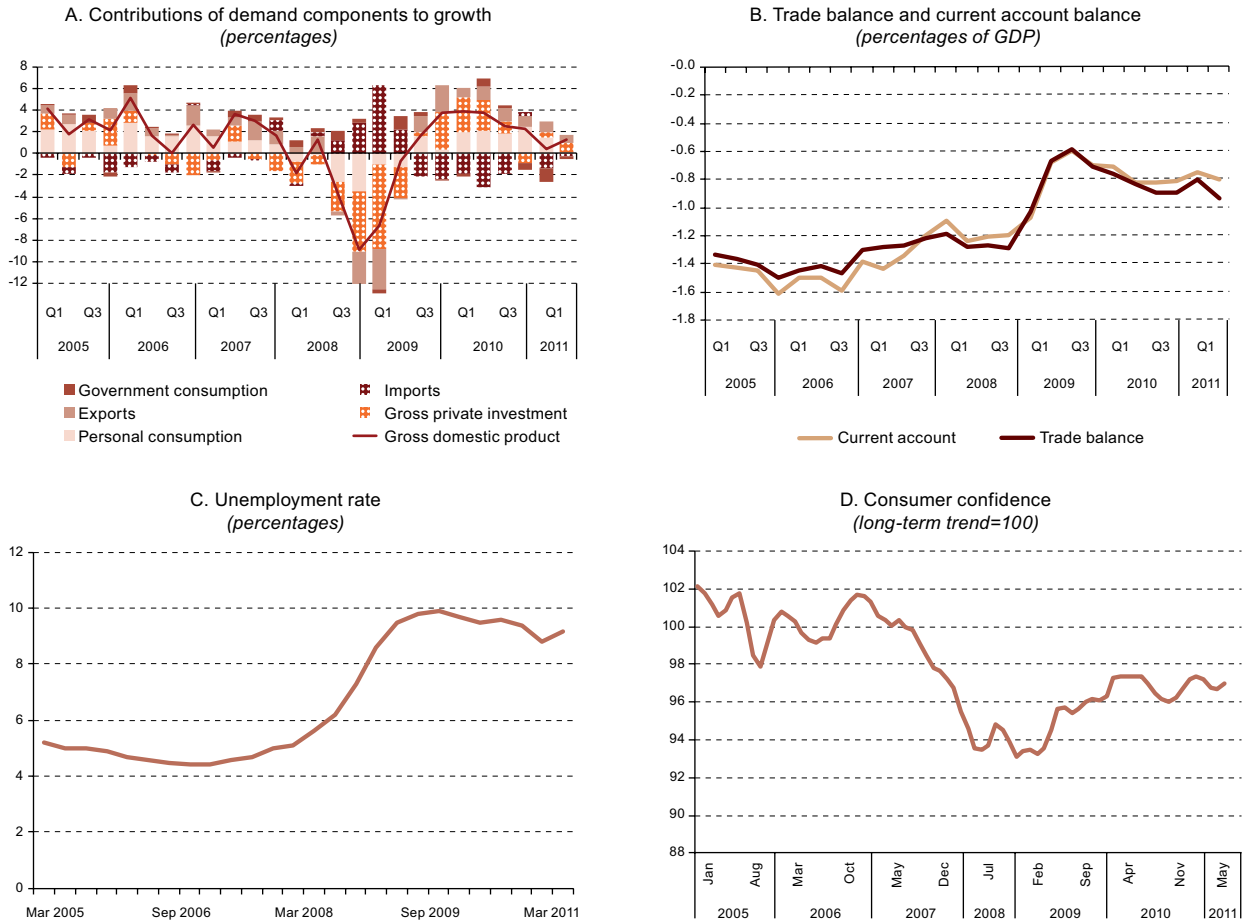
The upturn in the United States seemed to be slightly stronger than in the European Union despite the high levels of unemployment, a stagnant real estate market and the gloomy outlook in terms of fiscal adjustment. In 2010, the United States economy grew by 3%, led by a rebound in investment in equipment and software (15%). But private consumption did not bounce back with any strength as unemployment remained persistently high (at around 9%) (BEA, 2011), the real estate market remained stagnant with considerable housing stock for sale and household income was at a low ebb. Public spending expanded by just 1% given the fragile fiscal situation. In fact, the federal deficit in 2010 was equivalent to 7.5% of GDP and is expected to be 10% for 2011 (OECD, 2011).

Net exports put a damper on growth in 2010. In volume terms, exports expanded by 12%; imports were up by 13%. Both flows signalled a clear recovery compared with 2009 when exports were down by 12% and imports by 14%. Their net contribution to GDP was therefore positive (BEA, 2011). In 2010, exports and imports to and from China and the rest of developing Asia and Latin America and the Caribbean grew faster, while sales and purchases in Europe grew more slowly. In short, following an improvement in the trade balance up to the end of 2009, the trade deficit widened again, this time even further (see figure I.4).

The Federal Reserve has maintained its expansionary monetary policy, at a time when the recovery seems to be faltering. The sluggishness of the upturn has led the United States Federal Reserve to maintain the benchmark rate at historic lows and it may adopt a third phase of quantitative easing (or QE III) to compensate for the weakness of the recovery. The two phases of quantitative easing (QE I and QE II) were implemented in 2009 and between November 2010 and June 2011. These operations took the form of purchases of unsterilized Treasury bonds. In the case of QE II, the purchase of bonds supported debt and asset values and is estimated to have added 0.6 percentage points to GDP growth (Mufteeva and Julien, 2011).

However, towards the middle of 2011, the United States economy proved to be weaker than expected. At the beginning of 2011, growth for the year was forecast at 3.5%. The revised data for the first half-year indicated growth of under 1%, despite strong fiscal and monetary stimulus. Construction remains sluggish and is not expected to recover fully for another two to three years. As regards the labour market, the slight downtrend in unemployment in 2010 may have bottomed out in March 2011 (see figure I.4).

Figure I.4
UNITED STATES: MAIN MACROECONOMIC INDICATORS, 2005-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Bureau of Economic Analysis (BEA) for balance of payments and breakdown of GDP; Bureau of Labor Statistics (BLS) for unemployment rates; Organization for Economic Cooperation and Development (OECD), *Factbook 2010*, Paris 2010 and *Main Economic Indicators*, vol. 2011, No. 6, June 2011 for consumer confidence.

Just before the 2 August 2011 deadline, the authorities reached an agreement to raise the sovereign debt limit by US$ 2.4 trillion in two phases, which should enable the Government to finance its expenditure at least until the end of 2012. The agreement is that the debt ceiling, currently at US$ 14.3 trillion, should be raised by US$ 900 billion up to February 2012 and by US$ 1.5 trillion up to the end of 2012. To offset this increase in debt, the deficit and public spending will be reduced by the same amount. Agreement has already been reached on US$ 917 billion in savings. Further cuts of between US$ 1.2 billion and US$ 1.5 billion will be defined by a new bipartisan super committee, made up of an equal number of members from each of the two parties (Democrats and Republicans), before year-end 2011 (Steinhauer, 2011).

This agreement could paralyse the fragile recovery of the United States economy, with serious consequences for the Latin American economies. GDP growth has been slow in the past quarters and cuts in public spending will probably further weaken the economy and hamper future growth, with an adverse impact on fiscal revenues.

The difficult political debate on the raising the debt ceiling has underscored how difficult it is for the Government of the United States to implement economic recovery policies. It was mainly for this reason that Standard & Poor's lowered the sovereign risk rating of Treasury bonds from AAA to AA+ in August 2011. This was the first time in the country's history that its risk rating had been lowered.[5] The market reacted in an unexpected manner: interest rates on Treasury bonds declined to levels

[5] Moody's and Fitch Ratings maintained the rating for Treasury bonds at AAA in August 2011, citing the expected upturn in 2012 and 2013 and debt stabilization in the medium term.

similar to those seen during the 2008-2009 crisis. This flight to quality suggests that the austerity policies may jeopardize the recovery in the industrialized countries and the probability of a second recession is high.

The Latin American countries whose main export market is the United States (Mexico, Central America and the Caribbean) could be adversely affected. Other possible impacts of the loss of momentum in the United States are a fall in commodity prices, a slowdown or reduction in FDI by United States firms in Latin America and the Caribbean and a decline in remittances and migratory flows.

2. The euro area

Europe is in a weaker position than the United States. Unlike European sovereign bonds, United States Treasury bonds continue to be a refuge against the crisis so that even in these exceptional circumstances with the lower debt rating, the medium-term rates for these notes are continuing to fall. The banking system in the United States is less at risk than in Europe, since the United States has gained in terms of solvency and its risk exposure is lower. Companies have posted substantial gains and built up cash reserves while continuing to postpone investment decisions. On the other hand, Greece and Portugal remain in recession; those European economies that are going through a critical period are borrowing at rates that will make repayment practically impossible; a significant number of European banks are committed to the economies in crisis, and the slow progress of the European institutions adds further uncertainty to the scenario.

The euro area's recovery has been weak, partly owing to intense fiscal consolidation albeit with different realities among its 17 member countries. Following massive public interventions designed to bail out the financial sector and support domestic demand in 2009 and 2010, the member countries are now in a the throes of fiscal consolidation in a bid to put the fiscal deficit and public debt on a more sustainable footing in the long term. Governments have introduced drastic cost-cutting measures.

For Greece and some other European countries, these measures do not solve the public debt problem and therefore, in order to avoid default, greater support will no doubt be needed from the European economies, the multilateral agencies and private banks. The countries in the most critical situation are Greece, Ireland and Portugal. These countries are characterized by structural fiscal deficits and low levels of domestic saving, due to a ballooning public debt and a permanent current account deficit. The risk-rating agencies have downgraded the debt rating of those countries because of doubts concerning their sustainability. In order to avoid default, a new European Financial Stability Facility (EFSF) together with the International Monetary Fund (IMF), the European Central Bank (ECB) and private banks, adopted new rescue measures in July 2011 (see box I.1).

Box I.1

CHRONOLOGY OF THE FISCAL CRISIS IN THE EURO AREA PERIPHERY COUNTRIES, 2009 TO 2011

In late 2009, Greece doubled its budget deficit forecast from 6% to 13% of GDP. Consequently, the rating agencies downgraded Greek sovereign debt. In February 2010, this country adopted a stringent austerity plan.

Between January and March 2010, Spain and Portugal also announced plans to restructure following forecasts of record high deficits and Ireland announced a bailout plan for its banking sector.

In May 2010, the euro area, with the participation of the International Monetary Fund (IMF), set up the European Financial Stability Facility (EFSF) to help solve the fiscal crises in the periphery countries. Fresh budget cuts were also announced in Spain and Portugal.

During the same month, the European Union and IMF approved an initial 110 billion euro (€) bailout plan for Greece in exchange for a commitment by the government to saving € 30 billion.

In November 2010, the European Union and IMF agreed to an € 85 billion bailout plan for Ireland, of which € 35 billion was contributed by the banks.

In May 2011, a € 78 billion rescue package was announced for Portugal in exchange for commitments to cuts in public expenditure.

In July 2011, at a high-level emergency meeting, a second bailout plan was worked out for Greece totalling € 158 billion. The banks and other private creditors will play a substantial part in this plan. In addition, it is planned to extend the maturity and lower the interest rates. The euro area has also decided to ease EFSF conditions, for example to use funds for precautionary loans and for recapitalizing banks.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Wall Street Journal* "Europe's debt crisis" [online] <http://online.wsj.com/public/page/europe-debt.html> 2011 [date of reference: 2 August 2011].

Neither the perception that Greece is liable to default nor the threat of contagion spreading to larger European economies has dissipated after the second support package for the Greek economy. Two weeks after the package was approved, Spain's and Italy's risk premiums soared close to the levels which had prompted bailouts for Ireland, Greece and Portugal.[6] Worse still, the measures' ineffectiveness is exacerbated by their slowness, inasmuch as they still have to be approved by a number of European parliaments. This is unlikely to happen before October.

Within the European Union, Germany and the Nordic countries seem to be in the best position, registering growth above the average for the region. Germany recorded the highest growth rate in the euro area in 2010, largely because of its buoyant export sector, which is taking advantage of the persistently strong demand for its products from China and other countries. Investment and private demand are also on the rise following the drop in the unemployment rate to below pre-crisis levels. Germany's vibrant economy is helping it to consolidate its public finances, contributing to the lowest fiscal deficit of the G7 countries. Nevertheless, data for the second quarter of 2011 show a stagnating economy and the forecasts are not encouraging.

In 2010, exports from the European Union grew by 18%, boosted by robust demand from China. The fastest-growing destination markets were China (39%), Japan (21%), six countries from within the region, the Russian Federation and the United States (18%). The most buoyant export products were crude and refined oil, transport equipment, chemicals, rubbers and plastics. Mexico was the fastest-growing importer of refined oil, and Brazil was the fastest-growing destination for transport equipment and chemicals. Imports expanded by 18%, with the Russian Federation being the leading source (40%) followed by China (32%), four European Union countries, two from the rest of Europe, and the Republic of Korea (20%). The imports registering the most robust growth were refined and crude oil, electronic products, chemicals and electronic equipment.

The bailout plans may not be sufficient to avert debt restructuring in the affected countries. Austerity plans agreed with the international community will probably not be sufficient to ensure the sustainability of their debts. Several experts have suggested restructuring the debt with the objective of reducing the servicing burden and increase the probabilities of compliance. Such a solution is hampered by the resistance of private creditors to accept a plan that would reduce their wealth and by the possible contagion in other countries with high debt levels (ECLAC, 2011).

3. Japan

Japan was one of the industrialized economies hardest hit by the crisis, but staged a remarkable recovery in 2010. In fact, growth in Japan in 2010 was 4%, one of the fastest rates among the industrialized economies. This rebound was triggered by a considerable fiscal stimulus package and a strong recovery in exports.

However, in March 2011, Japan was devastated by the earthquake, tsunami and the interruption in its nuclear power generation. The 9.0 MW earthquake of 11 March, followed by the tsunami which battered the country, caused grave human and economic impacts. For these and other causes, its growth rate for 2011 has been adjusted downward.

There are numerous estimates of the economic repercussions of the disaster. The United Nations estimates that the impact will be equivalent to 5% of GDP (United Nations, 2011a). The Government of Japan estimated that the area devastated by the catastrophe accounts for only 2.5% of the country's economic activity. Thus, the United Nations reduced its growth forecast for Japan from 1.1% (United Nations, 2011b) to 0.7% (United Nations, 2011a), while IMF decreased its expected growth figure from 1.6% in January to 1.4% in April and, later, to -0.7% in June 2011. Notwithstanding the significant difference in the forecasts of these two agencies for 2011, both agree that 2012 will see a strong recovery with growth predicted to reach 3%.

[6] The steep stock market falls in Europe and the United States following the agreement to increase the sovereign debt ceiling in the United States led the European Central Bank (ECB) to depart from its previous stance and buy bonds from countries under heavy pressure, including Italy and Spain, which helped to lower risk premiums.

As a result of the disaster, the exports of some Japanese products fell in April and May 2011 (compared with the same period in 2010), although the aggregate impact was limited.[7] The recent disaster is expected to reduce Japanese exports by between 0.5% and 1.6% in 2011 as a whole, while imports will increase by between 0.4% and 1.3% in the same year (Escaith and others, 2011). Exports have been lower in the short term, especially for medical products, plastics, electrical machinery (computers, television sets, audio equipment, telephones and their components) and for transport equipment. These lower export figures jeopardize the value chains which use their inputs as components in the manufacture of more complex items. The expansion in imports for reconstruction covered foodstuffs, fuel, minerals and textiles (Ministry of Finance of Japan, 2011), areas in which the Latin American and Caribbean region boasts significant advantages, which it should be able to maximize.

The large size of the Japanese economy and its critical role in global supply chains have inevitably had an impact on the world economy (Altomonte and Ottaviano, 2009). Since the 1970s and 1980s, Japan has been a key centre for Asian production chains and some global products. The disaster interrupted the supply of inputs from the Japanese region affected by the disaster. In fact, in April and May, Japanese exports of various parts and components, such as semi-conductors and components for audiovisual appliances, diminished by between 7% and 33%. Exports of end products were also down, as in the case of automobiles (-33%), buses and lorries (-14%), television sets and video devices (18%) (JETRO, 2011).

As was to be expected, efforts by other companies in the value chains to replace Japanese inputs pushed up prices for various parts and components.[8] Escaith and others (2011) used an international supply and utilization matrix to measure the intensity of forward linkages. They found that those most affected by the price increase were small economies that are deeply integrated in supply chains. These include Malaysia, Taiwan Province of China and Thailand. Conversely, the impact on larger economies such as China and Indonesia was less significant, although some industries are expected to feel the ill effects. The United States is the country least affected owing to its size and the predominance of the local market as a source of intermediate consumption.

4. Rebalancing the global economy

The upturn reversed the reduction in global imbalances during the crisis, mainly between the country with the largest surplus (China) and the economy with the largest deficit (the United States). In the economic and financial crisis of 2009, China's current account surplus and the United States' deficit fell significantly (by 31% and 43%, respectively). Once the most urgent imperatives of the crisis had been resolved, the balances resumed their trend in the wrong direction in 2010 with a further 3% increase in China's surplus and an additional 24% increase in the United States' deficit. China's surplus accounted for 21% of the world total in 2010. In 2000, China contributed only 4% of the positive current account balances. At the same time, the United States current account deficit represented 40% of the world total in 2010. This proportion has fallen from 71% in 2002, partly because of the depreciation of the dollar against the renminbi. The outlook for the world economy for the rest of 2011 suggests that the imbalances on the current account will remain at these worrying levels (see table I.4).

[7] The decline in exports may be attributed to a number of factors: loss of life, including that of economically active persons, destruction of physical capital associated with the export sector and damage to public infrastructure such as roads, railways, telecommunications. These factors can disrupt supply chains and restrict production and exports. In addition, imports increased because materials had to be brought in from abroad for the reconstruction effort.

[8] In the wake of the disaster, the price of some specific models of flash drives for flat screens increased by as much as 20% (Escaith and others, 2011).

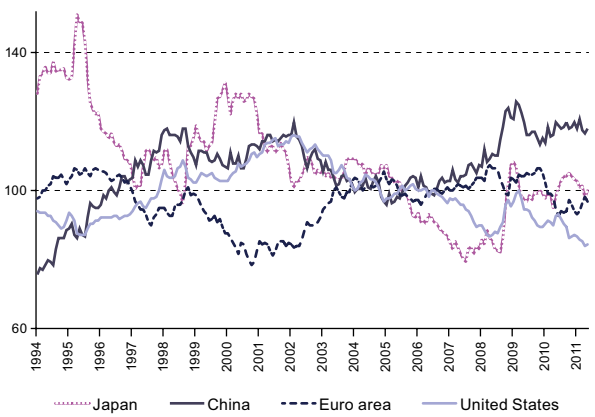
Table I.4
COUNTRIES WITH A SURPLUS AND THOSE WITH A DEFICIT ON THE CURRENT ACCOUNT, GROUPED BY REGION, 2000-2010 [a]
(Percentages of the world surplus or deficit)

	Countries with a surplus					Countries with a deficit				
	2000	2005	2008	2009	2010	2000	2005	2008	2009	2010
World (billions of dollars) [b]	506.9	1 197.2	1 798.0	1 238.5	1 466.0	-681.8	-1 165.1	-1 564.7	-1 012.1	-1 182.4
United States						-61.1	-64.2	-42.7	-37.4	-39.8
European Union [c]	12.0	21.0	20.3	22.0	21.2	-21.5	-22.7	-34.0	-30.9	-28.2
Asia and the Pacific (16 countries)	41.6	36.6	40.8	52.4	47.6	-0.4	-0.8	-0.8	-0.8	-0.5
Latin America and the Caribbean [d]	2.8	4.3	3.0	1.6	1.8	-9.2	-1.3	-5.4	-4.4	-7.0
China	4.0	13.4	24.3	24.0	20.9					
Japan	23.6	13.8	8.7	11.4	13.3					
Other industrialized economies	22.9	17.5	10.4	19.5	18.3	-3.1	-4.6	-4.1	-8.4	-7.1
Others	34.7	29.9	33.3	21.4	24.6	-5.1	-6.5	-12.5	-17.8	-17.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from International Monetary Fund (IMF), World Economic Outlook Database, 2011 [online] www.imf.org/external/ns/cs.aspx?id=28.
[a] The regions and groupings refer to those countries with a surplus or a deficit on the current account within the respective regions and groupings.
[b] The world current account surplus should be identical to the world deficit and their sum should be zero. However, in reality, there is a discrepancy due to several factors, above all the lags in registering exports and imports by the exporting and importing countries due to the time in transport of the goods, underestimation of income per investment, the asymmetrical valuation of exports and imports and the degree of accuracy of the data.
[c] The European Union countries that recorded a surplus in 2010 were, by size of surplus, Germany, Netherlands, Sweden, Denmark, Austria, Finland, Belgium, Luxembourg, Hungary, Latvia, Estonia and Lithuania. The remaining European Union countries recorded a deficit in 2010.
[d] In Latin America and the Caribbean, the countries with a surplus in 2010 were, by size of surplus, Bolivarian Republic of Venezuela, Chile, Trinidad and Tobago, Argentina, Plurinational State of Bolivia, Uruguay and Suriname. The other countries of the region recorded a deficit in 2010.

The imbalance between the current accounts of the main economies and their trading partners is closely linked to their real exchange rates. In the United States, the dollar has been losing value steadily since the end of 2001. In China, the exchange rate of the renminbi followed the trend set by the dollar up to October 2005. From this date, the authorities defined a gradual appreciation in the renminbi against the dollar (figure I.5). In fact, between June 2006 and May 2011, the dollar lost 23% of its value against the renminbi.

Figure I.5
SELECTED REGIONS AND COUNTRIES: REAL EFFECTIVE EXCHANGE RATE, 1994-2011
(2005=100)



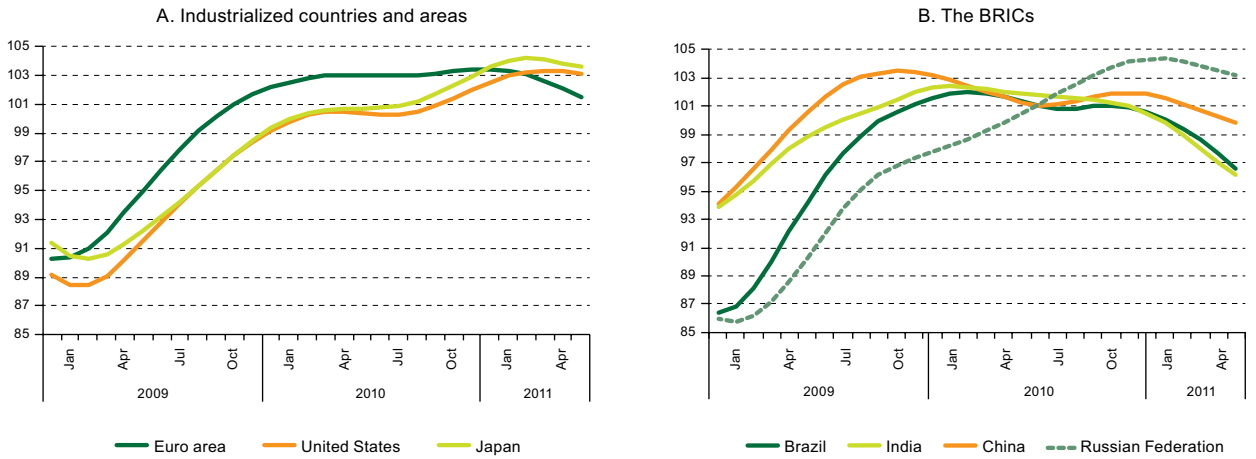
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bank for International Settlements (BIS), "BIS effective exchange rate indices" [online] www.bis.org/statistics/eer/index.htm [date of reference: 17 June 2011].

The effective depreciation of the dollar enhances the competitiveness of United States exports, while any significant degree of appreciation of the renminbi will encourage Chinese imports, so that the trade imbalances should tend to diminish. In order to obtain a less fragile global recovery and more sustainable growth in the world economy, the huge current account surpluses of China, Germany and Japan need to be reduced. In other words, these economies must boost their domestic consumption and promote imports over exports, thereby reducing the contribution of net exports to the growth of their economies. To the extent that this greater expenditure on imports is reflected, for example, in higher exports from the United States (the economy with the largest trade deficit and the largest current account deficit), the global economic recovery should be more stable and balanced.

The divergent cycles between the industrialized countries and the emerging economies call for different economic policy responses. Concerned about the high levels of indebtedness and the fiscal deficit in 2011, the Governments of the industrialized countries abandoned their support for the lacklustre post-crisis upturn and adopted contractionary fiscal policies. The weakness of domestic demand in the advanced countries should be partly counterbalanced by stronger net exports to the emerging economies. The latter have, however, been showing signs of overheating with an increase in inflation expectations. In view of this situation, the monetary authorities are raising interest rates while they dismantle the fiscal stimulus packages introduced during the crisis.

In this two-speed world, the debate on decoupling resurfaces. The buoyancy of the emerging markets during 2010 and 2011 suggests that they are more decoupled from the industrialized countries than in previous years. The more significant recent decoupling, especially in China, India and the rest of developing Asia, is partly attributable to the stronger role of domestic demand and the fact that economic growth is less dependent on international trade. Towards mid-2011, however, the leading indicators of the BRIC countries (Brazil, the Russian Federation, India and China) showed clear signs of slowing down, which suggests that the stagnation in the industrialized countries is affecting them (see figure I.6).

Figure I.6
MAIN INDUSTRIALIZED AND EMERGING COUNTRIES AND AREAS: LEADING INDICATORS, 2009 TO JULY 2011 [a]
(Long-term trend=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), "OECDStat" [online] http://stats.oecd.org/Index.aspx [date of reference: 17 August 2011].

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

Among the emerging countries, those with greater exchange-rate flexibility and capital account openness accounted for the greater part of the rebalancing of global demand. High capital inflows to these economies contributed to this trend. For example, in 2010, inflows into the seven largest Latin American economies totalled US$ 266 billion, or more than five times the average for 2000 to 2005. In addition, the proportion of speculative capital in the inflows went up from 37% of the total in 2006 to 69% in 2010 (Izquierdo and Talvi, 2011). This resulted in a strong acceleration in the growth of these economies beyond their potential.

The emerging countries, especially those Asian economies with less exchange-rate flexibility and relatively closed capital accounts, have hindered the correction of these imbalances. China is a case in point, as its currency is still overvalued in relation to medium- and long-term fundamentals. China's high trade surplus has contributed to a significant build-up of reserves, which has been an obstacle to the rebalancing of world demand. The country's main motive in accumulating reserves is to prevent a sharp appreciation in the renminbi.

The challenge to global governance in the G20 is strong. Global disequilibria are re-emerging and threaten the global economy. It is imperative that the G20 seek ways of reconciling diverse national interests and the diverging business cycles of its members. In the emerging economies with large external surpluses, a rise in the value of the currency will be a welcome means of improving domestic equilibrium —halting the inflationary pressure and the excessive expansion in credit and helping to rebalance global demand. Prudential instruments and capital controls can play a useful complementary role but cannot replace macroeconomic adjustment.

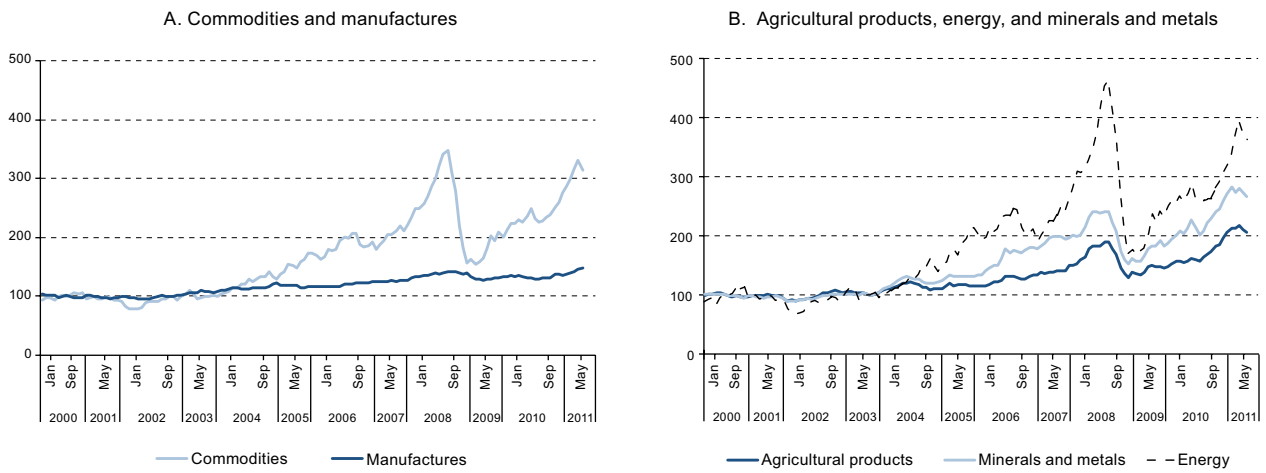
Although these macroeconomic policy proposals were very well received at the meeting of the G20 in Seoul in November 2010, the political will to cooperate started to wane once the crisis had bottomed out. The advanced economies must implement their fiscal adjustment, while the emerging economies with a surplus should eliminate the distortions that are hampering the rebalancing of global demand.

D. Other trends affecting international trade

1. Higher commodity prices

Since early 2009 there has been a new upswing in commodity prices, which accelerated from the second half of 2010, with many product prices outstripping their pre-crisis levels. The steep increase in commodity prices in recent years stands in sharp contrast to the trends in the prices of manufactures, which have risen only slightly (see figure I.7A). Even though the rise in commodity prices came to a halt in May 2011, the highly volatile nature of these prices makes it too soon to tell whether the trend has reversed.

Figure I.7
PRICES FOR THE MAIN PRODUCT GROUPS, JANUARY 2000 TO JUNE 2011
(Index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28 [date of reference: 11 April 2011] and Netherlands Bureau for Economic Analysis (CPB).

The cumulative price increase of commodities between January 2009 and April 2011 reached 105%. Energy products saw the highest increases during this period (about 120%), after experiencing the sharpest fall in the second half of 2008 (a little over 60%, compared with an average drop of 35% for other commodities). Prices of minerals and metals grew more modestly, presenting a cumulative increase of about 75%. Agricultural products recorded the lowest growth during the recent price upswing (about 60%), although that growth accelerated in the second half of 2010 (see figure I.7B).

The price increases for different commodities in the period 2009-2011 were more heterogeneous than those observed in the period 2006-2008. In the agricultural products group, the price of raw materials went up sharply in 2009-2011, while the price surge for foodstuffs slowed significantly.[9] Prices for energy products and minerals and metals saw somewhat faster growth during the same period.

[9] In the case of raw materials, the cumulative increase during this new upswing was 90%, compared with less than 20% in the period January 2006-June 2008. For foodstuffs, the cumulative increase reached almost 80% in 2006-2008 and 50% in 2009-2011.

The new upswing in energy prices is attributable mainly to demand factors, unlike in the early 2000s when lack of investment in extraction, production and refining capacity restricted growth in supply. In addition to the long-term factors that have influenced the price surges of other commodities (see box I.2), oil has also been affected by the political instability affecting oil-producing countries in the Middle East and North Africa since early 2011, which has led to fears of supplies being interrupted. Furthermore, increased imports of oil and gas by Japan in the wake of the earthquake that hit the country in March 2011 exerted upward pressure on energy prices.

Box I.2
FACTORS CONTRIBUTING TO THE COMMODITY PRICE BOOM

The considerable increase in commodity prices in recent years is attributable to numerous factors, which can be divided into two broad categories. In the first category are the long-term factors, related to structural changes in the supply of and demand for these products. In the second category are the factors related to short-term supply and demand shocks that are specific to certain markets. Although some of the factors in the second category are more recent, this type of factor has been contributing to price rises in many markets since the early 2000s.

One long-term factor is the rising demand for commodities owing to robust economic growth in emerging countries, which interacts with the short-term inelasticity of supply. The strong and sustained growth of China, India and other emerging economies has stimulated demand for natural resources and energy, putting upward pressure on prices. Higher per capita income and changing eating habits in those countries, combined with population growth, have driven up demand for food. On the supply side, low levels of investment in agriculture in previous decades has resulted in slow growth in agricultural productivity and the resulting reduction of inventories makes supply even more inelastic. Higher oil prices led to an increase in the costs associated with fertilizers and transportation, which pushed up agricultural production costs.

In the case of agricultural products, the long-term supply and demand trends have been exacerbated by a series of short-term factors. The vigorous expansion in the production of biofuels, driven by ever-higher oil prices and the policies adopted in some developed countries to promote the replacement of traditional fuels, has led to greater demand for some agricultural products (particularly maize) and intense competition for arable land. More frequent extreme weather events (from droughts to floods) affecting farmlands have led to crop losses, thus contributing to higher prices. Inadequate policy responses (such as export prohibitions, price controls and stockpiling) have further aggravated the situation (Lora, Pollew and Tavella, 2011).

Financial factors have also played a role in the commodity price surge in recent years. For example, fluctuations in exchange rates and interest rates have had a notable effect on prices, especially since the crisis broke out in 2008. The depreciation of the United States dollar, coupled with rising inflation in the United States, led to a drop in the value of assets valued in that currency and a shift in portfolio composition in favour of commodity derivatives, which have become a store of value, thus fuelling the price rises driven by other factors.[a] Lower interest rates in the United States and other advanced economies are having a similar effect, pushing capital flows towards emerging countries where they drive economic activity and, therefore, demand for commodities. Lower interest rates affect the performance of assets such as bonds, which makes commodity-based assets more attractive and pushes up the prices of these products. Furthermore, low interest rates reduce the opportunity cost of holding inventories of commodities, thus adding upward pressure on the demand for those products.

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The depreciation of the dollar also impacts production costs and profits measured in dollars, which is why producers with some market power will in some cases restrict supply and raise prices to offset their loss of earnings. The countries whose currencies are appreciating against the dollar will see an increase in their international purchasing power, which enables them to sustain the demand for commodities, thus putting upward pressure on their prices.

As for minerals, metals and agricultural products, the price trend is attributable to a combination of demand-side (real and financial) and supply-side factors. The higher prices for minerals and metals are the result of a strong upturn in demand from emerging economies (in particular, China) and inadequate supply, which led to a reduction in the inventory maintained to lessen the impact of shocks. The high cost of energy, the relative weakness of the United States dollar and investor pressure also pushed up prices. As for agricultural products, the main causes of the price hikes that began in 2009 were higher oil prices, adverse weather conditions in various key farming areas, low inventories and a resurgence in demand in emerging countries.

This commodity price surge has been brought to a halt by the uncertainty generated by the sovereign debt problems in Europe and the United States. The marked volatility in the world's major stock markets and the fall of the value of the dollar relative to gold, the Japanese yen and the Swiss franc have also contributed to a sharp drop in commodity prices. However, it is too soon to draw any definitive conclusions about these trends. For example, in the case of agricultural products,

better weather conditions could lead to a rebound in production in the short term, thus alleviating the pressure generated by lack of supply. Nevertheless, the global slowdown in yield improvements of various important crops will continue to exert upward pressure on prices, which will remain high compared with previous decades (OECD/FAO, 2011).

What is clear, however, is how volatile these prices can be and, therefore, how necessary it is to seek global mechanisms to dampen that volatility. It shows that constant efforts are warranted to limit the transmission of these shocks to the domestic economy, either through mechanisms for saving transitory income, through fiscal structural rules or other mechanisms that base the planning of public spending on medium-term income projections.

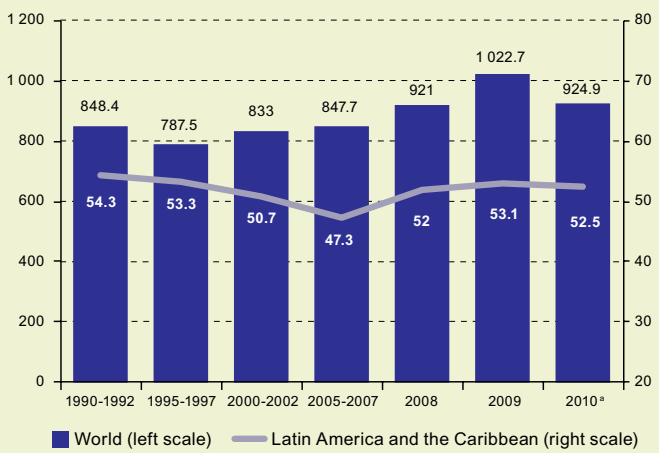
The sharp upswing in commodity prices in the last few months contributed to an increase in world inflation. Owing to the greater weight of food products in consumption baskets, the more intensive use of energy in production processes and the growth of domestic demand in emerging and developing countries, rising international prices have led to increasingly widespread inflationary pressures. In the advanced economies these pressures have been less intense; however, there exists the risk that the constant hikes in oil and other commodity prices, coupled with the slow recovery of activity levels, could lead to episodes of stagflation.

Another challenge in relation to higher commodity prices is their impact on the poorest sectors of the population. Since poor households spend a greater proportion of their income on food, they are affected to a greater extent by higher prices for these products, which significantly reduce their purchasing power. According to estimates by the Food and Agriculture Organization of the United Nations (FAO) and the World Bank, rising food prices are associated with higher levels of poverty, exacerbating levels of undernourishment and aggravating the problems relating to food insecurity (see box I.3) (FAO, 2010; World Bank, 2011).

Box I.3
SOCIAL IMPACTS OF THE FOOD PRICE SURGE

The surge in international food prices since August 2010 (peaking in February 2011) is having a significant impact on poverty and hunger. Higher international prices feed through to local prices, which in turn affect inflation and the cost of living. As lower-income groups spend a larger proportion of their income on food, the price surges mainly hit the poor, reducing their purchasing power and increasing undernutrition levels. The proportion of persons suffering from undernutrition in the region reached 53.1% in 2009, representing a significant increase from 47.3% in 2005-2007 (see figure 1). It is important to bear in mind that child undernutrition will have long-term consequences.

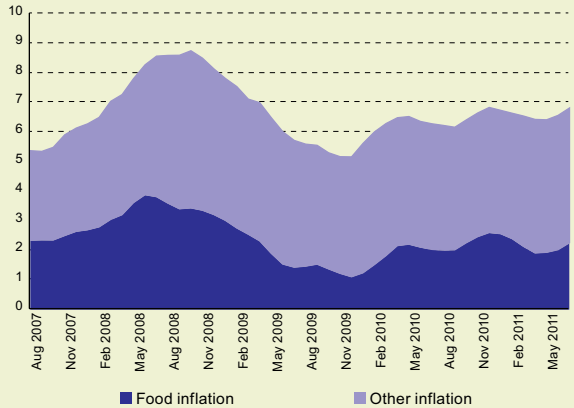
Figure 1
WORLD AND LATIN AMERICA AND THE CARIBBEAN: NUMBER OF UNDERNOURISHED PEOPLE, FROM 1990 TO 2010
(Millions of persons and percentage of the total population) [a]



Source: Food and Agriculture Organization of the United Nations (FAO), *The State of Food Insecurity in the World 2010. Addressing food insecurity in protracted crises*, Rome, 2010.
[a] Projections.

Box I.3 (concluded)

Figure 2
LATIN AMERICA: FOOD INFLATION AS A PROPORTION OF OVERALL INFLATION, 2007-2011
(Percentage variation in 12-month inflation)



Source: Food and Agriculture Organization of the United Nations (FAO), The State of Food Insecurity in the World 2010. Addressing food insecurity in protracted crises, Rome, 2010.
[a] Projections.

The surge in commodity and food prices pushed up poverty levels in many countries in the region. In Mexico, the proportion of the population living in poverty rose from 44.5% to 46.2% between 2008 and 2010, representing an increase of 49 million to 52 million people. This increase is attributable mainly to the impact of the food and economic crises in 2008-2009. The number of people with deficient access to food increased from 24 million (or 21.7%) in 2008 to 28 million (or 24.9%) in 2010, while the percentage of people living under the poverty line (measured by income) went from 49% to 52% (National Council for the Evaluation of Social Development Policy [online] www.coneval.gob.mx). Higher prices in 2010-2011 will also have an effect. According to World Bank estimates, the short-term impact of the price rise will be an increase in the number of people living in poverty in the countries analysed: in Guatemala the poverty rate will increase by 1.50 percentage points, in Belize by 1.15 percentage points, in Nicaragua by 0.50 percentage points, in Peru by 0.12 percentage points, in Panama by 0.05 percentage points and in Ecuador by 0.04 percentage points (Ivanic, Martin and Zaman, 2011).

The negative effects of the food price surge on households can be explained by the fact that in most countries of the region the majority of people are net consumers of food. For example, Zezza and others (2008) found that in Guatemala in 2000 only 8.8% of the population were net sellers of the main food staples (maize, beans and wheat), while in rural households that percentage rose to 13.6%. In Nicaragua, 9.6% of all households were net sellers of food staples (maize, rice and beans) in 2001, while that percentage stood at 21.5% for rural households. In Panama, 3.8% of all households and 10.3% of rural households were net sellers of food staples (wheat, maize and rice) in 2003. A simulation of a 10% increase in the price of these staple foods shows a well-being loss of 1.4% for rural households and 1% for urban households in Guatemala and Nicaragua; the projected loss for Panama is less than 1%.

Source: Food and Agriculture Organization of the United Nations (FAO), Regional Office for Latin America and the Caribbean; G. Anriquez, S. Daidone and E. Mane, "Rising food prices and undernourishment: a cross-country inquiry", *ESA Working Paper*, No. 10-01, February 2010 [online] http://www.fao.org/docrep/012/al054e/al054e00.pdf; Food and Agriculture Organization of the United Nations (FAO), *Panorama de la seguridad alimentaria y nutricional en América Latina y el Caribe*, Rome, 2010; M. Ivanic, W. Martin and H. Zaman, "Estimating the short-run poverty impacts of the 2010–11 surge in food prices", *Policy Research Working Paper*, No. 5633, World Bank, April 2011; A. Zezza and others, "The impact of rising food prices on the poor", *ESA Working Papers*, No. 08-07, Rome, 2008 [online] ftp://ftp.fao.org/docrep/fao/011/aj284e/aj284e00.pdf.

The Caribbean countries are more vulnerable than those of Central America to commodity price changes. Caribbean countries are running a trade deficit in the three categories of food and beverages, minerals and metals, and energy. The situation is different in the countries of Central America where the weight of the energy deficit stands at over 4% of GDP in Costa Rica, El Salvador, Guatemala and Honduras and reaches as much as 13% in Nicaragua. The energy trade deficit in Chile, Paraguay and Uruguay is also high.

This is in stark contrast to the gains that the majority of South American countries are making on the back of the higher international commodity prices, with noteworthy profits from food and beverages in Paraguay and Uruguay, minerals and metals in Chile, Peru and the Plurinational State of Bolivia, and energy in the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia. The exports basket for Central American countries is dominated by manufactured goods, whose prices have dropped as a result of the global recession. As shown in table I.5, these countries experienced across-the-board deterioration in their terms of trade in 2010. In the Caribbean, the changes in the terms of trade were mixed, reflecting the heterogeneity of the subregion's economies and their export sectors.

Table I.5
LATIN AMERICA AND THE CARIBBEAN: VULNERABILITY TO INTERNATIONAL COMMODITY PRICE CHANGES, AVERAGE 2009-2010
(Millions of dollars, percentage of GDP and index)

		Food and beverages [a]		Minerals and metals [b]		Energy [c]		Terms of trade (2000=100)	
		Trade balance *(millions of dollars)*	Trade balance *(percentage of GDP)*	Trade balance *(millions of dollars)*	Trade balance *(percentage of GDP)*	Trade balance *(millions of dollars)*	Trade balance *(percentage of GDP)*	2005	2010 [d]
South America	Argentina [e]	9 351	3.0	604	0.2	3 228	1.0	106.9	126.6
	Bolivia (Plurinational State of)	41	0.2	1 320	7.4	1 962	11.0	111.8	157.6
	Brazil	29 194	1.6	26 127	1.4	-7 660	-0.4	99.2	125.1
	Chile [e]	3 597	2.2	28 299	17.3	-8 680	-5.3	139.8	204.0
	Colombia	2 048	0.8	-976	-0.4	17 513	6.8	111.0	134.3
	Ecuador	2 370	4.4	-1 398	-2.6	4 793	8.9	102.4	120.8
	Paraguay	1 086	6.9	-430	-2.7	-1 101	-7.0	97.4	105.0
	Peru	1 054	0.7	9 568	6.7	-960	-0.7	119.4	152.5
	Uruguay [e]	2 169	6.9	-293	-0.9	-1 610	-5.1	90.7	100.0
	Venezuela (Bolivarian Republic of) [e]	-3 444	-1.1	-1 331	-0.4	52 790	16.2	154.4	215.9
Central America and Mexico	Costa Rica	1 468	4.6	-609	-1.9	-1 280	-4.0	88.3	81.1
	El Salvador	-132	-0.6	-325	-1.5	-1 130	-5.3	96.8	91.3
	Guatemala	1 733	4.4	-135	-0.3	-2 024	-5.2	91.3	92.5
	Honduras [e]	314	2.2	-300	-2.1	-1 038	-7.2	87.2	84.2
	Mexico	125	0.0	-6 230	-0.7	15 897	1.7	103.6	105.4
	Nicaragua	648	10.3	-269	-4.3	-824	-13.1	81.4	83.2
	Panama	-262	-1.0	-762	-3.0	-230	-0.9	93.5	88.3
The Caribbean	Bahamas [e]	-328	-4.4	-234	-3.2	-445	-6.0	92.9	98.4
	Barbados	-136	-3.7	-68	-1.9	-94	-2.5	117.6	119.9
	Dominica	-18	-4.6	-20	-5.2	-37	-9.5	94.9	85.7
	Guyana	160	7.5	44	2.1	-362	-17.1	96.4	138.0
	Jamaica	-378	-2.8	192	1.4	-1 243	-9.4	86.1	71.5
	Dominican Republic	-250	-0.5	-735	-1.5	-3 109	-6.3	95.8	98.4
	Saint Vincent and the Grenadines	-29	-4.9	-34	-5.7	-72	-12.1	79.1	114.2
	Suriname [f]	-69	-2.9	335	14.1		0.0	128.2	177.9
	Trinidad and Tobago [e]	-325	-1.5	-213	-1.0	4 627	21.9	123.7	131.6
Latin America and the Caribbean		49 989	1.1	51 628	1.2	68 913	1.6	108.7	125.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT database [online] www.cepal.org/estadisticas and United Nations Conference on Trade and Development (UNCTAD), "UNCTADStat" [online] http://unctadstat.unctad.org/ [date of reference: 1 August 2011].

Note: The unshaded rectangles relate to the five countries with the largest surpluses in each product category (expressed as percentages of GDP). The shaded rectangles relate to the five countries with the largest deficits in each product category (again expressed as percentages of GDP).

[a] Includes categories 01, 02, 04, 05, 06, and 07 of Standard International Trade Classification (SITC) (Rev. 3).
[b] Includes categories 28, 66, 67, 68, and 69 of Standard International Trade Classification (SITC) (Rev. 3).
[c] Includes products classified under section 3 of Standard International Trade Classification (SITC) (Rev. 3). No data were available for Antigua and Barbuda, Belize, Cuba, Haiti, Saint Kitts and Nevis or Saint Lucia.
[d] Preliminary estimates.
[e] Only 2009.
[f] Only 2010. The figures for minerals and metals were based on mirror statistics.

The high commodity prices, especially food prices, and their considerable volatility have become a cause for concern among the leaders of the Group of Twenty (G20). In a declaration issued in June 2011, the G20 agriculture ministers agreed on an action plan with five main objectives, the main thrust of which is outlined below:

- improve agricultural production and productivity in both the short and long term in order to respond to growing demand, with emphasis on small producers in developing countries;
- increase market information and transparency by promoting the establishment of an international data bank on agricultural commodity production, consumption and stocks;
- strengthen international policy coordination by setting up a rapid response forum to prevent and attenuate global crises due to soaring food costs;
- mitigate the impact of price volatility, especially for the most vulnerable countries, by improving management of agricultural and food-security risks; improve the functioning of commodity derivative markets

Although this declaration is a step in the right direction, in the sense that it aims to tackle price volatility and protect the most vulnerable, it lacks specific proposals backed with earmarked financing.

A successful conclusion to the Doha Round would contribute to resolving food price volatility. In the current

international context, reducing agricultural subsidies in the United States and the European Union (which prevent agricultural markets from functioning efficiently) would help to reduce the fiscal imbalances in those economies. At a time of high international prices, this option would meet with less political resistance from producers in industrialized countries. Furthermore, the elimination of such subsidies would stabilize the supply conditions in developing countries, improving the prospects for employment and growth in the rural areas of those economies.

2. Trade policies

The periodic monitoring of national trade policies, initiated by the World Trade Organization (WTO) and other institutions following the outbreak of the global crisis in 2008, has continued post-crisis. One analysis, focusing in particular on G20 member countries, drew two main conclusions. First, the adoption of trade restrictive measures by the major world economies remains at a moderate level, covering less than 1% of total world trade in goods. Second, the adoption of this type of measure nevertheless increased significantly between mid-October 2010 and April 2011 (WTO, 2011). In relation to the previous reporting period (mid-May to mid-October 2010), both the number of trade restrictive measures and their coverage more than doubled: the number of measures rose from 54 to 122, thus increasing the coverage from 0.2% to 0.5% of total world goods imports (see tables I.6 and I.7).

Table I.6
TRADE RESTRICTIVE MEASURES ADOPTED BY THE G20 MEMBERS, APRIL 2009 TO APRIL 2011

Type of measure	April to August 2009 (5 months)	September 2009 to February 2010 (6 months)	March to mid-May 2010 (2 1/2 months)	Mid-May to mid-October 2010 (5 months)	Mid-October 2010 to April 2011 (6 months)
Trade remedy [a]	50	52	24	33	53
Border [b]	21	29	22	14	52
Export [c]	9	7	5	4	11
Other	0	7	5	3	6
Total	80	95	56	54	122

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Reports on G20 trade measures (mid-October 2010 to April 2011)", May 2011 [online] www.wto.org/english/news_e/news11_e/g20_wto_report_may11_e.doc.
[a] Includes anti-dumping, countervailing and safeguard measures.
[b] Includes tariff increases and non-automatic import licensing.
[c] Includes export duties and export prohibitions and quotas.

Table I.7
PERCENTAGE OF IMPORTS COVERED BY THE TRADE RESTRICTIVE MEASURES ADOPTED BY THE G20 MEMBERS, OCTOBER 2008 TO APRIL 2011
(Percentages)

	October 2008 to October 2009 [a]	November 2009 to May 2010 [a]	May 2010 to October 2010 [b]	Mid-October 2010 to April 2011
World imports	0.8	0.4	0.2	0.5
G-20 imports	1.0	0.5	0.3	0.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Report on G20 trade measures (mid-October 2010 to April 2011)", May 2011 [online] www.wto.org/english/news_e/news11_e/g20_wto_report_may11_e.doc.
[a] Based on 2008 import figures.
[b] Based on 2009 import figures.

Almost all the trade restrictive measures introduced by the G20 members between October 2010 and April 2011 were trade remedy measures (mainly initiations of anti-dumping investigations) and border measures on imports (such as higher tariffs and non-automatic import licensing). However, there is growing concern about the increase in export restrictions, which include export duties and quantitative restrictions such as quotas or prohibitions. This type of measure is applied in particular to food products and certain minerals. Restrictions are imposed on food products in response to the surge in various commodity prices, with a view to guaranteeing the availability of food products for the population of the exporting country (as well as for its processing industries).

The aim of the restrictions on minerals is to guarantee the supply of those minerals to the local industries that use them as inputs.

No matter how valid governments' motives may be for introducing export restrictions, these can have a negative impact on other countries, especially on those that are dependent on food imports. The risks are multiplied because the WTO rules on export restrictions are considerably more lax than those on import restrictions. For example, WTO allows Governments to temporarily introduce export prohibitions or restrictions to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting country, but it does not establish any criteria for determining when such a shortage exists (nor when it has come to an end). Discussions on the need to strengthen multilateral disciplines on export restrictions have intensified in recent months within the context of greater food price volatility (FAO and others, 2011), and in fact this issue has made its way onto the G20 agenda.

From a medium-term perspective, there are still significant risk factors in the global economy that could lead to a further scaling-up of the trade restrictions that have been introduced since the end of 2010. These risk factors include the persistence of global imbalances between surplus and deficit countries; high levels of unemployment in the industrialized economies; the concerted fiscal consolidation process taking place in Europe, which is hitting the economies of Greece and Portugal, for example, particularly hard; political turbulence in several oil-exporting countries; and the aforementioned food price volatility (WTO, 2011b). Similarly, high capital inflows into emerging economies can generate pressure for greater protection as they lead to currency appreciations that make imports more competitive than local production (ECLAC, 2010a).

In this context of considerable uncertainty, concluding the Doha Round of negotiations among the WTO membership would contribute substantially to reducing the scope for further deterioration of the environment in which international trade is conducted. Nevertheless, the outlook for the Doha Round itself is highly uncertain (see box I.4).

3. Recent trends in regional agreements

With the relative stagnation of the multilateral trade negotiations, efforts have been stepped up to conclude regional agreements in various parts of the world. This trend is also being driven by the pressing need to guarantee a constant, rapid and secure flow of goods, services and investments required as a result of the diffusion of value chains in international trade. The majority of these regional agreements seek deep integration and cover trade in goods (generally without exclusions), as well as trade in services and other aspects of trade, such as public procurement, intellectual property and competition policy. Given the broad diffusion of value chains in the Asia-Pacific region, that is where efforts have been focused on achieving greater integration among countries.

(a) Asia-Pacific

Since 2010, the main initiative in Asia-Pacific has been the negotiations to enlarge the Trans-Pacific Strategic Economic Partnership Agreement (TPP). This trade agreement entered into force in 2006 between Brunei Darussalam, Chile, New Zealand and Singapore. Negotiations to enlarge the Agreement began in March 2010, at the request of the United States; Australia, Malaysia, Peru and Viet Nam have subsequently joined the negotiations (see section C of chapter II).

India has signed trade agreements with Malaysia and Japan. These agreements are in keeping with India's strategy of forging closer ties with East Asia and South-East Asia, which began with the signing of an agreement with the Association of Southeast Asian Nations (ASEAN) countries in 2009.

In January 2011, an agreement between New Zealand and the Hong Kong Special Administrative Region of China entered into force. This agreement complements an agreement that was previously signed between China and New Zealand, allowing Hong Kong to be used as a base for companies that wish to do business in China. The agreement confirms New Zealand's intention to pursue a process of increasing economic and trade integration with its trading partners in Asia. This commitment has already been shown through its existing agreements, including bilateral agreements with Singapore, Thailand, China, and Malaysia, and multilateral agreements, such as TPP and the Agreement establishing an ASEAN-Australia-New Zealand Free Trade Area. New Zealand is currently negotiating free trade agreements with India, the Republic of Korea and the Russian Federation, as well as taking part in the process of enlarging TPP.

Box I.4

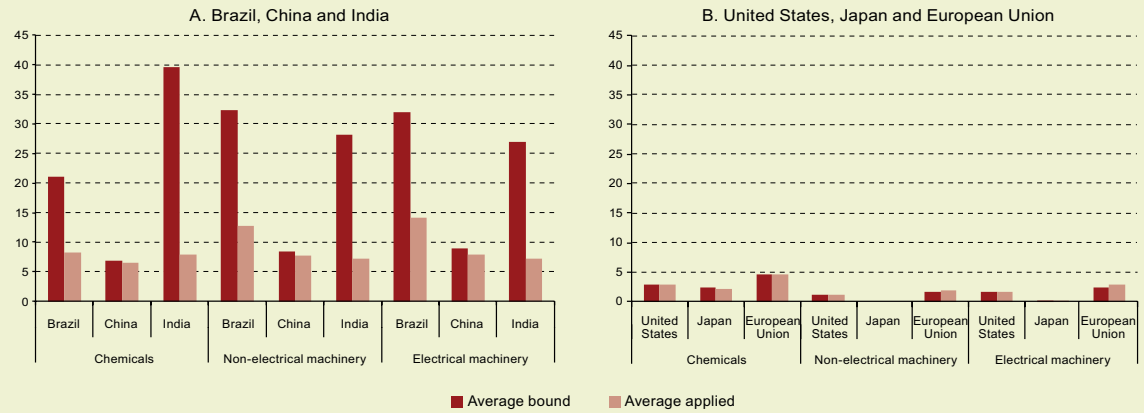
THE DOHA ROUND OF THE WORLD TRADE ORGANIZATION: CURRENT SITUATION AND FUTURE OUTLOOK

After more than nine and a half years of negotiations, the Doha Round of the World Trade Organization (WTO) is at a critical juncture. Most of the major disagreements that have arisen over this period have been in connection with the negotiations on agriculture, and in particular the size of the reduction of agricultural subsidies in the industrialized countries. However, at present, the main differences are in connection with the trade liberalization of manufactured goods. Specifically, the United States is demanding that some of the main emerging economies (in particular, Brazil, China and India) should participate, along with industrialized countries, in sectoral tariff-elimination agreements in the chemicals, industrial machinery and electronics sectors. Brazil, China and India have rejected these demands, arguing that, according to a previous agreement, participation in sectoral initiatives on tariff elimination is voluntary. They have expressed a willingness to move towards greater liberalization in these sectors by applying the tariff-reduction formula that has already been agreed, but not to the extent of eliminating the majority of tariffs.

The average levels of tariff protection in the three aforementioned sectors in Brazil, China and India are higher than in the industrialized countries, which is why a tariff-elimination agreement would require a greater effort on the part of those emerging economies. The main difference between Brazil and India, on the one hand, and China, on the other, is that the applied tariff rates in the first two are much lower than the WTO bound tariff rates, while in the case of China, the differences are generally minimal, as a result of its negotiations to join WTO in 2001 (see figure).

SELECTED MEMBERS OF THE WORLD TRADE ORGANIZATION: AVERAGE BOUND AND APPLIED TARIFF RATES IN THE CHEMICALS, ELECTRICAL MACHINERY AND NON-ELECTRICAL MACHINERY SECTORS, 2009

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *World Tariff Profiles 2010*, Geneva, 2010.

In April 2011, WTO Director-General, Pascal Lamy recognized that the gaps relating to industrial products seemed to be unbridgeable and would put at risk the progress made in all other areas of the Doha Round. This is because this Round is being negotiated on a "single undertaking" basis, under which the outcome of every item of the negotiation is part of a whole and indivisible package.

Several analysts have indicated that if the Doha Round is not concluded in 2011, it will be very difficult to finalize in 2012 when several key countries (including France, India and the United States) will be holding elections (see, for example, Baldwin and Evenett, 2011). However, the WTO membership has already recognized that it will be impossible to conclude the Round in 2011, given the magnitude of the differences. The future of the Doha Round is therefore expected to dominate the discussions at the eighth Ministerial Conference of the World Trade Organization to be held from 15 to 17 December 2011 in Geneva.

Beyond losing out on commercial gains if the Doha negotiations are ultimately abandoned or postponed indefinitely, such an outcome could have far-reaching systemic consequences. First, it would undermine the credibility of WTO as a forum for negotiating issues of global interest in the coming years, such as the relationship between trade and climate change and export restrictions on commodities. Second, it would erode the capacity of WTO to perform other basic functions, such as resolving conflicts between its members and monitoring trade policies (which is recognized as having played an important role in containing protectionist pressures during the recent global economic crisis). Third, it would exacerbate the already marked tendency towards the proliferation of preferential agreements, with the consequent increase in transaction costs and fragmentation of international trade flows. What is more, when these agreements are of the North-South variety, it is even more difficult to achieve balanced outcomes for developing countries. Lastly, if Doha became the first failed multilateral round, it would set a negative precedent for the chances of reaching multilateral agreements in other areas, such as climate change or reforms to the international financial architecture. Ultimately, it would be taking a step towards a situation in which the most powerful countries could increasingly opt for unilateralism, which would leave the poorest and smallest countries increasingly exposed to risk.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Baldwin and S. Evenett (eds.), *Why World Leaders Must Resist the False Promise of Another Doha Delay*, London, Centre for Economic Policy Research, April 2011.

(b) European Union and its extraregional partners

In July 2011, an agreement between the European Union and the Republic of Korea entered into force. This is the first agreement between the European Union and an Asian country. The Republic of Korea is the European Union's second largest trading partner in Asia, after China. It is estimated that this agreement could lead to the creation of 250,000 jobs in the long term (BBC, 2011). In three years, 96% of tariffs on goods from the European Union will be eliminated, while 99% will be eliminated for goods from the Republic of Korea. To avoid imbalances, the free trade agreement provides for the progressive elimination of tariffs and allows for the application of temporary bilateral safeguard measures with a view to preventing a disproportionate rise in imports into either of the two markets. The exports from the Republic of Korea to the European Union that are exempt from tariffs include automotive, mobile telephone and refrigerator components. However, the tariff elimination process will take three years for larger and medium-sized cars, and five years for compact cars, photographic cameras and televisions. For the moment the Republic of Korea will not eliminate the tariffs on food products from the European Union: the tariff elimination period will last between five and ten years for pork and between three and ten years for cheese.

The European Union has been very actively pursuing trade negotiations with Latin America in recent years. The European Union and the Southern Common Market (MERCOSUR) relaunched negotiations in 2010, after having suspended the process in 2004. Similarly, the European Union and Ecuador are in talks to relaunch bilateral negotiations. Should all these negotiations come to a successful conclusion, the European Union would have a preferential trade link with about 30 countries in the region by 2012-2013 (see chapter II).

E. The role of the crisis in ramping up the South's share of the world economy

1. The convergence of per capita income

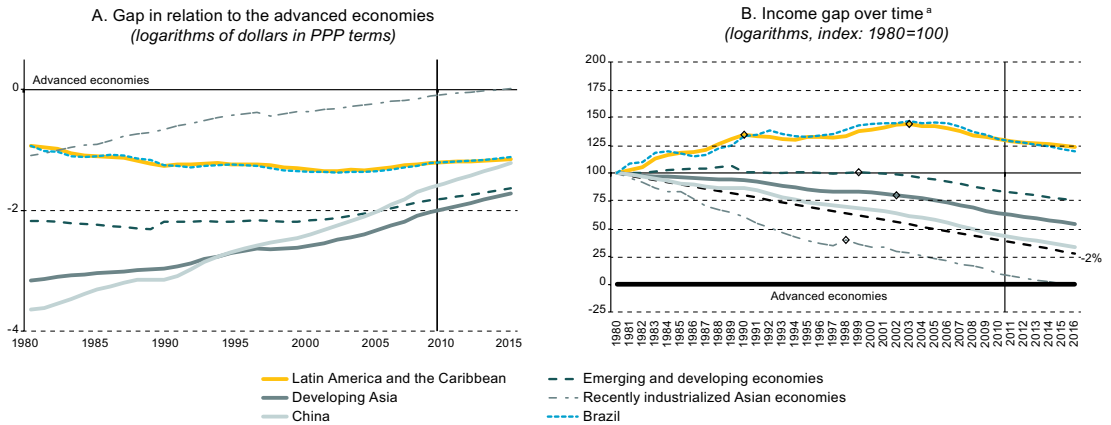
The recent global financial and economic crisis and the different paths taken by the emerging and industrialized economies in the post-crisis period led to an acceleration towards the convergence of income in the two groups of countries. The continued growth in the emerging economies, led by China, compared with the crisis in the industrialized countries has brought forward the date of productive, technological and industrial convergence between emerging and industrialized countries. Even though the world faced the worst crisis in eight decades in 2009, the emerging and developing economies continued to grow at a rate of 2.7%, owing to the impressive performance of developing Asia, and China in particular, which grew at rates of 7.2% and 9.1%, respectively. Thus, in the midst of the crisis, the emerging economies gained greater weight in the world economy. Increasing trade links between developing countries made it possible for those economies to decouple somewhat from the negative cycle of the advanced economies of the Organization for Economic Cooperation and Development (OECD).

During the world growth boom in 2003 and 2008 and the two post-crisis years, Latin America and the Caribbean managed to reduce the gap between its per capita income and that of the industrialized countries. Between 1980 and 2010, the region went through three periods with distinct trends. During the lost decade of the 1980s, a significant divergence was seen with the gap between per capita income in the region and that in the advanced economies growing by an average of 3.5 percentage points per year (see figure I.8B and table I.8). Between 1991 and 2003, this process of divergence continued but at a considerably lower rate of 0.8 percentage points per year. By contrast, from 2004 to 2008, the region reduced the income gap with the advanced economies by an annual average of 2.1 percentage points. The pattern in this regard in the largest economy in Latin America and the Caribbean, Brazil, is similar to the regional average (see figure I.8).

The region's experience stands in stark contrast to the situation in China and the recently industrialized economies in Asia. Those recently industrialized economies (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) maintained a constant movement towards convergence throughout the period under consideration. China has also been steadily closing the gap since the beginning of its economic reforms.

In several cases, the per capita income gap narrowed more rapidly in the post-crisis years. While the economies of the advanced countries stagnated in 2010 and 2011, the majority of the emerging countries maintained high, steady growth rates, thus enabling the majority of the latter group to close their per capita GDP gap at a faster rate.

Figure I.8
SELECTED EMERGING COUNTRIES AND REGIONS: GAP IN PER CAPITA INCOME IN RELATION TO THE ADVANCED ECONOMIES, 1980-2015



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28 [date of reference: 11 April 2011].
[a] The lines show how the gap has changed over time. An upward slope indicates a widening gap (divergence), while a downward slope indicates a narrowing gap (convergence).

Table I.8
SELECTED COUNTRIES AND REGIONS: REDUCTION IN THE PER CAPITA INCOME GAP IN RELATION TO THE ADVANCED ECONOMIES, 1980-2010 [a]
(Average rate of convergence in each period, percentage points per year)

	1980-1990	1991-2003	2004-2008	2009-2010
Emerging and developing economies	0.1	-0.3	-1.9	-1.9
Brazil	3.3	1.0	-1.9	-3.4
China	-1.3	-1.9	-2.4	-2.7
India	-0.2	-0.6	-1.6	-2.4
Russian Federation	0.7	-7.3	-0.6	0.1
Developing Asia	-0.6	-1.2	-1.9	-2.5
Latin America and the Caribbean	3.5	0.8	-2.1	-1.8
Middle East and North Africa	4.2	0.2	-0.6	-1.3
Sub-Saharan Africa	1.4	0.7	-0.6	-0.9

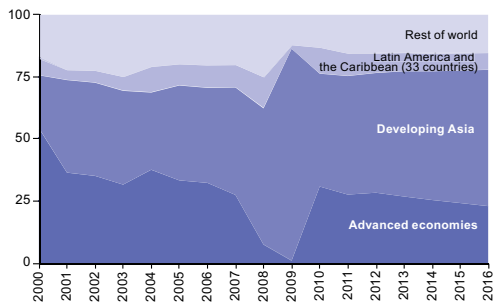
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28 [date of reference: 11 April 2011].
[a] A positive number indicates an increase in the gap (divergence). A negative number indicates a reduction in the gap (convergence).

2. The increased weight of emerging countries in global production and consumption

(a) Global production

The share of developing countries in global economic growth is increasing. The contribution of industrialized countries to world growth fell from two-thirds in 2000 to one quarter in 2009 and to almost nothing in 2008 and 2009. According to projections, in 2016 the advanced economies' contribution will account for only one quarter of total world growth. In other words, their contribution halved in 15 years (see figure I.9). China is now playing a central role, not only among the emerging countries, but also on the world stage (see box I.5)

Figure I.9
SELECTED REGIONS: CONTRIBUTION TO WORLD GDP GROWTH, 2000-2016 [a]
(Percentages)



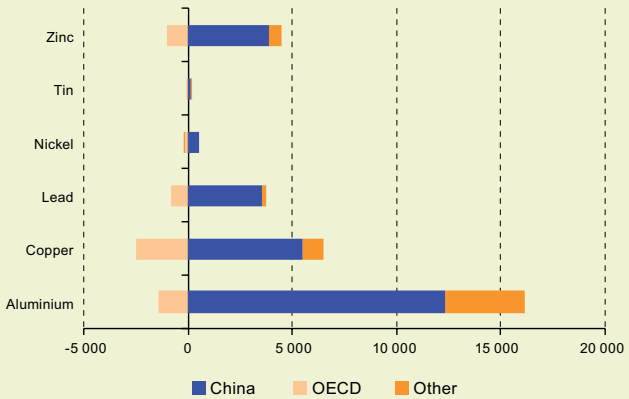
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28 [date of reference: 11 April 2011].
[a] The figures for 2011-2016 are based on projections.

Box I.5
CHINA'S PLACE IN THE WORLD ECONOMY: PRESENT AND FUTURE

China is now the second largest economy, the largest exporter of goods and the second largest importer in the world. While China has been gaining ground in terms of economy, trade and global finances over the last couple of decades, without doubt the pace of its rise has accelerated since the recent economic and financial crisis when it managed to maintain a high level of growth even as industrialized countries stagnated. The evidence indicates that this divergence in performance will continue over time and that China's GDP will surpass that of the United States in 2016 (IMF, 2011).

Growing demand in China led to a faster rise in consumption of metals and oil than food. Over the last seven years, annual average growth in imports of metals and oil was 34%, while for food that figure stood at 21%. In 2008-2009, China produced more than 30% of all cotton and rice, and more than 20% of all maize worldwide. It also exceeded 20% of world production of flour and soybean oil. However, in terms of global imports, China bought 53% of soybeans, 28% of soybean meal and 23% of soybean oil on the world market.

Figure 1
GROWTH IN WORLD METAL CONSUMPTION, 2001-2010
(Thousands of tons)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Bureau of Metal Statistics.

China's dependence on metals and oil from abroad is even greater. China is a major importer of copper, nickel and iron. In 2010, China's share in world consumption was as high as 40% for lead, nickel, tin, zinc and steel, which was higher than in 2009. In 2010, China consumed 10% of world crude oil production. It is estimated that by around 2014 China's demand for steel will have increased by 22% and for energy by 50%. This situation will benefit countries that export products such as iron, oil and copper.

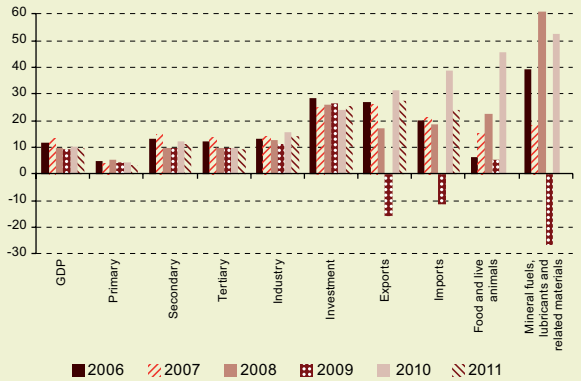
The upsurge in domestic consumption has reached unprecedented levels and could climb even higher in the near future. In the last five years, China has constructed the equivalent of the entire housing stock in Europe: every two weeks the equivalent of all the housing in Rome is built, totalling 2 billion square metres of housing per year. By 2020, property investment in China will be equivalent to five times the GDP of the United Kingdom of Great Britain and Northern Ireland. Between 2011 and 2020 the urban population will grow by 26% and its per capita income will increase by a factor of 2.6. Consequently, there is a large scope for growth in sectors such as infrastructure, retail and services, particularly in the middle-sized cities.

In 2010, China's GDP represented 9.5% of world output, which is almost double the 5% posted in 2005. According to IMF projections, China's economy will grow by 9.6% in 2011 and 9.5% in 2012. According to the World Bank, if the country's economy continued to grow at an annual rate of 8%, it would be double the size of the United States economy by 2030, even though its per capita income would still be half of that of the United States. If these projections came to pass, an unusual international scenario would arise: the world's largest economy would maintain a relatively low per capita income and would continue to be a developing economy.

With regard to its financial weight, China's reserves exceeded US$ 3 trillion in March 2011. China's sovereign wealth fund is looking at using reserves to establish new funds, each with a specific focus such as energy, precious metals and currency stabilization. The fund is to receive an additional US$ 200 billion from the government, of which it has already earmarked US$ 110 billion for offshore investments.

Box I.5 (concluded)

Figure 2
CHINA: SELECTED ECONOMIC AND TRADE INDICATORS, 2006-FIRST HALF 2011 [a]
(Annual variation, percentages)



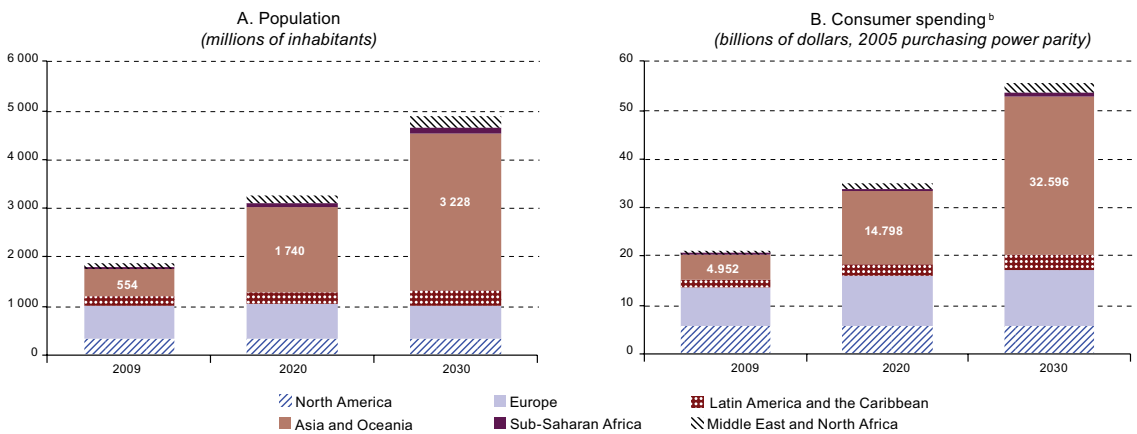
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from National Bureau of Statistics of China, China Customs, and United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Data available for the first half of 2011 only.

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

(b) Global consumption

According to projections, two-thirds of the middle class worldwide will be in the Asia-Pacific region by 2030. The middle class in China, made up of 157 million individuals, is already the second largest in the world, after that of the United States (Kharas, 2010). China has already overtaken the United States as the largest market in the world for cars, and it is also the largest world market for mobile telephones. Although the Chinese middle class represents less than 12% of the country's total population, the increase in per capita income predicted for this group over the coming decades will contribute to its purchasing power. The rapid expansion of the middle class in China and India could offset in part the stagnation expected in the expansion of the middle class in North America and Europe (see figure I.10). This situation is in keeping with the greater emphasis that the Chinese authorities are gradually placing on domestic demand (and, as part of that, consumption) in connection with future growth, partly in response to the need to reduce imbalances between rural and urban areas and between the dynamic coastal area and the less developed interior of the country.

Figure I.10
POPULATION OF AND CONSUMER SPENDING BY THE MIDDLE CLASS BY REGION, 2009, 2020 AND 2030 [a]



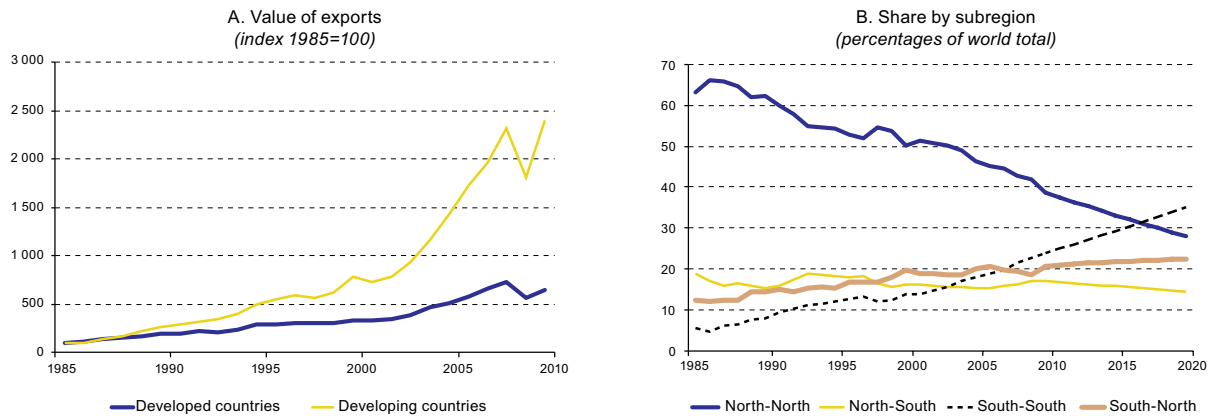
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Homi Kharas, "The emerging middle class in developing countries", *Working Paper*, No. 285, Organization for Economic Cooperation and Development (OECD), January 2010.
[a] The figures for 2020 and 2030 are projections.
[b] Consumer spending was calculated on the basis of purchasing power parity (PPP).

3. South-South trade

Over the period 1985 to 2010, emerging economies outperformed industrialized countries on trade. In 2010, the South was responsible for over 40% of world exports, while exports from the North declined to 56%. Similarly, South-South trade already represents almost a quarter of world exports (see figure I.11B). If this trend continues, South-South trade may account for a greater proportion of world trade than North-North trade by around 2017.

The tendency for exports from the South to grow more vigorously has been observed since the late 1980s, but it became more pronounced during the past decade, when exports from countries of the South expanded at annual rates of close to 10%. The recent crisis, while causing a dip in exports from the South in 2009, does not appear to have affected this long-term trend. In fact, developing country exports expanded considerably once again in 2010, surpassing the record high seen in 2008 (see figure I.11A).[10]

Figure I.11
DEVELOPED AND DEVELOPING COUNTRY EXPORTS, 1985-2020 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] The data for 2010 correspond to information on 75% of world trade.

Between 2000 and 2010, the South-South share of world trade jumped from 14% to 23%. Over the same period, the South-North share of trade grew by just 1 percentage point, while the share of North-North trade contracted significantly. This trend is attributable to several factors. First, a large proportion of manufacturing production has been transferred from industrialized to emerging countries to save money and optimize international production and value chains. Second, unilateral, bilateral and multilateral trade liberalization has facilitated trade between countries. Third, many developing countries have experienced strong growth, increasing their share of world trade (see table I.9).

Table I.9
WORLD TRADE MATRIX BY LARGE ECONOMIC REGION, 2000 AND 2010
(Percentages of total exports)

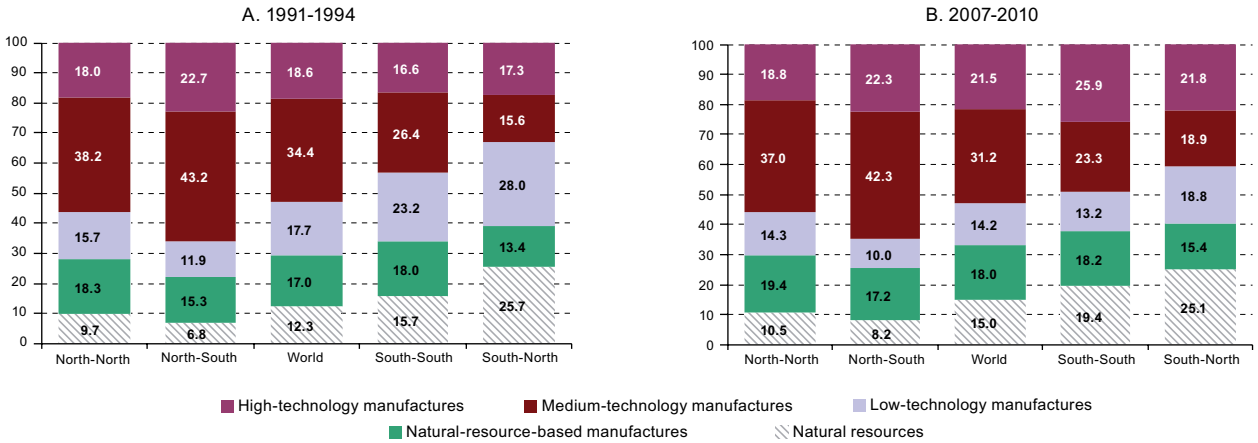
Destination / Origin	2000			2010		
	North	South	World	North	South	World
North	50.9	16.3	67.2	39.3	17.1	56.4
Sur	19.1	13.7	32.8	20.3	23.3	43.6
World	70.0	30.0	100.0	59.6	40.4	100.0

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

[10] Developed country exports, meanwhile, recovered in 2010 but have yet to return to 2008 levels.

More manufactured products have been traded among emerging economies than between North and South in recent years (see figure I.12). In addition, the countries of the South exchange more medium- and high-tech manufactures compared with South-North trade. Over time, the composition of the South-South trade basket has changed dramatically: the share of low-tech manufactured goods has shrunk, while the share of commodities and high-tech manufactured goods has grown.

Figure I.12
COMPOSITION OF EXPORTS FROM DEVELOPED AND DEVELOPING COUNTRIES, BY ORIGIN AND DESTINATION AND TECHNOLOGY INTENSITY, 1991-1994 AND 2007-2010
(Percentages of the total)



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

More trade between the developing countries of Asia, led by China, is the main reason for the rapid growth of South-South trade. Almost 60% of total South-South trade from 2008 to 2010 corresponds to trade within developing Asia. This is largely due to China's strong trading links with neighbouring economies, which have experienced double-digit growth for over a decade. Developing Asia's trade with other emerging zones represents 26% of South-South trade. Developing Asia principally trades with the Middle East (as an exporter, 5% of total South-South trade and as an importer, 6% of the total) and with Latin America (as an exporter, 5% of total South-South trade and as an importer, 3% of the total). In other words, developing Asia is by far the main engine of South-South trade and the world's best example of production complementarity (see box I.6). Latin American intraregional trade accounts for only 5% of total South-South trade. However, this percentage is higher than that of the other emerging regions, except for developing Asia (see table I.10).

Table I.10
SOUTH-SOUTH TRADE: BREAKDOWN OF INTRAREGIONAL TRADE, 2008-2010
(Percentages of total exports from the South)

Origin	Destination					
	Africa	Developing Asia	Latin America and the Caribbean	Middle East	Commonwealth of Independent States	South-South
Africa	1.3	1.9	0.4	0.4	0.1	4.1
Developing Asia	3.5	58.7	4.6	4.6	2.1	73.5
Latin America and the Caribbean	0.5	3.2	5.0	0.4	0.3	9.4
Middle East	0.5	6.1	0.1	1.3	0.1	7.6
Commonwealth of Independent States	0.3	1.9	0.2	0.4	2.6	5.4
South-South trade	6.1	72.0	10.3	7.1	5.1	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE), Statistical Office of the European Communities (EUROSTAT) and national sources.

Box I.6
TRADE PATTERNS AND GLOBAL VALUE CHAINS IN EAST ASIA

Countries are increasingly specializing in specific stages of production, thereby reducing their share of final product exports. The concept of a "global value chain" comprising supply and demand factors arose out of the realization that activities in the value chain could be optimized by dividing them among several companies and sites. Chain governance concerns a company's level of control over its upstream suppliers and its downstream buyers. This geographical fragmentation of production has given rise to a new trade reality which has heightened the interdependence between countries.

The value chain phenomenon has become particularly common in East Asia, owing to a combination of political, technical and institutional factors. For instance, Asian countries are so open to international trade that the tariffs on imports, especially on manufactures, are quite low.

The spread of value chain fragmentation has boosted trade in intermediate goods, especially manufactured products. These have become the most dynamic category of world trade, representing over 50% of non-fuel world trade. Trade in parts, components and accessories encourages economies to specialize, leading to a trade in tasks that adds value along the production chain. Specialization no longer depends on a country's balance of comparative advantages in the production of a final good, but rather on its comparative advantage in performing tasks at specific stages of the production process.

Changes in the production structure reflect changes in demand, especially the rise of mass marketing and developments in the consumption structure of the United States. The close relationship between the United States and Asia in terms of supply and demand brought about a restructuring of Asian economies according to their respective comparative advantages. Over time, this led to a clustering of production activities in countries based on their industrial interconnections. This has paved the way for greater regional integration, which facilitates trade within the supply chains.

The manufacturing sector is just one element of value chains. Services, represented by transport, communications and commerce, are increasingly central to global production networks. Commercial and infrastructure services, for example, are vital to the smooth operation of global value chains. Singapore and Hong Kong Special Administrative Region of China have become core distribution and logistics hubs, while India and the Philippines have evolved into major service providers, especially in the information technology sector and in business process outsourcing (BPO).

As trade in intermediate goods expanded, foreign direct investment (FDI) in Asia rose sharply, doubling its share of world flows. Initially, these resources were concentrated in China, but India has gradually increased its share. As a percentage of GDP, however, FDI in Hong Special Administrative Region of China, Singapore and Viet Nam is greater. Multinational companies use FDI as part of their intra-firm trade strategy, and although a significant proportion of FDI goes to non-tradable service sectors, these are in fact key to the development of global value chains.

Structural diversity and Asia/United States complementarity are among the distinctive features of Asian value chains. Through the reorganization of production systems, there is increasing convergence towards similarity between Asian industrial profiles and greater complementarity, which in turn provides more opportunities for intra-industry trade and economic interdependence. Asian production integration has moved from Japan to China. Analysing the development of production networks in Asia and the United States helps shed light on Asian value chains, revealing the interconnections among Asian economies and between them and the United States market. In 1985 there were only four major actors in the region: Indonesia, Japan, Malaysia and Singapore. In the 1990s they were joined by the Republic of Korea, Taiwan Province of China and Thailand as Japan expanded its supply networks and the United States began to outsource. China's rise from 2000 transformed the regional network, and by 2005 the network's centre of gravity had shifted there. Chinese supply chains evince a high degree of sophistication that reflects not only low production prices but also the complex intermediate goods imported from other countries, whether from Asia or the rest of the world.

Measuring this trade presents another challenge for analysts endeavouring to understand value chain functioning. For instance, attributing value only to the final stage of the production chain significantly distorts the analysis, which could have major implications for trade policy and negotiations. One solution is to calculate value added, which provides a clear picture of the vertical integration of the export sector and of the true value of bilateral trade flows. Using value added reduces the 2008 United States trade deficit with China by 42%.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO)/Institute of Developing Economies of the Japan External Trade Organization (IDE-JETRO), *Trade Patterns and Global Value Chains in East Asia: from Trade in Goods to Trade in Tasks*, Geneva, June 2011.

The regions of the South vary widely when it comes to the importance of other countries of the South as export markets. Between 2008 and 2010, the South as a whole exported 54% of its products to the rest of the South, and 46% to regions of the North. The recent crisis has accelerated the trend towards the rising importance of South-South trade, given that this was only 34% in 2000-2002 and 43% in 2005-2008. With regard to the individual regions, between 2008 and 2010, the South had a weight of around 60% for developing Asia and the Middle East, over 50% for Latin America and the Caribbean, excluding Mexico and almost 40% for Africa, Latin America and the Caribbean and the Commonwealth of Independent States.

South-South trade accounts for a growing proportion of Latin American and Caribbean trade. As a destination, the South receives 38% of total regional exports, and 53% excluding Mexico. The region itself is the main destination, receiving 20% of exports. The second destination is developing Asia, with a 13% share. The other destinations receive only a small percentage of exports from the region. (see table I.11).

Table I.11
SOUTH-SOUTH TRADE: SHARE OF OTHER REGIONS, 2008-2010 [a]
(Percentages of total exports for each region)

Origin	Destination					
	Africa	Developing Asia	Latin America and the Caribbean	Middle East	Commonwealth of Independent States	South-South
Africa	12.2	18.4	4.0	3.9	0.5	39.0
Developing Asia	2.8	47.6	3.7	3.8	1.7	59.6
Latin America and the Caribbean	2.1	13.2	20.3	1.6	1.1	38.3
Latin America and the Caribbean excluding Mexico	3.2	17.5	28.0	2.5	1.6	52.8
Middle East	4.6	51.5	1.1	10.8	0.8	63.8
Commonwealth of Independent States	2.1	13.3	1.2	2.7	18.1	37.4
South-South trade	3.3	39.0	5.6	3.9	2.8	54.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE), Statistical Office of the European Communities (EUROSTAT) and national sources.
[a] These results were obtained on the basis of annual bilateral trade matrices for the three-year period. The 2010 data were put together using figures covering 85% of world trade (77.5% from COMTRADE and 7.5% from EUROSTAT (Austria, Spain, Latvia, Malta, Netherlands and Poland)). Information on the other countries was obtained via mirror statistics. In specific instances of bilateral trade without reporting countries, the 2009 structure was used and the growth rate provided by the World Trade Organization (WTO) (India, Philippines, Republic of Korea and Singapore). The same procedure was followed for the Latin American countries, using information from national sources for 2010.

Along with several neighbouring countries, China is evolving into an export platform. Although Latin America continues to supply China with primary and natural-resource-based products, it exports far less of the latter to China than its rivals. It competes in the Chinese market with the ASEAN countries, Australia, India, New Zealand and the United States as a supplier of primary products and with Japan and the Republic of Korea as a supplier of natural-resource-based manufactures (ECLAC, 2010b).

(a) Latin American and Caribbean links with Asia

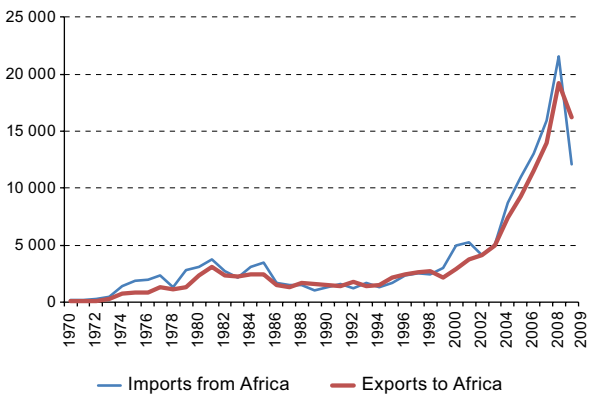
Latin America and Caribbean countries are keen to join "Factory Asia", which is centred on China, and participate in Asian and global value and supply chains. To break into this market, Latin American business operators must work on forging closer biregional ties in trade and investment through various forms of business association.

Recently, the region's trade with Asia, dominated by soaring exports to China, has outstripped its trade with other major partners. Regional imports from Asia-Pacific, particularly from China, have also grown more vigorously than total imports. The region imports more than it exports in its trading relationship with Asia-Pacific, and this has generated a widening trade deficit with the latter (see chapter II for more details).

(b) Latin American and Caribbean links with Africa

Comparatively speaking, the region trades very little with the African continent. In 2009, Africa accounted for 2.5% of total regional exports and 1.8% of imports. While this percentage is low, it did maintain an upward trend throughout the decade (see figure I.13).

Figure I.13
LATIN AMERICA AND THE CARIBBEAN AND AFRICA: BILATERAL TRADE, 1970-2008
(Millions of dollars)



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

One striking aspect of this bilateral trade is the narrow range of countries and products. Country-wise, the main trading partner is Brazil, which is responsible for over half of total regional trade with Africa. Brazil has strong historical roots and a shared culture with the former Portuguese colonies in Africa. Over the past decade, trade involved fewer countries, and relations therefore did not develop much further. It is nevertheless interesting to observe the emergence of new trading partners (such as Belize and Trinidad and Tobago), which are beginning to have an impact. In terms of products, the region exports oil, copper and agricultural commodities (such as soybean and sugar) and manufactured goods (from Mexico) to Africa. Imports from Africa mainly consist of oil, gas and fertilizers (Brun, 2009). Given the similarity of these regions' exports to China, there is some competition between the two, above all in the case of crude oil and some minerals.

(c) Links between Asia and Africa

Trade relations between China and Africa have deepened, particularly over the past decade. In fact, bilateral trade between China and Africa surged from US$ 10.6 billion in 1990 to more than US$ 100 billion in 2010; this increase corresponds to an annual growth rate of over 30%. China is now Africa's main trading partner. These additional flows are mainly attributable to rising Chinese demand for commodities and Africa's comparative advantages in this regard.

Another contributory factor has been the closer cooperation between the two continents, following the creation of the Forum on China-Africa Cooperation (FOCAC). Between 2000 and 2009, FOCAC met four times and set itself ambitious goals, including a target of US$ 100 billion in trade annually. This target was reached ahead of the deadline. Although China's role in Africa is controversial, China is clearly a key player in the region and has had a major impact in a large number of African countries. The Government of China has supported development in areas such as infrastructure, energy and agriculture. Within the framework of FOCAC, to year-end 2009, Chinese business activity in Africa increased: over 2,000 companies were set up in different countries, more than 300,000 jobs were created and US$ 1.44 billion was invested, up from US$ 200 million in 2000.

Thanks to a number of initiatives taken by the Government of China, the trade deficit with Africa has narrowed. Africa's exports to China rose from US$ 6 billion in 2000 to US$ 43 billion in 2009. In addition, in July 2010 the Government of China eliminated import duties on 60% of imports from 26 less developed countries in Africa that maintain diplomatic relations with China. This percentage will be raised to 95% in 2013 (MOFCOM, 2011).

China's imports of natural resources and its exports of various manufactured goods are the distinctive features of this booming trade relationship. Three quarters of China's imports from Africa consist of mineral resources, while it exports a wide array of goods to Africa: apparel, footwear, plastic products, machinery and transport equipment are the five main products.

Notably, China's imports from Africa are far more geographically concentrated than its exports. Two thirds of Chinese imports come from three African countries: Angola, South Africa and Sudan.[11] By contrast, China exports to countries with a large population or high per capita GDP, mainly Nigeria, South Africa and the countries of northern Africa.

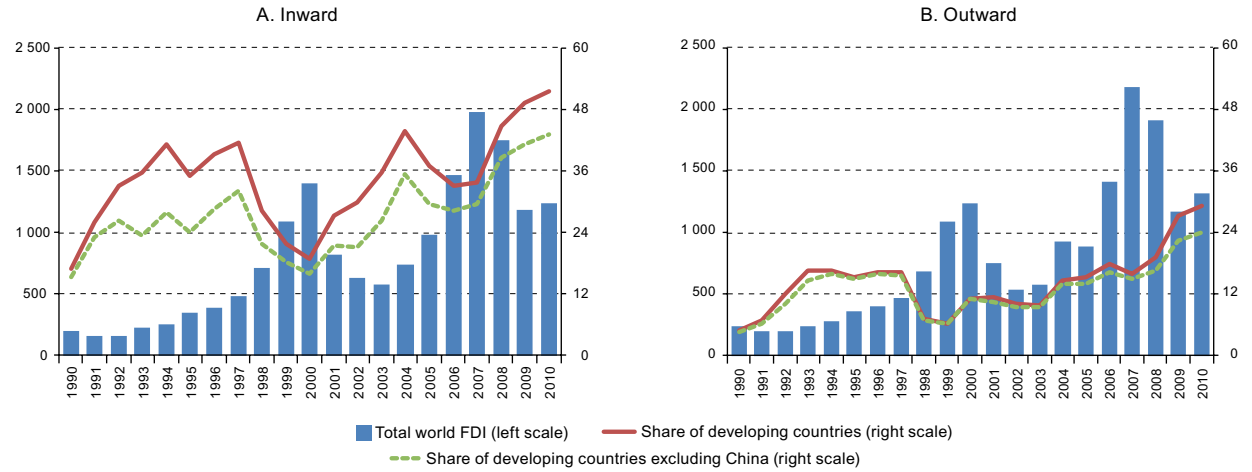
4. Foreign direct investment by multinational companies of the South

In 2010, for the first time, FDI in developing and transition economies accounted for more than half of world FDI. Although global FDI grew by 5% in 2010, investment levels remain 15% below average pre-crisis levels (UNCTAD, 2011a)**.** The weak recovery is partly explained by a drop in investment flows from and to industrialized countries, which are still suffering the effects of a sluggish recovery and, in the case of Europe, the sovereign debt crisis. Indeed, FDI in developing countries rose by 10% and fell by 7% in developed countries. As a result, for the first time half of FDI went to developing countries; in line with this trend, FDI in Latin America and the Caribbean was up 40% on the previous year (ECLAC, 2010b).

[11] Includes the territory now known as the Republic of South Sudan.

The 2009 crisis may have marked the beginning of a long-term trend, shifting the emphasis over to emerging economies ("the South") as recipients of world FDI. Between 1970 and 2007, the South's share of the total ranged from 10% to 45% (in 1982, just before the debt crisis), but generally fluctuated between a quarter and a third. However the financial crisis may have contributed to a major shift in FDI flows from industrialized countries to emerging economies (see figure I.14). In fact, data for 2007-2010 show that the South's share as an FDI recipient increased from 27% to 47% during that time. Among emerging economies, developing Asia doubled its share (from 16% to 30%), as did Latin America and the Caribbean (from 5% to 10%), while that of Africa held steady at between 3% and 4%.

Figure I.14
DEVELOPING COUNTRIES: SHARE OF FOREIGN DIRECT INVESTMENT FLOWS, 1990-2010
(Billions of dollars and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 2010. Investing in a Low-Carbon Economy* (UNCTAD/WIR/2010), Geneva, July 2010. United Nations publication, Sales No. E.10.II.D; and "Global and regional FDI trends in 2010", *Global Investment Trends Monitor*, No. 5, Geneva, 2011.

Developed countries continue to be the main source of FDI, although the increasing share of developing and transition economies is striking and reflects their growing contribution to the global economy and trade. Having doubled their share over the past decade, the developing and transition economies contributed 22% of the total in 2010. Similar to the region's growth as a destination of FDI, Latin America and the Caribbean's performance as a source of investment placed it as the most dynamic region in 2010. The slow but steady rise of developing countries will be a key characteristic of FDI flows in the years to come. Emerging countries in Asia and Latin America are the main sources of investment.

(a) Trans-Latin

Consideration of FDI in Latin America and the Caribbean must include the activities of transnational Latin American companies ("trans-Latins"). Although the United States remains the biggest investor in Latin America and the Caribbean, followed by the Netherlands and China, the fourth investor is Latin America itself. Firms in Brazil, Chile and Mexico, and more recently, Colombia, became the most internationalized over the past decade. The internationalization process occurred mainly in commodity industries (hydrocarbons, mining, cement, pulp and paper, and iron and steel), mass consumption manufactures (food and beverages) and some services (energy, telecommunications, air transport and the retail trade).

The top trans-Latins in 2010 were from Mexico, followed by Brazil, Chile, Colombia, Bolivarian Republic of Venezuela and Argentina. They were América Móvil and Cemex (Mexico); Petrobras, Vale and Itaú Unibanco (Brazil); Cencosud (Chile); and PDVSA (Bolivarian Republic of Venezuela). The rise in outward FDI in 2010 is therefore explained by larger investments by companies from Mexico, Brazil, Chile and Colombia, which accounted for over 90% of the flows. Much outward investment by Latin America is directed at neighbouring countries: 47% of mergers and acquisitions by Latin American companies in 2010 took place within the region.

For the most part, countries in the region invest in neighbouring countries and in industrial and services sectors. These sectors generate more employment, as opposed to the raw materials sector, which receives most Asian investment. For instance, Chilean outward investment in the past 20 years amounted to US$ 56.789 billion, 85% of which was invested in other countries in the region (83% in Latin America and 50% in MERCOSUR countries). By sector, 40% was invested in services, 28.8% in energy, 23.1% in industry and just 4.8% in mining. These investments resulted in the creation of around 196,000 direct jobs and 135,000 indirect jobs (DIRECON, 2011).

(b) Trans-Asians

Asian countries have increased their share of outward FDI over time. Between 1993 and 1997, 13% of world FDI came from developing Asian countries, of which 80% was from the newly industrialized economies or Asian tigers (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China). China and India accounted for only 5% of these flows. During the period 2004-2008, however, their share rose to 20%.

China and India have thus become key players in terms of their contribution to global FDI, particularly in emerging and developing economies both within Asia and in Africa and Latin America. To sustain their economic growth, China and India need a continuous supply of raw materials and to capture new external markets so they can develop their domestic industry according to their individual strengths. In parallel, trade in goods and services has progressively taken over a bigger share of their economies.

Chinese investment in developing economies has typically targeted natural resource extraction, mainly hydrocarbons and mining. However, as a share of total Chinese overseas investment, these flows are shrinking, owing to growing competition from these same economies with China. Their lower costs in some factors of production are forcing China to participate in stages further up the value chain, where it competes with developed economies. Here, its investments take the form of acquisitions or joint ventures in higher value areas, thereby enabling technology to be transferred to China.

Unlike China, India has invested overseas by way of mergers and acquisitions in higher value added services or manufacturing. Developed countries are therefore the main recipients of these investments, particularly the United Kingdom and the United States, which totalled US$ 80 billion between 2000 and 2010. Between 2009 and 2010, 48% of Indian overseas investment went to Singapore and Mauritius (IBEF, 2011).

The principal aim of Indian investment is thus to capture new markets, rather than to obtain a supply of raw materials for the domestic industry. In addition, Indian companies face domestic barriers to investment, mainly in the form of higher prices for factors of production, with the corresponding rise in inflation and interest rates, and a regulatory framework that has been slow and inconstant in facilitating investment.

The rise of trans-Asian companies and investments is apparent in a number of spheres. It is, for example, clearly demonstrated by the position of Asian firms in world rankings in recent years. In one of the best-known ranking lists, *Fortune Global 500*, 16 Chinese companies were among those with the highest revenues in 2005; by 2010 this had risen to 48. Over the same time frame, the number of Indian companies rose from 5 to 8 (CNNMoney, 2011). Reflecting the pace of growth, the latest figures for 2011 (22 July) show that there are now 69 Chinese firms in the top 500. Five Asian companies (three of them Chinese) are now among the top 10 grossing firms in the world. A substitution effect has taken place among Asian companies: for instance, in 2005 the top five Asian companies were Japanese, while in 2011 the top three were Chinese (all energy companies), having ousted the big Japanese automotive firms. Companies from Malaysia, the Republic of Korea and the Russian Federation are also arriving on the scene.

Meanwhile, in 2005 there were five Latin American firms in the top 500 (three Brazilian and two Mexican). By 2009 this had jumped to 11, most related to the energy or banking sectors. PDVSA, the Venezuelan State-owned oil company (with revenues of US$ 126.364 billion and profits of US$ 7.451 billion) led the pack, in 27th place. It was followed by Petróleos Mexicanos (Pemex) in 31st place (with revenues of US$ 119.235 billion) and the Brazilian company Petrobras in 34th place (up from 63rd place in 2006), with a turnover of US$ 118.257 billion. There were four Mexican companies on the list: Pemex, América Móvil (273rd), Comisión Federal de Electricidad (370th) and the cement company Cemex, the third-largest of its kind in the world (421st). That year, in addition to Petrobras, other Brazilian firms included three banks (Bradesco, Itaú and Banco do Brasil), the mining giant CVRD (now known as Vale), and the steel company Gerdau.

In 2011, there were 13 Latin American companies in the top 500, with Brazilian firms particularly prominent. The Venezuelan oil company dropped to 66th place and was overtaken by two other oil firms, Petrobras and Pemex. These are now among the 50 biggest companies in the world, with revenues of over US$ 100 billion. Table I.12 presents figures on the top 10 Latin American companies of 2011.

Table I.12
TOP ASIAN AND LATIN AMERICAN COMPANIES, BY REVENUE, 2011

Asian companies	World ranking	Country	Income *(billions of dollars)*	Latin American companies	World ranking	Country	Income *(billions of dollars)*
Sinopec Group	5	China	273	Petrobras	34	Brazil	120
China National Petroleum Corporation (CNPC)	6	China	240	PEMEX	49	Mexico	102
State Grid	7	China	226	PDVSA	66	Venezuela (Bol. Rep. of)	88
Toyota Motor Corporation	8	Japan	222	Banco do Brasil	117	Brazil	63
Japan Post Holdings	9	Japan	204	Banco Bradesco	156	Brazil	53
Samsung Electronics	22	Republic of Korea	134	América Móvil	172	Mexico	48
Nippon Telegraph and Telephone	31	Japan	120	Valle	186	Brazil	45
Gazprom	35	Russian Federation	119	JBS	307	Brazil	31
Hitachi	40	Japan	109	Itaúsa-Investimentos Itaú	360	Brazil	27
Honda Motor	45	Japan	104	Ultrapar Holdings	400	Brazil	24
Nissan Motor	48	Japan	102	Ecopetrol	445	Colombia	22
Panasonic	50	Japan	101	CFE	483	Mexico	20

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CNNMoney (2011), "Global 500" [online] http://money.cnn.com/magazines/fortune/global500/2011/full_list/ [date of reference: 29 July 2011].

F. Outlook and risks

Volatility and uncertainty have now returned to worrying levels. Since the United States Congress reached an agreement on the public debt ceiling and Europe and IMF bailed Greece out for the second time, there have been wild swings in the main stock markets, which have plummeted in a manner resembling previous financial crises and then rebounded.

Slow growth is forecast for industrialized economies over the coming years. During 2011, growth rates for these economies have been systematically revised downward. Their economic policy stance still appears to be misdirected, focusing on reducing the fiscal deficit rather than a recovery of employment and growth. The financial markets' sudden, adverse reaction to the agreement on the public debt ceiling was not due to insolvency fears or the threat of inflation, but rather to the poor outlook for growth. At the end of the first half of 2011, economic activity remained below 2007 levels, while the employment figures for June 2011 show that the employment rate remained below that of June 2009, when the recession officially came to an end (Krugman, 2011).

The legacy of high public debt left by the crisis in Europe and in the United States will cast a shadow over these economies for many years to come. As a result of the crisis, fiscal accounts in these countries have deteriorated to an unprecedented level. Public debt in industrialized economies rose from 77% of GDP in 2007 to 104% in 2010. Projections indicate that, even assuming that fiscal policy is gradually tightened, this could climb to 126% of GDP by 2020 (Deutsche Bank, 2011). Without a change in policy, it could reach 150% of GDP (134% in the case of the United States). This outlook spells several years of underperforming economies, high unemployment rates and latent financial threats, because the situation is relatively unstable and the markets are nervous.

The inability of the political authorities to coordinate robust and sustainable solutions to fiscal and sovereign debt problems adds a further layer of uncertainty. The

complex fiscal adjustment beginning in Europe and the United States will require an extended process of fiscal consolidation, which will be difficult to undertake unless it is widely supported by governments.

The time may have come for innovative solutions that seek to deepen European integration. It will be difficult for Europe to weather the present crisis if it does not buttress solidarity mechanisms and regional cooperation. The question is whether greater or lesser integration is the answer to the crisis. Maintaining the current policies could lead to a grave crisis for the euro and badly affect the prospects for its own integration process. Sooner rather than later, the recovery of growth will require serious consideration of a mass purchase of debt by the European Central Bank or the issuance of European debt in lieu of national debt, together with credible commitments to fiscal consolidation. In that scenario, most of the risk would fall to the worst affected economies, allowing for the structural reforms needed to regain competitiveness. Without a doubt, this would require more sovereignty to be ceded, this time in the fiscal domain, and probably a new community treaty.

In this context, Germany and France submitted a proposal in August 2011 to form a regional economic government and take disciplinary measures in the event of non-compliance with pre-established rules for countries in the euro area. The proposal sought to avert a further crisis by strengthening governance and integration in the euro area. It rests on (i) forming a regional economic committee made up of heads of State that would meet twice a year to coordinate policy; (ii) incorporating into national constitutions the obligation to balance fiscal budgets every year; (iii) promoting equality through a single tax from 2013 onwards; (iv) introducing a tax on financial transactions to curb speculation; and (v) promoting political and fiscal integration with the ultimate aim of issuing Eurobonds *(El Mercurio*, 2011).

In the current climate, there is limited political scope for substantive agreements on governance of the globalization process. The economic turmoil and high unemployment in industrialized countries bring protectionist tendencies to the fore, making action on the main issues raised by globalization less likely. For example, the Doha Round has been unable to achieve the minimum level of agreement needed to bring it to a close, after 10 years of unproductive negotiations. Following the preliminary announcements from the G20 regarding reform of the international financial system, this topic appears to have disappeared from its agenda. Successive summits on climate change seem to have been equally unsuccessful in tackling the subject with sufficient urgency. In turn, the growing weight of the emerging economies in the main variables of the global economy tends to provoke fear and defensive reactions among industrialized economies.

In the case of the emerging Asian economies, growth is anticipated to slow down only marginally compared with the high levels seen last year. The stoppages in regional production networks (owing to Japanese supply shortages) appear to have been resolved, although some sectors, especially automobiles and electronics, may experience difficulties throughout the northern hemisphere summer. Latin America will be driven by exports and domestic demand, but the pace will slacken in some economies (Brazil, in particular) where more restrictive policies are being implemented.

Figure I.15
MAIN COUNTRIES AND REGIONS: GROWTH PROJECTIONS FOR GDP AND TRADE, 2011 AND 2012
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, *World Economic Situation and Prospects 2011*, New York, January. United Nations publication, Sales No. E.11.II.C.2 and International Monetary Fund (IMF), World Economic Outlook Database [online] www.imf.org/external/ns/cs.aspx?id=28, 2011.
[a] Projections.

The heavy flows of private capital pouring into developing economies, eager to exploit higher activity levels and interest rates, may exacerbate inflationary pressures. They also have the potential to destabilize currencies and financial markets. In particular, emerging economies which are experiencing an above-trend rate of growth must protect their macroeconomic balances and exercise more vigilance over macroeconomic aggregates and financial sector activities.

A weaker dollar may prove to be a competitive disadvantage for emerging economies and lead to new trade protection measures. A possible third round of quantitative easing (QE3) and the announcement of a close-to-zero interest rate for the next two years will heighten the liquidity of the dollar in the financial markets, at a time of marked weakness for industrialized economies. Monetary cycles in industrialized and emerging economies are likely to continue to take divergent paths, increasing the pressure towards currency appreciation for the latter.

High capital inflows in Latin America exert pressure on real exchange rates and act as an incentive to specialize in the production and export of primary goods, in order to benefit from the high prices. This leaves economies of the region more exposed to external shocks and generates greater volatility in domestic macroeconomic aggregates, such as investment; the overall impact is to stunt these economies' ability to grow, create productive employment and reduce inequality. The authorities of the region have responded to these complex macroeconomic policy dilemmas by implementing measures designed to ease pressure on exchange rates. These combine, to varying degrees, interventions in foreign-exchange markets, capital controls and financial regulations (ECLAC, 2011).

Low economic growth is looking increasingly likely, in view of the potential loss of confidence in the peripheral countries within the euro area. From a Latin American and Caribbean perspective, a world economic slowdown, a gradual decline in global liquidity and a higher risk component in financial assets, especially of some European sovereign debt, could prolong the "flight to quality". This would mean, as borne out in the recent crisis, greater demand for dollar-denominated assets and a sudden reversal in capital flows (ECLAC, 2011a).

Rising food and energy prices also represent more direct risks for economic growth because they affect consumers' real incomes and, in some countries, because they trigger social unrest. A steep increase in prices is probably more likely in the energy sector, owing to the deepening political crisis in some of the main oil-producing countries.

At the next G20 meeting in France in November 2011, a variety of urgent matters must be addressed. First, the member countries must set out their position and coordinate in the short term to reduce the likelihood that the global economy will slip once again into recession, and in the medium term to inject life into their economies. The second question is how to curb the extreme volatility of capital flows, in particular the vast amount of capital entering and leaving emerging countries. Other subjects in need of attention are the sustainability of the sovereign debt of several industrialized countries and the impact of the decisions made by credit rating agencies regarding this.[12]

In brief, the outlook for 2012 is extremely uncertain, and Latin American economies must adopt prudential macroeconomic policies. Economies in the region with greater financial and market depth are grappling with financial volatility; the slowdown in Europe and the United States will limit export growth, affecting prices, as the new monetary easing measures in the United States could exacerbate currency appreciation in countries that are already under strain from high capital inflows. Latin American and Caribbean economies should keep a close eye on the sustainability of their fiscal and external accounts and consolidate their macro-prudential measures, guided by the long-term performance of the main economic variables. In some cases, this may mean regulating excessive capital inflows, particularly when these are the main cause of currency appreciation.

Prudential macroeconomic management must be accompanied by enhanced regional cooperation (see chapter III). A further commitment to regional integration and cooperation will help cushion the impact of a potential global deterioration, supporting intraregional trade and preserving macroeconomic and social progress by moving closer towards the formation of a larger regional market. There is plenty of scope for trade facilitation initiatives and greater cooperation on physical infrastructure, transport, logistics, customs rules and innovation and technology. Such initiatives will not only open up an interesting area of activity for exports by small and medium-sized enterprises, which are more intensive in manufactures, but will also underscore the appeal of the region as a trading partner and as a destination for FDI.

[12] Credit rating agencies played a key role in fuelling the financial market bubble that led to the 2008 crisis. By assigning ratings to financial instruments created based on subprime mortgage debt, the agencies gave the impression that the systemic risk associated with this methodology was low and that these assets were more liquid and secure than they really were. Moreover, the agencies were unable to accurately rate the risks of financial institutions holding these assets in their portfolio. For example, Standard & Poor's gave Lehman Brothers an AAA rating just one month before it went bankrupt.

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Chapter II

Relations between Latin America and the Caribbean and its main partners outside the region

A. Introduction

This chapter examines the main trends, especially during the past decade, in trade and investment relations between the region and its three main extraregional partners: the United States, the European Union and the Asia-Pacific region. It begins with an analysis of the evolution of trade and investment flows, both in overall terms and by sector and product, and then reviews the strategy underlying the ties with each partner, including trade negotiations and economic cooperation initiatives.

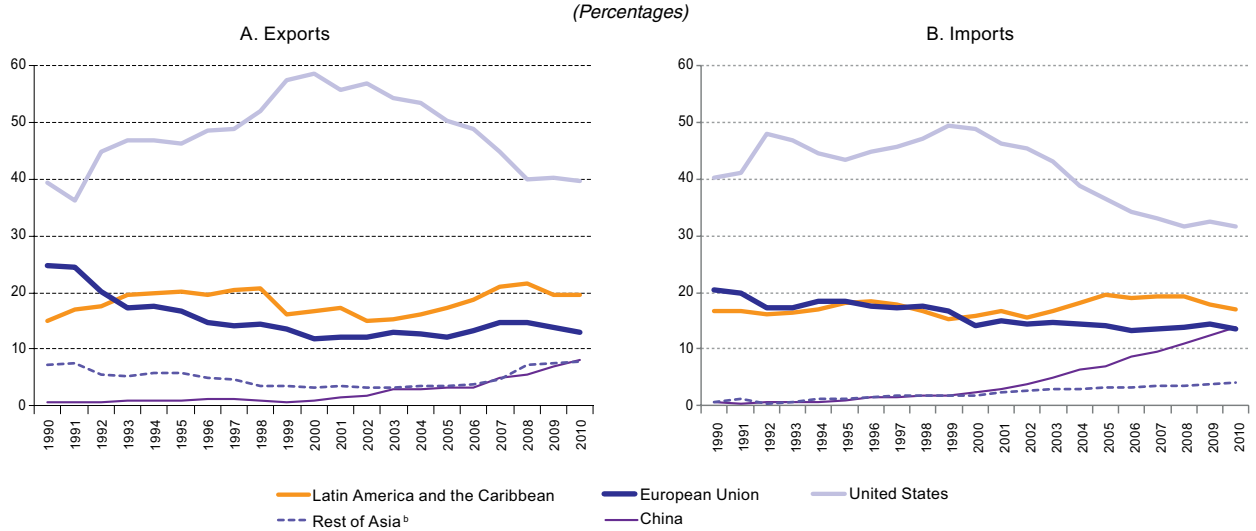
Section B gives an overview of the main aggregates of the region's trade relations with the United States, the European Union and the Asia-Pacific region, while sections C, D and E analyse the ties with each partner in greater depth.

B. Overview of trade relations between the region and its main partners

During the past decade, China emerged as an increasingly important trading partner for Latin America and the Caribbean, while the role of the United States diminished and trade with the European Union stagnated. Although the United States remains the region's main trading partner, its share in regional exports sank from 58% in 2000 to 40% in 2010, while its share in imports dropped from 49% to 32% in the same period.

As for the European Union, the region's second largest trading partner, its share in regional exports grew slightly from 12% to 13%, while its share in imports remained stable at 14%. By contrast, China's share in regional exports climbed from 1% in 2000 to 8% in 2010, and its share in regional imports rose from 2% to 14% (see figure II.1).

Figure II.1
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SELECTED PARTNERS IN REGIONAL EXPORTS AND IMPORTS, 1990-2010 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE); CEPALSTAT database [online] http://www.cepal.org/estadisticas; and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database for China, 1980 and 1983.
[a] The data are based on mirror statistics, weighted in relation to the region's total balance of payments. As a result, they may not coincide with the national data reported by the countries of Latin America and the Caribbean, which are used in tables 1 and 2.
[b] Includes Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Singapore and Thailand.

A country analysis confirms the growth of the Asia-Pacific region as a destination for regional exports in the past decade. Between 2000 and 2010, the share of Asia-Pacific in total exports grew for all countries in the region except Ecuador, Guatemala and some Caribbean countries. By contrast, the share of the United States in total exports from all countries of Latin America shrank. Its share increased only in some Caribbean countries (see table II.1).

Imports have shown a similar trend. The past decade saw significant growth in the Asia-Pacific region's share in imports to all countries in the region, with the exception of three Caribbean countries. By contrast, the share of the United States in imports to all countries except Cuba, Ecuador and Uruguay shrank considerably (see table II.2).

In most of the past decade, the region posted surpluses in its goods trade with the United States and the European Union, but a deficit with China and the rest of Asia. The deficit with China and the rest of Asia reflects the differentiated pattern that has emerged in the region's trade relations with Asia. While several South American economies send a significant proportion of their exports to Asian markets —especially commodities and natural-resource-based manufactures — Mexico, the Central American countries (except Costa Rica and Panama) and the majority of the Caribbean countries (the only exception being Cuba) send only a small fraction of their exports to Asia. At the same time, Asia's share in total imports to these countries grew considerably in the past decade, resulting in sharp trade deficits with that region (see figure II.2). This differentiated pattern is explained in more detail in section E of this chapter.

Table II.1
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SELECTED PARTNERS IN TOTAL EXPORTS, 2000 AND 2010 [a]
(Percentages)

		Asia-Pacific [b]		United States		European Union		Latin America and the Caribbean	
		2000	2010	2000	2010	2000	2010	2000	2010
South America	Argentina	9.4	18.2	12.0	5.2	18.0	16.6	48.1	41.8
	Bolivia (Plurinational State of)	1.4	16.3	24.0	9.4	17.3	9.8	44.2	60.5
	Brazil	10.3	28.2	24.3	9.6	28.0	21.4	24.8	23.1
	Chile	26.1	49.7	16.5	9.9	25.2	17.2	21.9	18.2
	Colombia	2.6	8.6	50.4	42.5	13.9	12.5	28.9	18.2
	Ecuador	10.9	6.4	37.9	34.8	12.9	12.9	31.5	41.2
	Paraguay	2.0	4.9	3.9	1.4	13.6	9.2	74.5	67.9
	Peru	16.9	26.5	28.0	16.3	22.0	17.8	18.1	17.1
	Uruguay	8.3	9.0	8.3	2.9	16.3	14.8	54.2	42.8
	Venezuela (Bolivarian Republic of)	1.9	16.4	59.6	49.5	5.8	10.0	19.6	15.6
Central America	Costa Rica	5.5	13.4	52.0	36.7	22.1	17.8	19.0	28.5
	El Salvador	0.4	1.8	65.5	48.3	5.7	4.3	27.8	42.9
	Guatemala	3.6	3.6	44.0	39.6	10.9	5.6	35.6	42.3
	Honduras	1.6	6.5	79.3	36.5	4.5	23.7	6.0	29.8
	Mexico	1.4	4.0	88.2	80.1	3.5	4.9	3.6	7.0
	Nicaragua	0.8	4.6	57.2	30.6	16.4	11.7	23.4	44.1
	Panama	2.0	14.1	45.9	29.2	21.7	21.8	23.2	20.7
Caribbean countries	Bahamas	2.4	20.2	48.3	37.2	29.8	18.0	1.5	13.6
	Barbados	0.7	2.8	13.5	9.9	18.5	7.7	16.2	73.1
	Belize	0.8	5.1	45.0	32.1	27.8	29.4	30.6	21.0
	Cuba	9.8	28.8	-	0.0	38.5	14.8	10.5	22.1
	Dominica	0.0	42.4	10.9	0.9	56.9	7.0	28.8	34.7
	Dominican Republic	1.4	4.6	91.1	58.7	6.3	10.7	4.2	22.9
	Grenada	3.1	0.7	7.4	12.8	56.2	7.4	24.4	54.3
	Guyana	6.6	3.4	20.5	25.9	48.5	18.6	10.3	17.5
	Haiti	1.2	2.4	83.0	80.7	12.5	4.9	6.5	4.8
	Jamaica	1.0	3.0	28.4	35.1	31.8	16.3	5.1	10.4
	Saint Kitts and Nevis	3.3	0.7	61.3	57.9	34.2	9.2	3.8	8.2
	Saint Lucia	0.1	3.6	16.6	19.4	68.9	24.7	8.7	50.5
	Saint Vincent and the Grenadines	0.0	2.1	10.6	1.5	54.6	60.7	34.0	29.9
	Suriname	6.2	1.4	11.8	12.3	38.3	22.6	6.3	6.5
	Trinidad and Tobago	1.4	4.7	53.9	46.8	9.0	14.8	18.0	27.9
	Latin America and the Caribbean	5.3	17.2	59.7	39.6	11.6	12.9	16.0	19.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE); official information from countries; and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database. Data for 2000 are from COMTRADE, whereas 2010 data are from national sources. The data for the Caribbean (excepting the Dominican Republic) are from the Direction of Trade Statistics (DOTS) database.

[a] Figures for 2000 for members of the Central American Common Market include maquila exports, which are counted as exports to the United States. The 2010 figures are based on data reported by the countries.

[b] The Asia-Pacific region includes Australia, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, Philippines, Republic of Korea, Singapore, Thailand and Viet Nam.

Table II.2
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SELECTED PARTNERS IN TOTAL IMPORTS, 2000 AND 2010
(Percentages)

		Asia-Pacific [a]		United States		European Union		Latin America and the Caribbean	
		2000	2010	2000	2010	2000	2010	2000	2010
South America	Argentina	13.9	21.4	18.9	10.7	23.5	17.2	34.3	40.3
	Bolivia (Plurinational State of)	10.6	19.3	22.0	13.2	11.7	9.1	49.6	56.5
	Brazil	13.6	31.7	23.3	14.9	26.0	21.5	21.3	16.9
	Chile	16.3	32.3	19.7	16.7	17.4	13.2	35.8	28.7
	Colombia	11.8	18.6	33.2	25.8	16.7	13.8	27.1	26.5
	Ecuador	8.5	20.7	25.6	27.3	12.6	8.9	43.7	41.1
	Paraguay	19.1	40.7	7.3	4.3	12.0	5.3	56.0	46.1
	Peru	16.1	32.1	23.4	19.4	14.1	10.6	38.4	31.5
	Uruguay	7.8	19.2	9.8	9.9	18.8	11.3	51.7	48.8
	Venezuela (Bolivarian Republic of)	8.6	13.3	37.8	25.0	19.4	17.1	25.0	29.2
Central America	Costa Rica	5.5	13.3	52.0	28.0	22.1	6.8	19.0	22.5
	El Salvador	0.4	12.5	65.5	36.9	5.7	6.9	27.8	38.2
	Guatemala	3.6	12.9	44.0	37.0	10.9	6.9	35.6	34.6
	Honduras	1.6	9.0	79.3	42.5	4.5	4.3	6.0	41.1
	Mexico	9.7	32.5	71.2	48.2	8.4	10.8	2.6	4.3
	Nicaragua	0.8	17.6	57.2	21.8	16.4	6.7	23.4	52.8
	Panama	9.4	14.7	33.1	27.5	8.8	6.6	30.9	21.4
Caribbean countries	Bahamas	7.6	9.0	33.7	27.2	20.9	10.9	21.8	44.7
	Barbados	25.4	34.5	38.1	25.1	19.0	11.4	5.1	20.7
	Belize	3.2	7.9	57.9	37.4	15.6	9.2	17.2	37.6
	Cuba	14.6	17.4	0.1	4.3	35.3	19.7	36.5	11.9
	Dominica	9.5	60.3	33.1	14.1	23.0	4.7	24.7	18.4
	Dominican Republic	1.4	16.1	91.1	39.0	6.3	9.3	4.2	31.3
	Grenada	10.3	4.4	30.6	21.1	21.5	5.7	28.2	53.8
	Guyana	6.7	17.8	29.9	25.6	23.8	9.7	16.4	38.2
	Haiti	8.4	13.6	57.9	36.2	11.5	7.6	6.8	31.6
	Jamaica	6.9	9.5	48.5	35.0	11.4	6.9	20.4	39.9
	Saint Kitts and Nevis	3.9	3.7	52.8	42.0	25.4	21.4	11.7	26.7
	Saint Lucia	10.0	0.7	45.4	11.6	25.7	1.3	12.5	85.7
	Saint Vincent and the Grenadines	5.6	38.8	36.5	15.2	26.5	16.4	24.7	21.2
	Suriname	4.9	18.7	40.1	28.0	30.3	25.9	16.9	23.5
	Trinidad and Tobago	6.4	12.0	40.9	29.2	16.8	8.8	21.0	22.7
	Latin America and the Caribbean	10.6	27.2	50.4	29.1	14.2	13.7	15.3	22.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE); official information from countries; and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database. The data for 2000 are from COMTRADE, whereas those for 2010 are from national sources. The data for the Caribbean (excepting the Dominican Republic) are from the Direction of Trade Statistics (DOTS) database.

[a] The Asia-Pacific region includes Australia, Brunei Darussalam, Cambodia, China, India, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, Philippines, Republic of Korea, Singapore, Thailand and Viet Nam.

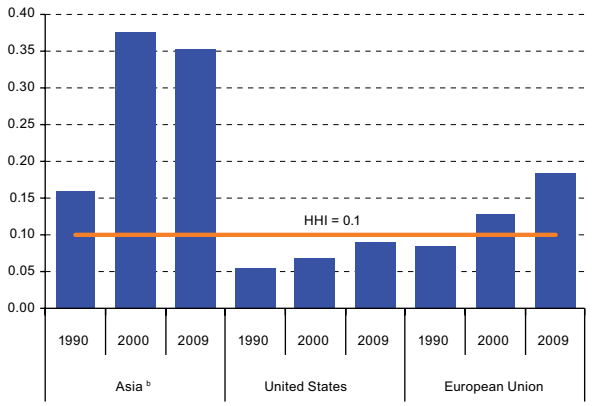
Figure II.2
LATIN AMERICA AND THE CARIBBEAN: EXPORTS, IMPORTS AND TRADE BALANCE WITH SELECTED PARTNERS, 2000-2010 [a]
(Billions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE); Statistical Office of the European Communities (EUROSTAT) for data from the European Union for 2010; national sources for data from India and Republic of Korea for 2010.
[a] The figures were created using mirror statistics, which may not coincide with national data reported by countries of Latin America and the Caribbean.
[b] Includes India, Japan and Republic of Korea.

Exports from the region to its three main extraregional markets became more concentrated by product category during the past decade —a result of a renewed emphasis on primary production, a trend that was triggered by high commodity prices throughout most of the period. The increased concentration was especially evident in the case of Asia, where exports from Latin America and the Caribbean were already highly concentrated at the start of the last decade (see figure II.3). This reflects the proportion of commodities and natural-resource-based manufactures in the region's exports to Asia, which is significantly higher than is the case with exports going to Europe and the United States.

Manufactures make up a larger proportion of the exports of Latin America and the Caribbean to other countries within the region and to the United States than to the European Union and Asia. While in 2009 primary products and natural-resource-based manufactures made up 75% of total exports from the region to the European Union and 85% of exports to China, they accounted for only 46% of exports to the

Figure II.3
LATIN AMERICA AND THE CARIBBEAN: HERFINDAHL-HIRSCHMAN INDEX [a] OF EXPORTS TO ASIA, THE UNITED STATES AND THE EUROPEAN UNION, 1990 AND 2009
(Calculated on the basis of the Standard International Trade Classification, Rev. 2, at the 3-digit level)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The Herfindahl-Hirschman index (HHI) measures the concentration of exports from one country to another. If it is lower than 0.10 exports are regarded as diversified. If it is between 0.10 and 0.18 they are considered to be moderately concentrated and if it is above 0.18 they are considered to be highly concentrated. The data are based on mirror statistics to ensure comparability, as a result of which they may not coincide with national data reported by countries of Latin America and the Caribbean.
[b] Asia includes China, India, Indonesia, Japan, Malaysia, Philippines, Republic of Korea, Singapore and Thailand.

United States (similar to their share in intraregional trade). However, even in the case of exports to the United States, the share of primary products and natural-resource-based manufactures has increased markedly since the start of the last decade (see figure II.4).

Latin America and the Caribbean export far more products to the intraregional market than to extraregional markets. Over the past decade, the number of products exported from the region to all its main markets rose considerably, but the relative importance of those markets remained the same. At the end of the decade, the countries of Latin America and the Caribbean were exporting, on average, 70% more products to other countries within the region than to the United States and over 100% more to the European Union. The difference is even more striking in the Asian markets: on average, the Latin American and Caribbean region exports ten times more products to other countries within the region than to China and more than four times more than to the rest of Asia (see table II.3). These figures attest to the importance of the regional market for exports of Latin American and Caribbean manufactures and for the development of regional value chains, topics that will be explored further in chapter III.

Figure II.4
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF EXPORTS TO SELECTED PARTNERS BY TECHNOLOGY INTENSITY, 1990-2009 [a]
(Percentages)

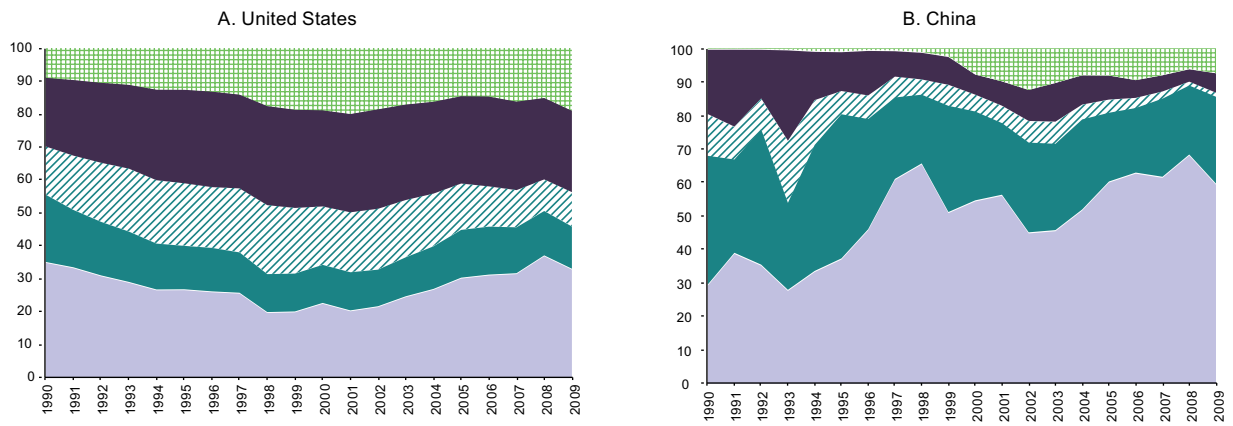
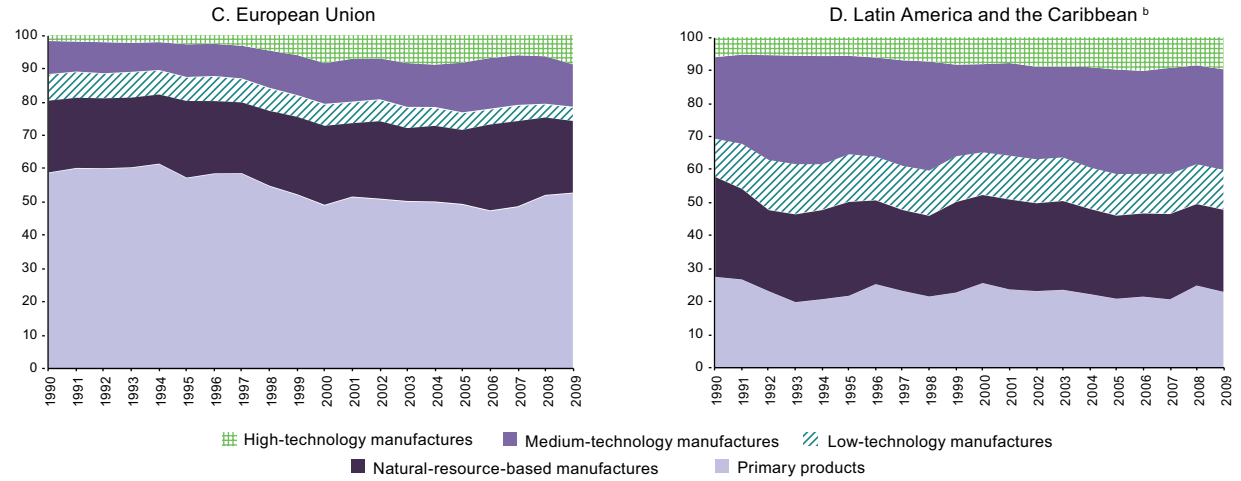


Figure II.4 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The figures were created using mirror statistics to ensure comparability of data, as a result of which they may not coincide with national data reported by countries of Latin America and the Caribbean.
[b] Figure D was created using intraregional trade data from COMTRADE.

Table II.3
LATIN AMERICA AND THE CARIBBEAN: NUMBER OF PRODUCTS EXPORTED TO SELECTED DESTINATIONS, AVERAGE 2001-2002 AND 2008-2009
(Calculated at the 6-digit level of the Harmonized Commodity Description and Coding System)

	United States		European Union [a]		Latin America and the Caribbean		China		Rest of Asia [b]	
	2000-2001	2008-2009	2000-2001	2008-2009	2000-2001	2008-2009	2000-2001	2008-2009	2000-2001	2008-2009
Argentina	1 912	1 667	2 051	2 207	3 780	3 726	327	519	1 019	1 469
Bolivia (Plurinational State of)	339	345	220	344	825	668	14	40	97	137
Brazil	2 739	2 773	2 796	3 036	3 984	3 868	716	1 158	2 174	2 529
Chile	1 436	1 336	1 258	1 423	3 085	3 026	189	307	595	701
Colombia	1 615	1 753	999	1 293	3 065	3 217	44	156	320	610
Costa Rica	1 006	1 482	318	749	1 928	2 482	33	175	186	411
Ecuador	605	1 014	375	750	1 057	1 747	26	67	115	246
El Salvador	712	991	164	340	2 037	2 423	9	36	71	163
Guatemala	661	1 479	241	859	2 535	3 249	27	182	94	518
Honduras	454	978	75	375	810	1 804	5	99	29	241
Mexico	4 140	3 990	2 185	2 724	3 594	3 786	354	1 113	1 695	2 101
Nicaragua	287	858	91	162	796	1 758	8	38	29	130
Panama	196	1 014	57	716	356	2 643	10	100	33	359
Paraguay	136	224	155	317	483	986	14	61	49	91
Peru	1 205	1 686	875	1 542	1 940	2 832	75	245	461	767
Uruguay	346	426	461	739	1 360	1 446	52	112	163	277
Venezuela (Bolivarian Republic of)	900	525	898	895	2 175	2 092	35	112	329	382
The Caribbean	460	760	185	289	484	896	11	49	32	84
Latin America and the Caribbean (simple average)	**835**	**1 120**	**521**	**809**	**1 336**	**1 895**	**77**	**195**	**262**	**455**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The European Union had 15 members in 2000-2001 and 27 members in 2008-2009.
[b] Includes Afghanistan, Armenia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Georgia, Hong Kong (Special Administrative Region of China), India, Indonesia, Iran (Islamic Republic of), Iraq, Israel, Japan, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lao People's Democratic Republic, Lebanon, Macao (Special Administrative Region of China), Malaysia, Maldives, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Republic of Korea, Saudi Arabia, Singapore, Sri Lanka, Syrian Arab Republic, Taiwan Province of China, Tajikistan, Thailand, Timor-Leste, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan, Viet Nam and Yemen.

C. Trade relations between the region and the United States

1. Trade

The Latin America and Caribbean region is an increasingly important trading partner for the United States. In the past two decades, trade between the United States and the region has grown more quickly than trade with any of its other main partners, except China. In 2010, Latin America and the Caribbean absorbed 23% of United States goods exports, making it the country's main export market, just ahead of Asia. In the same year, the region was the source of 18% of United States goods imports, which was equivalent to the European Union's share and slightly smaller than China's share (see table II.4).

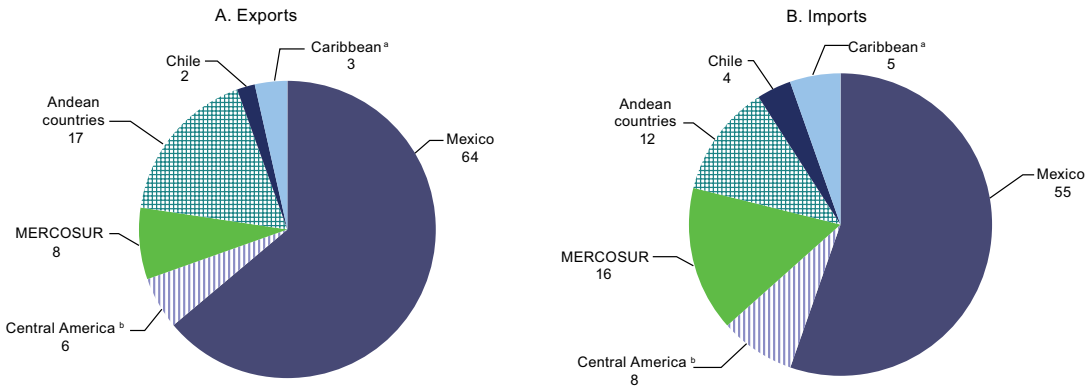
Table II.4
UNITED STATES: SHARE OF SELECTED REGIONS AND COUNTRIES IN FOREIGN TRADE (1980-2010) AND ANNUAL CHANGE IN TRADE (1990-2010)
(Percentages of total and annual growth rates)

	Region/country	1980	1990	2000	2010	Annual change, 1990-2010
Exports	Canada	16.0	21.1	22.6	19.4	5.6
	Latin America and the Caribbean	**17.1**	**13.3**	**21.6**	**23.2**	**9.0**
	European Union	28.7	26.6	21.6	18.8	4.2
	Asia	19.6	24.5	21.9	22.4	5.6
	China	1.7	1.2	2.1	7.2	15.9
	Japan	9.4	12.4	8.4	4.7	1.1
	Rest of the world	18.5	14.4	12.2	16.2	6.7
Imports	Canada	16.6	18.1	18.5	14.5	5.6
	Latin America and the Caribbean	**14.2**	**12.9**	**16.9**	**18.8**	**8.8**
	European Union	17.2	20.2	18.7	16.7	5.7
	Asia	21.9	31.7	31.9	34.2	7.2
	China	0.5	3.1	8.6	19.1	16.8
	Japan	13.0	18.1	12.0	6.3	1.2
	Rest of the world	30.1	17.1	14.1	15.9	5.8
Total trade	Canada	16.3	19.6	20.6	16.9	5.6
	Latin America and the Caribbean	**15.7**	**13.1**	**19.3**	**21.0**	**8.9**
	European Union	22.9	23.4	20.1	17.7	5.0
	Asia	20.7	28.1	26.9	28.3	6.4
	China	1.1	2.2	5.3	13.1	16.4
	Japan	11.2	15.3	10.2	5.5	1.2
	Rest of the world	24.3	15.8	13.2	16.0	6.3

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

Trade between Latin America and the Caribbean and the United States is concentrated in a few countries. In 2010, Mexico alone accounted for nearly two thirds of exports from the region to the United States and more than half of that country's imports. As for exports, the Andean countries constitute the region's second largest exporter to the United States, and together with the countries of the Southern Common Market (MERCOSUR) they accounted for a quarter of the value of the region's exports to the country in 2010. That order is reversed for imports: MERCOSUR is the second largest market for the United States in the region, followed by the Andean countries (see figure II.5).

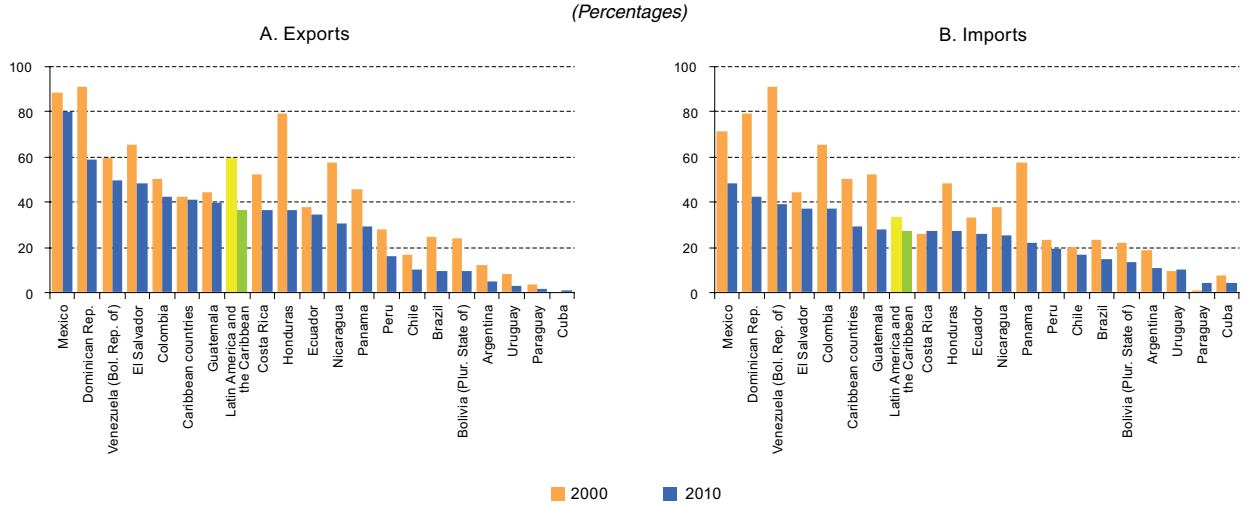
Figure II.5
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF TRADE WITH THE UNITED STATES (SELECTED SUBREGIONS AND COUNTRIES), 2010
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission (USITC).
[a] Includes the members of the Caribbean Community (CARICOM), Cuba and the Dominican Republic.
[b] Includes Panama.

The importance of the United States as a trade partner varies widely within the region. In 2010, the United States received 80% of Mexico's exports and supplied 48% of its imports. The foreign trade (both exports and imports) of the economies of Central America and the Caribbean is also heavily oriented towards the United States market, whereas the United States plays a less prominent role in South American trade, especially among the MERCOSUR countries and the Plurinational State of Bolivia (see figure II.6).

Figure II.6
COUNTRIES OF LATIN AMERICA AND THE CARIBBEAN: SHARE OF THE UNITED STATES IN FOREIGN TRADE, 2000 AND 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE), national statistics institutes and national central banks; and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database.

The region's trade surplus with the United States is mainly the result of the favourable balances of Mexico and, to a lesser extent, the Bolivarian Republic of Venezuela. In fact, the Mexican surplus alone is larger than the total regional surplus. By contrast, the MERCOSUR countries have collectively experienced a growing trade deficit with the United States since 2007. The growth in the deficit has been especially marked in the two largest MERCOSUR economies, Brazil and Argentina (see table II.5).

Table II.5
LATIN AMERICA AND THE CARIBBEAN: GOODS TRADE BALANCE WITH THE UNITED STATES, 2006-2010
(Millions of dollars)

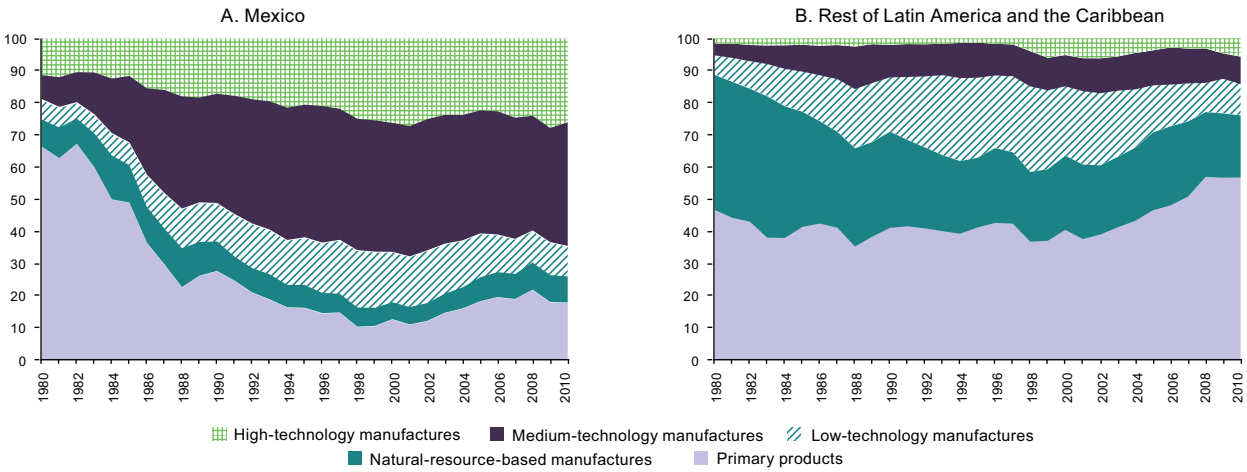
Group/country	2006	2007	2008	2009	2010
Central American Common Market (CACM)	**-211**	**-1 788**	**-3 447**	**773**	**2 411**
Costa Rica	-288	-638	-1 744	897	3 521
El Salvador	-301	-269	-236	-197	-226
Guatemala	-418	-1 044	-1 271	-763	-1 234
Honduras	25	-551	-808	-60	-677
Nicaragua	771	713	611	896	1 026
Andean countries	**38 143**	**34 949**	**45 836**	**21 282**	**26 234**
Bolivia (Plurinational State of)	147	85	122	73	171
Colombia	2 557	881	1 654	1 862	3 603
Ecuador	4 336	3 199	5 598	1 345	2 003
Peru	2 949	1 087	-328	-733	-1 657
Venezuela (Bolivarian Republic of)	28 153	29 697	38 790	18 735	22 114
Southern Common Market (MERCOSUR)	**5 538**	**-1 669**	**-6 348**	**-9 573**	**-17 533**
Argentina	-801	-1 360	-1 716	-1 670	-3 607
Brazil	7 161	1 008	-2 451	-6 101	-11 439
Paraguay	-852	-1 169	-1 532	-1 296	-1 749
Uruguay	30	-149	-649	-505	-738
Caribbean Community (CARICOM)	**2 256**	**2 193**	**1 171**	**-535**	**-412**
Other	**63 715**	**69 705**	**53 312**	**38 130**	**53 901**
Chile	2 770	692	-3 905	-3 415	-3 871
Dominican Republic	-819	-1 871	-2 624	-1 941	-2 872
Mexico	64 092	74 258	64 376	47 539	66 334
Panama	-2 328	-3 374	-4 536	-4 054	-5 690
Total	**109 441**	**103 390**	**90 523**	**50 076**	**64 601**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission (USITC).

The relatively small share of primary products and natural-resource-based manufactures in the region's exports to the United States mainly reflects the high proportion of manufactures in Mexican exports, especially medium- and high-technology manufactures (see figure II.7A). If Mexico is excluded, the composition of exports from the region to the United States is more similar to the pattern of its exports to destinations such as China (see figure II.7B).

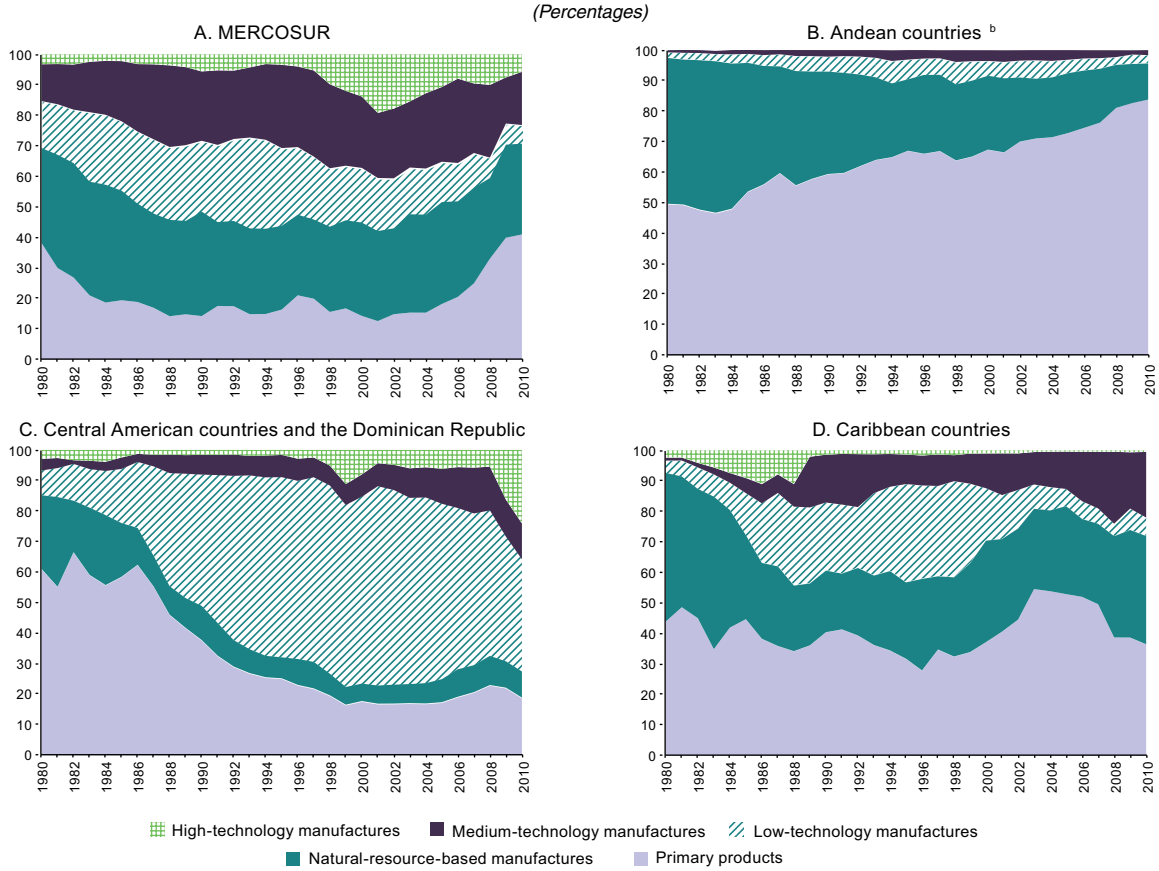
Even if Mexico is excluded, the composition of exports from the region to the United States varies considerably by subregion. Exports from the Central American countries and the Dominican Republic comprise the largest proportion of manufactures (mainly low-technology manufactures such as textiles and garments). Exports from the MERCOSUR countries and the Caribbean are somewhere in the middle, while exports from the Andean countries consist almost exclusively of commodities and, to a much lesser extent, natural-resource-based manufactures (see figure II.8) —mainly crude oil, the principal product exported to the United States by the Bolivarian Republic of Venezuela, Colombia and Ecuador.

Figure II.7
MEXICO AND THE REST OF LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF EXPORTS TO THE UNITED STATES BY TECHNOLOGY INTENSITY, 1980-2010 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The figures were created using mirror statistics to ensure comparability of data, as a result of which the figures may not coincide with national data reported by the countries of Latin America and the Caribbean.

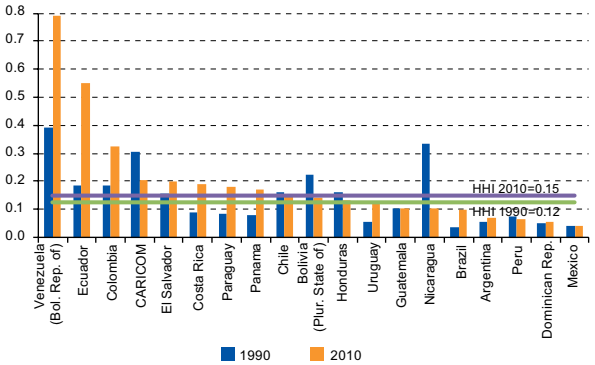
Figure II.8
SUBREGIONS OF LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF EXPORTS TO THE UNITED STATES BY TECHNOLOGY INTENSITY, 1990-2010 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The figures were created using mirror statistics to ensure comparability of data, as a result of which they may not coincide with data reported by countries of Latin America and the Caribbean.
[b] Includes the Bolivarian Republic of Venezuela.

In the past two decades, exports from the region as a whole to the United States have become more concentrated, as reflected in the trend of the Herfindahl-Hirschman index, which rose from 0.12 to 0.15 between 1990 and 2010. However, there is considerable variation between countries with regard to export concentration (see figure II.9). Countries sending a large number of products to the United States, such as Argentina, Brazil, the Dominican Republic, Mexico and Peru, show the lowest levels, whereas countries sending a much smaller number of products to the United States —generally primary products— have much higher levels. This is the case for the Bolivarian Republic of Venezuela, Ecuador and Colombia (see table II.6).

Figure II.9
LATIN AMERICA AND THE CARIBBEAN: HERFINDAHL-HIRSCHMAN INDEX OF EXPORTS TO THE UNITED STATES, 1990 AND 2010 [a]
(Calculated on the basis of the Standard International Trade Classification, Rev. 2, at the 3-digit level)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The figure was created using mirror statistics to ensure comparability of data, as a result of which the figures may not coincide with national data reported by the countries of Latin America and the Caribbean.

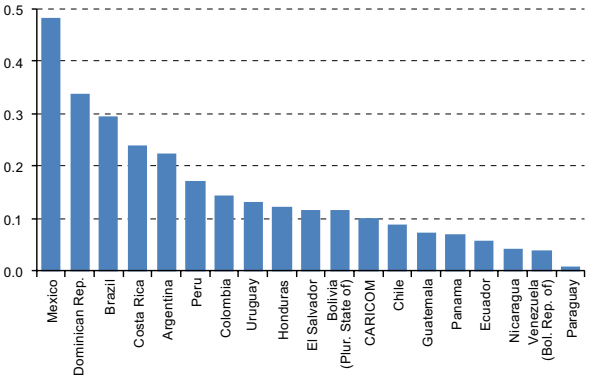
Table II.6
LATIN AMERICA AND THE CARIBBEAN: SHARE OF THE FIVE LEADING PRODUCTS IN TOTAL EXPORTS TO THE UNITED STATES, AVERAGE 2008-2010 [a]
(Percentages)

Country	Leading product	Second product	Third product	Fourth product	Fifth product	Five leading exports
Argentina	Petroleum (23.3)	Aluminium (7.19)	Other chemical products (7.0)	Wine (5.9)	Iron shapes (5.2)	48.6
Bolivia (Plurinational State of)	Petroleum (22.8)	Tin (18.9)	Jewellery of precious metal (12.8)	Silver (9.2)	Walnuts (5.0)	68.9
Brazil	Petroleum (28.6)	Spiegeleisen (4.4)	Coffee, not roasted (3.5)	Aircraft (3.4)	Chemical wood pulp (3.2)	43.1
Chile	Copper (26.8)	Grapes (11.3)	Fruit (7.7)	Fish fillets (6.8)	Wine (3.7)	56.5
Colombia	Petroleum (50.9)	Coal (9.8)	Gold, non-monetary (7.5)	Coffee, not roasted (5.8)	Flowers and foliage (4.9)	78.9
Costa Rica	Machine parts (31.0)	Microassemblies (14.9)	Medical devices (9.7)	Fruit (8.0)	Bananas (5.2)	68.7
Dominican Republic	Medical appliances (14.1)	Apparatus for electrical circuits (7.49)	Cigars (7.3)	Jewellery of precious metal (7.0)	Non-monetary gold (4.9)	40.9
Ecuador	Petroleum (74.1)	Bananas (6.2)	Crustaceans, frozen (4.9)	Cut flowers and foliage (2.2)	Goods not classified (1.9)	89.4
El Salvador	T-shirts (23.4)	Sweaters and similar articles (13.6)	Men's underwear (6.2)	Women's underwear (4.6)	Coffee, not roasted (4.5)	52.4
Guatemala	Bananas (15.0)	Sweaters and similar articles (14.4)	Coffee, not roasted (9.7)	Petroleum (7.9)	T-shirts (5.5)	52.6
Honduras	Sweaters and similar articles (17.5)	T-shirts (15.0)	Electric conductors (7.4)	Bananas (5.1)	Women's underwear (5.0)	50.1
Mexico	Petroleum (14.9)	Television reception apparatus (8.1)	Vehicles for transport of persons (6.4)	Vehicle parts (4.8)	Vehicles for transport of goods (4.0)	38.3
Nicaragua	Sweaters and similar articles (17.5)	Electric conductors (11.6)	T-shirts (11.4)	Apparel (8.4)	Coffee, not roasted (7.7)	56.8
Panama	Goods not classified (30.8)	Gold, non-monetary (13.9)	Fish (13.6)	Crustaceans, frozen (8.3)	Sugar (5.0)	71.8
Paraguay	Sugar (36.4)	Plywood (10.5)	Animal materials (9.6)	Builders' carpentry (7.9)	Wood of non-coniferous species (5.0)	69.5
Peru	Copper (14.4)	Non-monetary gold (10.2)	Petroleum (7.8)	Tin (6.9)	Vegetables (6.3)	45.7
Uruguay	Meat of bovine animals, frozen (26.0)	Goods not classified (12.9)	Leather (6.3)	Meat of bovine animals, chilled (4.7)	Offal (4.6)	54.6
Venezuela (Bolivarian Republic of)	Petroleum (94.7)	Aluminium (1.04)	Spiegeleisen (0.7)	Monohydric alcohols (0.6)	Fertilizers (0.3)	97.4
CARICOM	Liquefied natural gas (21.5)	Inorganic bases (18.8)	Monohydric alcohols (14.4)	Petroleum (12.1)	Spiegeleisen (5.2)	72.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] The table was created using mirror statistics to standardize the data, as a result of which the figures may not coincide with national data reported by countries of Latin America and the Caribbean. The product descriptions have been modified owing to space constraints.

Among the countries in the region, Mexico is by far the one with the highest level of intra-industry trade[1] **with the United States**. This is evident from its high Grubel-Lloyd index for bilateral trade (see figure II.10). This type of trade between the two countries is particularly marked in industries such as vehicle parts and electrical machinery. Other countries with high levels of intra-industry trade with the United States are Brazil (in the automobile and chemical sectors, among others) and the Dominican Republic (in the electronics, plastics and paper sectors). At the other end of the spectrum are countries whose exports to the United States comprise mainly primary products and countries that export a significant proportion of manufactured goods to the United States, but their imports from that country come from different industries, as is the case of the majority of the Central American countries, whose exports to the United States largely comprise textile and clothing products.

Figure II.10
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): INTRA-INDUSTRY TRADE WITH THE UNITED STATES, 2008-2010 [a]
(Measured by the Grubel-Lloyd Index (GLI))



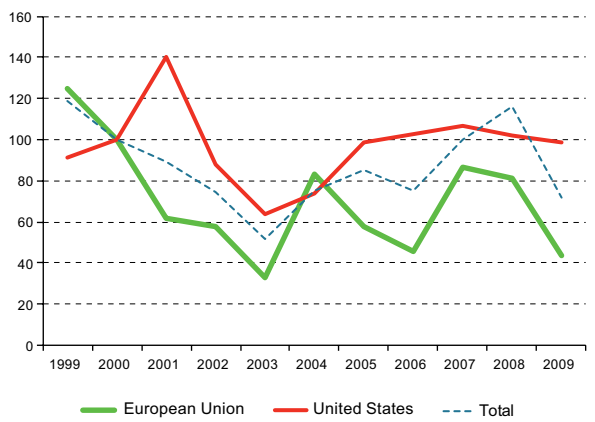
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

[a] The figure was created using mirror statistics to ensure comparability of data, as a result of which the figures may not coincide with national data reported by countries of Latin America and the Caribbean.

2. Investment

Over the past decade, foreign direct investment flows from the United States have been more stable than those from the European Union, the other main source of foreign direct investment in the region (see figure II.11). Those economies in the region that have the closest ties with the United States market are also those for which foreign direct investment from the United States is relatively more important. This is especially true of Mexico and the countries of Central America and the Caribbean. By contrast, among the MERCOSUR countries the largest proportion of foreign direct investment comes from the European Union (see figure II.12). The region as a whole accounted for 8% of the total foreign direct investment of the United States in 2009. The figure rises to 19% if the Caribbean financial centres are included (see table II.7).

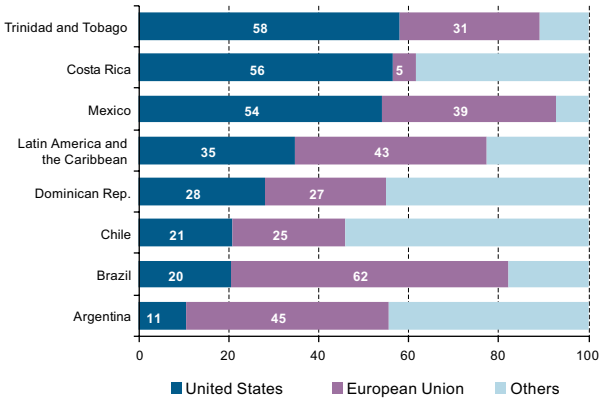
Figure II.11
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT FLOWS, 1999-2009
(Index: 2000=100)



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

[1] Intra-industry trade occurs when two countries export goods from the same sector to each other. It is measured by the Grubel-Lloyd Index (GLI). A value above 0.33 indicates a high level of intra-industry trade, while a value of between 0.10 and 0.33 indicates the existence of potential intra-industry trade.

Figure II.12
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): DISTRIBUTION OF CUMULATIVE FOREIGN DIRECT INVESTMENT FLOWS, 1999-2009
(Percentages)



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

Table II.7
LATIN AMERICA AND THE CARIBBEAN AND OTHER WESTERN HEMISPHERE ECONOMIES: SHARE OF TOTAL FOREIGN DIRECT INVESTMENT FROM THE UNITED STATES, 2005-2009
(Percentages)

	2005	2006	2007	2008	2009
Latin America and the Caribbean and other western hemisphere economies	17	17	19	18	19
Latin America and the Caribbean	7.7	7.6	7.6	7.2	7.7
South America	3.3	3.2	3.5	3.1	3.6
Argentina	0.5	0.5	0.5	0.4	0.4
Brazil	1.4	1.4	1.6	1.4	1.6
Chile	0.5	0.4	0.5	0.5	0.6
Colombia	0.2	0.2	0.2	0.2	0.2
Ecuador	0.0	0.0	0.0	0.0	0.0
Peru	0.2	0.2	0.2	0.1	0.2
Venezuela (Bolivarian Republic of)	0.4	0.4	0.4	0.4	0.4
Mexico	3.3	3.3	3.0	2.8	2.8
Central America	0.4	0.4	0.4	0.5	0.5
The Caribbean	0.8	0.6	0.7	0.8	0.8
Other western hemisphere economies [a]	9.2	9.3	10.9	11.2	11.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United States Bureau of Economic Analysis.
[a] Includes Aruba, Bermuda, Curaçao, the British Virgin Islands and Saint Martin.

3. Strategy underlying bilateral relations

Since 2007, there have been no major developments in trade negotiations between the United States and the region. In that year, a free trade agreement was concluded between the United States and Panama, although it has yet to be submitted to the United States Congress for ratification. The free trade agreement concluded in 2006 between the United States and Colombia is also pending approval. By contrast, numerous agreements have been negotiated in recent years between the various Latin American and Caribbean countries and their European and Asian partners (see sections D and E, respectively).

A review of the current priorities in United States trade policy shows that the country lacks a strategic vision for Latin America and the Caribbean. The region is barely mentioned in the trade policy agenda submitted to Congress by the President of the United States in March 2011, and in the few instances where it is mentioned, reference is made only to the administration of existing agreements, in particular the North American Free Trade Agreement; to the Obama administration's intention to seek congressional approval in 2011 of the agreements with Colombia and Panama; and to its interest in expanding and diversifying its economic relations with Brazil.[2] Furthermore, since February 2011, major tariff preference schemes applicable to exports from certain countries in the region to the United States have been suspended, including the Andean Trade Promotion and Drug Eradication Act and the Generalized System of Preferences (GSP). Both schemes were suspended as a result of pressure from protectionist interests in the United States Congress.

Recent developments suggest that the United States Congress could approve the agreements with Colombia and Panama in 2011. In April 2011, the Governments of the United States and Colombia

[2] See the 2001 Trade Policy Agenda of the President of the United States [online] www.ustr.gov/2011_trade_policy_agenda [date of reference: 9 May 2011]. During President Obama's visit to Brazil in March 2011, the two countries concluded an economic cooperation and trade agreement, which includes in its programme of work the facilitation and liberalization of bilateral trade and investment. See www.sice.oas.org/whatsnew_pending/ATEC_Brazil_US_p.pdf [date of reference: 26 May 2011].

negotiated an action plan on labour rights under which the Government of Colombia undertook to take a series of steps to strengthen the protection of labour rights in Colombia, something that had been called for repeatedly as a condition for approval of the agreement by some elements within the United States Congress. In addition, since 2010, the Government of Panama has introduced several amendments to its labour regulations and has undertaken to increase the transparency of its tax system, also in response to demands made by the United States Congress. In May 2011, President Obama's administration officially reported that it was ready to hold the technical discussions required to submit the pending agreements with Colombia and Panama, along with an agreement with the Republic of Korea, to Congress for approval.

However, linkage of the approval of pending agreements with approval of the Trade Adjustment Assistance scheme could entail another delay in the entry into force of the agreements with Colombia and Panama. In May 2011, the Obama administration indicated that the three pending agreements would be submitted to Congress only after a bipartisan political agreement had been reached to renew the Trade Adjustment Assistance programme. Created in 1974, the programme is designed to help workers who have lost their jobs as a result of the stiffer competition generated by international trade. In 2009, the programme's coverage was expanded substantially. However, the increased coverage ended in February 2011 and returned to the level of before the 2009 reform. Several Democratic members of Congress have made their approval of the pending trade agreements conditional on reintroduction of the benefits provided under the 2009 reform, which is a fundamental demand of the Democratic Party.

Trade agreements between the United States and the region are based on a "hub and spokes" model, which fails to take advantage of the opportunities that could result from linkages. In the current model, the United States is the hub and its Latin American and Caribbean partners are the various spokes (see figure II.13), which means that the benefits that could flow from cumulation of origin are not being realized. A system based on cumulation of origin would mean, for example, that a product exported by Peru to the United States could freely incorporate inputs from other countries in the region with which Peru and the United States have free trade agreements (such as Chile), but would still be classified as a product of Peruvian origin and would therefore be eligible for the tariff preferences negotiated bilaterally.

Figure II.13
UNITED STATES: NETWORK OF TRADE AGREEMENTS WITH COUNTRIES OF LATIN AMERICA AND THE CARIBBEAN, JULY 2011

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] North American Free Trade Agreement.
[b] The agreements with Colombia and Panama are not yet in force.
[c] Central America Free Trade Agreement between the Dominican Republic and Central America and the United States.

To date, the main initiative of the administration of President Obama in relation to trade negotiations has been the expansion of the Trans-Pacific Partnership (TPP) Agreement. This agreement was signed in 2005 between Brunei Darussalam, Chile, New Zealand and Singapore. Negotiations to bring the United States into TPP began in March 2010. Australia, Malaysia, Peru and Viet Nam are also participating in the negotiations, and other countries from Asia and the Americas, including Canada, Colombia, Japan and the Republic of Korea, have expressed interest in, or are considering, joining the process.

The aim of the United States in joining TPP is not chiefly to seek new markets in the short-term. This is because the other eight participating economies are relatively small and the United States already has free trade agreements in force with four of them, namely Australia, Chile, Peru and Singapore. Rather, joining is a strategic move aimed at making TPP a vehicle for trans-Pacific economic and trade integration (Herreros, 2011). In that context, the United States authorities have expressed their intention of making TPP a twenty-first century agreement, one which sets a high standard in respect of both trade matters and labour and environmental protection issues and one which other countries from the Pacific Rim might join in the future.

In terms of obtaining preferential access to new markets, the TPP negotiations are currently of limited appeal to the two Latin American participants. Chile, a founding member of TPP, has bilateral free trade agreements in place with Australia, Peru and the United States; signed an agreement with Malaysia in November 2010; and successfully concluded negotiations on an agreement with Viet Nam in June 2011. Peru already has bilateral free trade agreements in force with Chile, Singapore and the United States, and the other five TPP participants (Australia, Brunei Darussalam, Malaysia, New Zealand and Viet Nam) together accounted for only 0.6% of its total exports in 2010.

It is also unclear whether the outcome of the current TPP negotiations will include the possibility of cumulation of origin among all parties. This is because the United States has opted to negotiate the provisions relating to market access exclusively on a bilateral basis and only with countries with which it has no trade agreements in place. Consequently, from a trade standpoint, the appeal of TPP for the countries in the region depends on new economies, especially Asian countries, joining the negotiations. However, that seems highly unlikely in the short term.

While the expansion of TPP affords opportunities, it also poses risks for the countries of the region involved in the process. As noted above, the United States is seeking to use TPP to set higher standards than those established under its previous agreements on issues such as intellectual property and labour and environmental protection. In addition, it is seeking to establish high standards in other areas not included in previous agreements, such as regulatory coherence. Countries in the region that have already negotiated on these issues in their respective free trade agreements with the United States, such as Chile and Peru, run the risk of having to make even more onerous commitments on politically sensitive matters in a wide range of public policy areas.

4. Conclusions and recommendations

Despite the economic growth registered in Latin America and the Caribbean since the last decade, the United States has lacked an overall trade strategy for the region in recent years. Its lack of strategy dates back to the stalling and subsequent abandonment of the negotiations to create a free trade area of the Americas. Those negotiations brought to light the diversity of trade interests in the region. In that context, the United States adopted a new strategy to forge links at the subregional level, or sometimes the bilateral level, with those countries in the region that were most willing to strengthen their trade ties with the United States. However, the United States has encountered increasing difficulty in achieving congressional approval of its trade agreements, including those with countries in the region, because trade has become a highly sensitive political issue in the country in recent years.

In that context, ECLAC has proposed a new hemispheric alliance between the United States and the region to tackle common challenges and thus increase the region's participation in the international economy. Box II.1 outlines the main proposals put forward by ECLAC with regard to trade, the establishment of strategic dialogue and economic cooperation.

The possibility of establishing cumulation of origin between the United States and its trading partners in the region is especially relevant for two reasons. First, the foreign trade of the majority of the countries concerned is strongly oriented towards the United States market. Second, the economies of these countries are highly integrated with each other, not only de facto but also by means of trade agreements. This is especially true of Mexico and the countries of the Central American isthmus.[3] In that context, cumulation of origin[4] would expand the range of suppliers that producers in the region could use without losing access to tariff preferences in the United States market, which would generate efficiency gains and encourage the development of subregional value chains. In short, cumulation of origin would make the agreements with extraregional partners —in this case the United States— more consistent with the realities of current trade and would strengthen Latin American and Caribbean integration.

[3] This integration would be strengthened by the negotiations currently under way between Mexico and the Central American Common Market countries aimed at replacing the three free trade agreements currently in force (Mexico-Costa Rica, Mexico-Nicaragua and Mexico-Northern Triangle of Central America) with a single partnership agreement.

[4] To date, cumulation of origin is occurring only on a very limited basis between the United States, Mexico, the Central American countries and the Dominican Republic. It has been agreed that the United States will grant duty-free access for certain clothing products manufactured in a Central American country or the Dominican Republic using Mexican inputs, and Mexico will do the same for certain clothing products manufactured in a Central American country or the Dominican Republic using inputs from the United States.

Box II.1
ECLAC PROPOSALS FOR A NEW ECONOMIC AND TRADE ALLIANCE BETWEEN LATIN AMERICA AND THE CARIBBEAN AND THE UNITED STATES

Trade

- Secure a common pledge to support global economic recovery without imposing new trade barriers, in line with the commitment adopted initially by the members of the Group of Twenty in December 2008.
- Re-extend the benefits of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) to the Plurinational State of Bolivia.
- Ensure prompt renewal (during 2011) of ATPDEA and the Generalized System of Preferences for a sufficiently long period to provide a stable timeframe for beneficiary countries in Latin America and the Caribbean.
- Seek approval of the pending free trade agreements with Colombia and Panama by the United States Congress in 2011.
- Find a permanent solution to the controversy surrounding the ban prohibiting Mexican trucks from operating in the United States.[a]
- Reduce substantially or eliminate United States tariffs on ethanol, as a contribution towards greater use of clean energies and towards efforts to stem climate change.[b]
- Allow cumulation of origin under all free trade agreements between the United States and other countries in the Americas with a view to promoting production integration and the development of regional value chains.
- Promote the inclusion of interested countries in the Americas in the negotiations on the Trans-Pacific Partnership (TPP) Agreement.
- Ensure a balance between the outcomes of TPP negotiations on "new" issues (such as intellectual property, investment, services, labour and environmental regulations and regulatory coherence) and those on traditional matters and other areas of particular interest to developing country participants (anti-dumping provisions, market access for agricultural products, movement of people and transport services, among others).
- Promote cumulation of origin among all TPP participants.

Strategic dialogue

Establish a regular dialogue between the United States and the other countries from the Americas represented in the Group of Twenty to discuss and seek coordinated approaches to issues of systemic importance, such as reform of the international financial architecture, rebalancing of the global economy, measures to combat climate change and methods for dealing with commodity price volatility.

Economic cooperation

Establish an integrated hemispheric economic cooperation programme, funded by national governments, regional development banks and other sources (for example, the Aid for Trade initiative of the World Trade Organization). The programme could build on the experience gained since 2008 as a result of the Pathways to Prosperity initiative, although unlike that initiative the programme would include the entire region. It would cover the following areas:

- Development of transport and logistic infrastructure across the Americas (ports, airports, roads).
- Trade facilitation, including reducing red tape in Latin American and Caribbean countries and assisting them to meet United States security requirements.
- Assistance for the implementation of programmes in Latin America and the Caribbean designed to assist and retrain workers who have lost their jobs as a result of import competition, building on the United States experience with the Trade Adjustment Assistance (TAA) programme.
- Enhanced availability and quality of information about the opportunities and requirements associated with free trade agreements.
- Support for Latin American and Caribbean companies to enable them to meet United States quality, technical, health and other standards.
- Internationalization of companies: promote partnerships between companies from Latin America and the Caribbean and the United States, especially small and medium-sized enterprises, including through the participation of SMEs in regional value chains
- Assurance of stable and adequate financing for trade, especially for countries in the region with limited access to private sources.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *The United States and Latin America and the Caribbean: Highlights of economy and trade* (LC/G.2489), 2011, Santiago, Chile; Office of the United States Trade Representative (USTR), *USTR Kirk on reduction of tariffs on U.S. exports, resolution of U.S.-Mexico cross-border trucking dispute,* press release, 8 July 2011; Inside U.S. Trade, *Senators reach deal on ethanol; would kill credit, tariff by August,* 7 July 2011 [online] www.insidetrade.com.

[a] In early July 2011, the United States and Mexico signed a memorandum of understanding aimed at putting an end to this controversy. Mexico subsequently halved the retaliatory tariffs that it had been applying to 89 products exported from the United States since March 2009.

[b] In early July 2011, an agreement was reached in the United States Senate to eliminate the import tariffs on ethanol as from August 2011, replacing them with subsidies for United States producers of corn-based ethanol.

The main priority of the United States in relation to trade negotiations is currently the Asia-Pacific region, as evidenced by the leading role that it has assumed in the negotiations on the expansion of TPP. Given the countries currently involved, these negotiations are of limited appeal to the two Latin American participants, Chile and Peru, in terms of obtaining access to new markets. Furthermore, the expansion of TPP poses risks for the countries of the region involved in the process, as they may be forced to make new, onerous commitments in areas such as intellectual property and labour and environmental regulations.

Aside from the technical aspects, the participation of countries in the region in TPP could have implications for their relations with China and the rest of the Asia-Pacific region, which need to be carefully assessed. The leading role assumed by the United States in the negotiations to expand TPP partly reflects its interest

in counterbalancing China's integration initiatives in Asia. Moreover, the countries of the region —especially those on the Pacific Rim— have other institutional frameworks for jointly approaching the Asia-Pacific region, such as the Latin American Pacific Rim Forum and the recent initiative to establish a deep integration agreement comprising Colombia, Chile, Mexico and Peru (see chapter III). Although these initiatives and TPP are not mutually exclusive, because they involve only countries in the region, they could better serve the interests and priorities of the region in its relations with the Asia-Pacific region.

D. Trade relations between the region and the European Union

1. Trade

The Latin American and Caribbean region accounts for a small fraction of the European Union's foreign trade. Trade between European Union members themselves accounts for roughly two thirds of the foreign trade of the European Union, a proportion that has grown in the last three decades. By contrast, the share of Latin America and the Caribbean has shrunk and currently represents less than 3% of both European Union exports and imports (see table II.8). Even if trade between European Union members is excluded, the region accounts for only 5% of European Union foreign trade, including both exports and imports.

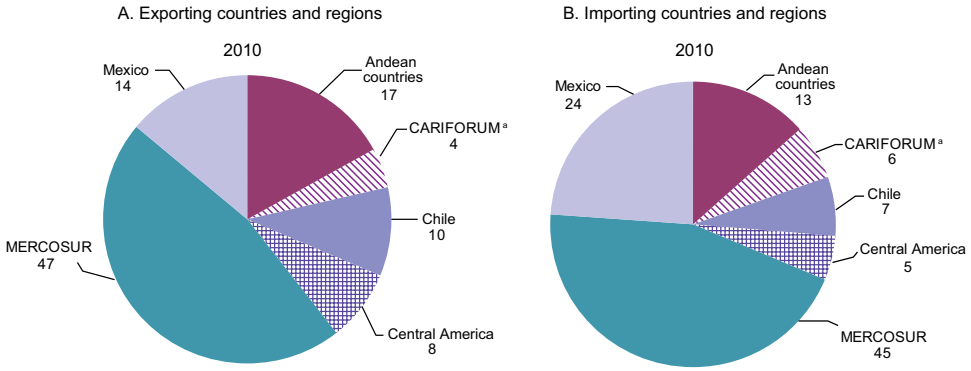
Table II.8
EUROPEAN UNION: SHARE OF PARTNERS IN FOREIGN TRADE, 1980-2010
(Percentages)

		1980 [a]	1990 [a]	2000	2010
Exports	Latin America and the Caribbean	2.7	1.5	2.2	2.3
	Asia	3.0	5.0	5.3	7.2
	China	0.4	0.5	1.0	2.9
	Japan	0.9	2.0	1.7	1.1
	United States	5.1	6.7	9.0	6.2
	European Union	60.1	66.0	65.6	65.3
	Rest of the world	29.1	20.7	17.9	18.9
Imports	Latin America and the Caribbean	3.2	2.3	2.0	2.4
	Asia	4.7	7.7	11.0	12.8
	China	0.4	0.9	2.9	7.1
	Japan	2.5	4.3	3.7	1.6
	United States	7.7	6.9	8.0	4.3
	European Union	53.4	63.7	60.7	62.2
	Rest of the world	31.0	19.3	18.3	18.3
Total trade	Latin America and the Caribbean	3.0	1.9	2.1	2.3
	Asia	3.9	6.4	8.2	10.0
	China	0.4	0.7	1.9	5.0
	Japan	1.7	3.2	2.7	1.4
	United States	6.4	6.8	8.5	5.3
	European Union	56.6	64.9	63.2	63.8
	Rest of the world	30.1	20.0	18.1	18.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE); Statistical Office of the European Communities (EUROSTAT) for European Union, 2010.
[a] The figures for 1980 and 1990 do not include Bulgaria, Estonia, Latvia, Lithuania, Romania or Slovenia.

Trade between the region and the European Union is concentrated in a few countries, with MERCOSUR accounting for nearly half of the total. If Mexico is included, the five countries accounted for 61% of regional exports to the European Union and 69% of imports (see figure II.14). The shares of the region's various partners in trade with the European Union remained relatively stable during the last decade.

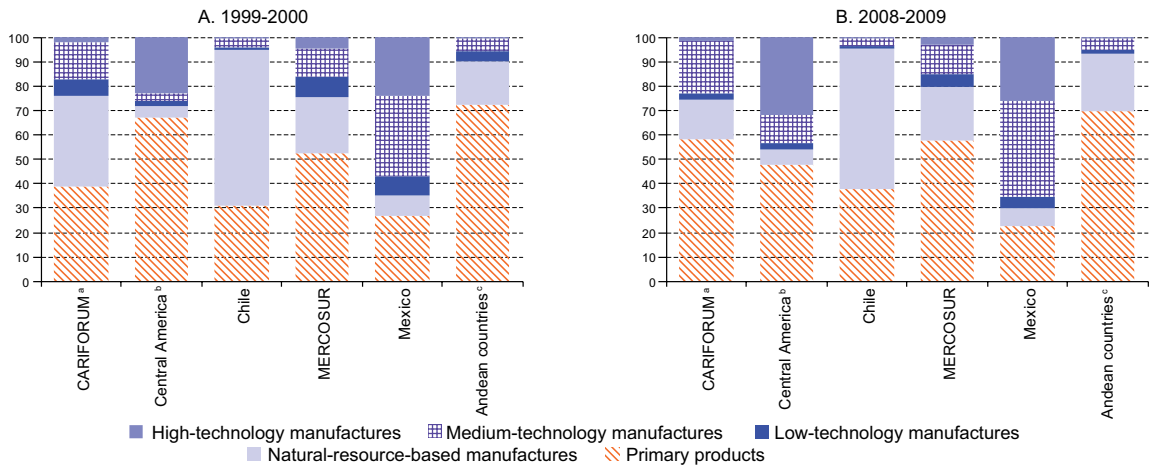
Figure II.14
LATIN AMERICA AND THE CARIBBEAN: SHARE OF EUROPEAN UNION TRADE, 2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from EUROSTAT.
[a] Caribbean Forum of African, Caribbean and Pacific States.

Except in the case of Mexico, exports from all Latin American countries and subregions to the European Union are mainly natural resources or natural-resource-based manufactures. These two categories make up the bulk of exports from Chile (raw and refined copper) and the Andean countries (refined and unrefined energy products), while in the countries of MERCOSUR and the Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) they account for more than 70% of sales to the European Union. Only in the case of Mexico, and to a lesser extent Central America, do medium- and high-technology products make up more than 40% of exports to the European Union. The technological pattern of regional exports has changed very little in the last 10 years, except for an increase in the share of primary products in exports from the Caribbean countries and of medium- and high-technology manufactures in exports from the Central American countries (see figure II.15).

Figure II.15
COUNTRIES AND SUBREGIONS OF LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF EXPORTS TO THE EUROPEAN UNION BY TECHNOLOGY INTENSITY, 1999-2000 AND 2008-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Caribbean Forum of African, Caribbean and Pacific States.
[b] Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[c] Includes Bolivia (Plurinational State of), Colombia, Ecuador, Peru and Venezuela (Bolivarian Republic of).

Latin American exports to the European Union are very concentrated and comprise mainly commodities such as bananas, coffee, coal, beef, copper, gas, iron, steel, petroleum and soybean. Only in the case of Mexico and Costa Rica is there more than a manufactured product in the top five products exported to the European Union (see table II.9).

Table II.9
LATIN AMERICA AND THE CARIBBEAN: FIVE MAIN EXPORTS TO THE EUROPEAN UNION BY COUNTRY, AVERAGE 2007–2009 [a]
(Percentages of total)

Country	Leading product	Second product	Third product	Fourth product	Fifth product	Five main products
Argentina	Soybean (36)	Meat of bovine animals (4)	Maize (corn) (4)	Copper and concentrates (3)	Groundnuts (peanuts), not roasted (3)	52.7
Bolivia (Plurinational State of)	Walnuts (14)	Tin and tin alloys (14)	Lead and concentrates (11)	Zinc and concentrates (11)	Monohydric alcohols (8)	61.3
Brazil	Iron and concentrates (10)	Soya bean (9)	Oilcake of soybean (7)	Coffee, not roasted (4)	Chemical wood pulp (4)	36.3
Chile	Copper (42)	Copper and concentrates (12)	Wine (5)	Chemical wood pulp (4)	Fruit (4)	69.3
Colombia	Coal (42)	Bananas (21)	Coffee, not roasted (10)	Ferro-alloys (6)	Cut flowers and foliage (2)	83.3
Costa Rica	Parts for office machines (46)	Bananas (20)	Fruit (16)	Integrated circuits (3)	Medical instruments (1)	88.6
Dominican Republic	Ferro-alloys (20)	Bananas (19)	Medical instruments (10)	Spirits (9)	Cocoa (7)	66.6
Ecuador	Bananas (43)	Fish, prepared (16)	Crustaceans, frozen (13)	Cut flowers and foliage (4)	Cocoa (3)	81.6
El Salvador	Coffee, not roasted (41)	Fish, prepared (27)	T-shirts (9)	Electrical capacitors (6)	Monohydric alcohols (3)	89.0
Guatemala	Coffee, not roasted (35)	Monohydric alcohols (7)	Cut flowers and foliage (6)	Tobacco (5)	Fish, prepared (4)	58.9
Honduras	Coffee, not roasted (53)	Fruit (8)	Crustaceans, frozen (7)	Palm oil (4)	T-shirts (3)	76.5
Mexico	Petroleum (20)	Vehicles for transport of persons (18)	Medical appliances (7)	Telephone parts (3)	Semi-finished iron products (2)	52.2
Nicaragua	Coffee, not roasted (47)	Crustaceans, frozen (22)	Groundnuts (peanuts), not roasted (6)	Monohydric alcohols (5)	Other vegetables (2)	84.0
Panama	Ships and boats (45)	Bananas (29)	Fruit (7)	Fish, frozen (5)	Crustaceans, frozen (2)	89.8
Paraguay	Soybean (61)	Miscellaneous (10)	Fuel wood (5)	Oilcake of soybean (3)	Leather (1)	83.2
Peru	Copper and concentrates (20)	Copper (13)	Zinc and concentrates (10)	Coffee, not roasted (7)	Meat offal (6)	58.0
Uruguay	Meat of bovine animals, frozen (12)	Meat of bovine animals, fresh (12)	Chemical wood pulp (8)	Leather (7)	Wood chips (6)	46.9
Venezuela (Bolivarian Republic of)	Petroleum (64)	Ferro-alloys (6)	Coal (4)	Petroleum bitumen (4)	Iron and concentrates (2)	82.2
The Caribbean [b]	Liquefied natural gas (24)	Ships and boats (11)	Aluminium (9)	Petroleum (9)	Sugar (6)	61.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Special transactions and unclassified products are excluded. Product descriptions have been adapted owing to space constraints.
[b] Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

By 2012-2013 the European Union could have preferential trade arrangements with around 30 countries in the region. Its strategy has been to prioritize the negotiation of partnership agreements on a bloc-to-bloc basis with the four main subregional integration schemes. It concluded partnership agreements with the Caribbean (CARICOM plus the Dominican Republic, grouped together as CARIFORUM), in 2008, and with the members of the Central American Common Market (plus Panama) in 2010. In 2010, it also concluded a free trade agreement with Colombia and Peru, in which it temporarily opted for the bilateral route because of the difficulties encountered in negotiations with the Andean Community that began in 2007. However, the European Union still aims to achieve a bloc-to-bloc agreement with the Andean Community.

The agreements with Central America and with Colombia and Peru are expected to enter into force in 2012, joining existing agreements with Chile, Mexico and CARIFORUM. In addition, negotiations on a partnership agreement between the European Union and MERCOSUR, which had stalled in 2004, were resumed in June 2010 (see table II.10). Only limited progress has been made however, mainly because of the sensitivity of agricultural matters within the European Union and industry issues within MERCOSUR.

Table II.10
EUROPEAN UNION: TRADE AGREEMENTS WITH GROUPS AND COUNTRIES OF LATIN AMERICA AND THE CARIBBEAN, JUNE 2011

	In force	Signed/Initialled	Under negotiation
CARIFORUM [a]	X		
Central American Common Market		X	
MERCOSUR [b]			X
Chile	X		
Colombia		X	
Mexico	X		
Panama [c]		X	
Peru		X	
Total countries	17	8	4 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] Includes 14 member countries of CARICOM and the Dominican Republic.
[b] Will be five countries when the Bolivarian Republic of Venezuela officially becomes a full member of MERCOSUR.
[c] Party to the partnership agreement between the European Union and the Central American Common Market.

The partnership agreements negotiated between the European Union and the region differ significantly from the free trade agreements negotiated between the region and its other extraregional partners. In addition to free trade, the agreements between the European Union and the region include provisions for political dialogue and cooperation, which are essential in order to ensure a virtuous relationship among political consensus-building, economic and trade development and social cohesion. In short, these agreements reflect a more comprehensive vision of development than strictly trade-related agreements. Another key difference between the agreements negotiated between the region and the European Union and those concluded with other partners is that the former are explicitly designed to strengthen the Latin American and Caribbean subregional integration schemes.

2. Investment

In the decade between 2000 and 2010, the share of the region —including financial centres— in foreign direct investment flows originating in the European Union was larger than that of Asia, and the European Union became the main source of foreign direct investment in the region. Since the introduction of various economic reforms in the 1990s, flows of foreign direct investment into Latin America and the Caribbean have grown significantly. Much of this investment has come from European countries, which took advantage of privatization in areas such as banking, telecommunications and other services. Although investment from the United States also grew, it did so at a slower pace, causing a shift in the composition of cumulative flows as the European Union became the leading source of such investment in the past decade, accounting for 43% of total cumulative flows (see table II.11 and figure II.16).

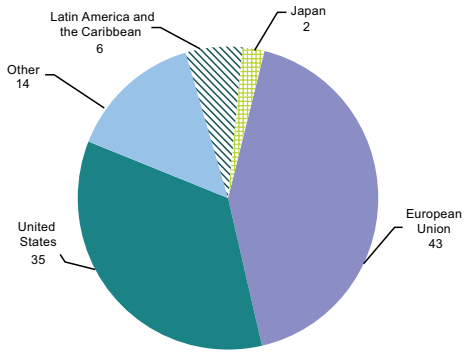
Worthy of particular note are the capital investments in international holding companies with European owners (mainly from Luxembourg, the United Kingdom or the Netherlands) made with a view to taking advantage of the fiscal benefits available in certain Central American and Caribbean countries (including the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands and the former Netherlands Antilles). In some cases, these financial centres are in turn the origin of new investments in Mexico and South America. The European Union's foreign direct investment elsewhere in Latin America and the Caribbean (i.e. outside the Caribbean financial centres) is concentrated in a few countries. The three largest economies in the region —Brazil, Mexico and Argentina— received 80% of total cumulative flows in 2000-2009 (see figure II.17).

Table II.11
EUROPEAN UNION: DISTRIBUTION OF FOREIGN DIRECT INVESTMENT FLOWS BY DESTINATION, 2000-2009
(Percentages of total worldwide FDI from the European Union)

	2000-2002	2003-2005	2006-2008	2009	2000-2009
European Union	62.0	64.1	59.2	38.7	59.4
United States	14.0	7.4	14.1	17.3	12.4
Asia	5.7	7.1	5.2	6.1	6.0
Latin America and the Caribbean [a]	7.1	4.5	6.0	15.4	6.8
Total	100.0	100.0	100.0	100.0	100.0

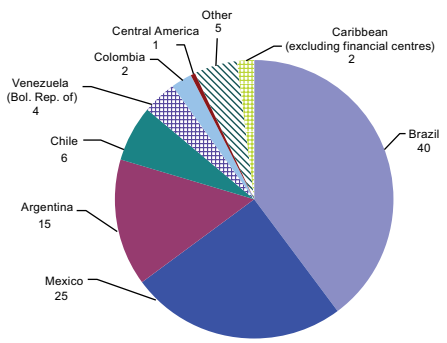
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Statistical Office of the European Communities (EUROSTAT).
[a] Includes the financial centres.

Figure II.16
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INFLOWS BY ORIGIN, 2000-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *En busca de una asociación renovada entre América Latina y el Caribe* y la Unión *Europea*. Santiago, Chile, May 2011.

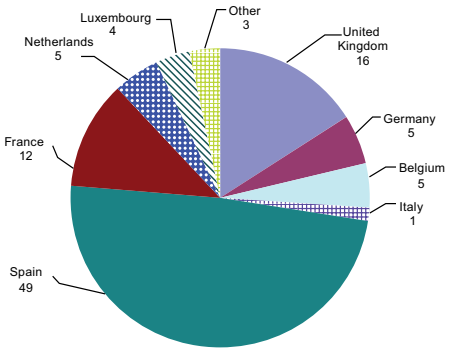
Figure II.17
LATIN AMERICA AND THE CARIBBEAN EXCLUDING FINANCIAL CENTRES: DISTRIBUTION OF CUMULATIVE FOREIGN DIRECT INVESTMENT FLOWS FROM THE EUROPEAN UNION BY RECIPIENT COUNTRY, 2000-2009
(Percentages)



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

One of the factors contributing to the surge in investment from the European Union —in addition to trade liberalization, financial deregulation and privatization— has been the internationalization of numerous European business groups, especially Spanish groups. In fact, Spanish investment continues to account for almost half of total European investment in Latin America, followed by investment from the United Kingdom in a distant second place (see figure II.18).

Figure II.18
LATIN AMERICA AND THE CARIBBEAN EXCLUDING FINANCIAL CENTRES: FOREIGN DIRECT INVESTMENT FROM THE EUROPEAN UNION BY ORIGIN, 2000-2009
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), International Direct Investment Statistics Database.

Several European companies are investing in renewable energy in Latin America and the Caribbean. European companies, several of which are global leaders in this area, have invested in the generation of wind energy in particular, although there has also been investment in other alternative energies such as biofuels and solar power (see table II.12).

3. Strategy and cooperation

Since 1999, the biennial summits of the Heads of State of Latin America and the Caribbean and the European Union have been looking for ways to strengthen biregional integration and strategic cooperation between the two regions. A strategic partnership between Latin America and the Caribbean and the European Union was formed at the summit held in Rio de Janeiro in 1999. Since then, these biennial meetings have been crucial for identifying priorities relating to integration and cooperation. Discussion of economic and trade integration has been a constant at the summits, as reflected in the agreements between the European Union and CARIFORUM, Chile, Mexico, Central America, Colombia and Peru. The meetings have also supported cooperation in numerous other key areas for economic and social development, including democracy and human rights; strengthening of multilateralism to promote peace, stability and respect for international law; the struggle against terrorism, drugs and organized crime; the environment; energy; growth and employment; the elimination of poverty, inequalities and social exclusion; cooperation for development and international financing; migration; and the exchange of knowledge and training (see table II.13).

Table II.12
EUROPEAN COMPANIES WITH INVESTMENTS IN RENEWABLE ENERGY IN LATIN AMERICA AND THE CARIBBEAN AND MAIN AREAS OF INVESTMENT, 2011

Company	Countries	Investments made or planned
ABENGOA	Brazil	Production of bioethanol from sugar cane (annual installed capacity 200 million litres) and cogeneration of electricity and heat using sugar cane bagasse as raw material (installed capacity 70 MW).
ACCIONA	Mexico	Production of wind energy with a total installed capacity of 250 MW and three new wind farms under construction with total capacity of 306 MW.
ENDESA	Argentina, Brazil, Chile, Colombia, Peru	Generation of electricity in hydraulic, thermal and wind plants with total installed capacity of around 15,000 MW (58% hydraulic, 41% thermal and just under 1% wind).
IBERDROLA	Brazil, Mexico	Generation of wind power with total installed capacity of 166 MW.
ENEL	Brazil, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Panama	Plants generating hydroelectric, geothermal and wind power, with total capacity of just over 800 MW (75% hydraulic, 23% geothermal and 2% wind).
GDF SUEZ (Gaz de France)	Brazil	Generation of hydroelectric, thermoelectric, wind and biomass energy, with total installed capacity of 6,500 MW.
GRUPO GUASCOR	Brazil	Production of photovoltaic and wind power.
MAINSTREAM RENEWABLE POWER	Chile	Four wind farms under development, with total capacity of nearly 1,000 MW.
SOWITEC	Argentina, Brazil, Chile, Mexico, Peru, Uruguay	Projects under development for the installation of several wind farms, with total potential capacity of 35,000 MW.
VESTAS	Argentina, Brazil, Chile, Jamaica, Mexico, Uruguay	Generation of wind power with total installed capacity of 350 MW and new farms under construction with a predicted total capacity of 400 MW.

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

Table II.13
SUMMITS BETWEEN THE EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN: MAIN OUTCOMES RELATING TO BIREGIONAL INTEGRATION, 1999-2010

Place	Date	Main outcomes
Rio de Janeiro	1999	Establishment of the objective of an interregional strategic partnership, identification of objectives and formulation of an action plan on issues of common concern, and the launch of negotiations aimed at establishing partnership agreements between the European Union and Chile and between the European Union and MERCOSUR.
Madrid	2002	Reaffirmation of the strategic partnership, conclusion of negotiations on the agreement between the European Union and Chile, restart of negotiations with MERCOSUR and commitments to hold negotiations on cooperation agreements between the European Union and the Andean Community and between the European Union and Central America.
Guadalajara	2004	Political consensus on the agenda items, progress towards a future partnership between the European Union and Central America and between the European Union and the Andean Community, and launch of the EUROsociAL programme.
Vienna	2006	Official launch of the negotiations on partnership agreements between the European Union and Central America and between the European Union and the Andean Community, incorporation of new participants into the official dialogue and the holding of a business summit and alternative summit.
Lima	2008	Launch of the EUrocLIMA programme for cooperation in mitigating the effects of climate change and announcement of the establishment of a strategic partnership between the European Union and Mexico.
Madrid	2010	Announcement of the successful conclusion of negotiations between the European Union and Central America, Colombia and Peru.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Carlos M. Jarque, María Salvadora Ortiz and Carlos Quenan (eds.), *América Latina y la diplomacia de cumbres*, Ibero-American General Secretariat, Madrid, 2009.

The cooperation between the European Union and Latin America is guided by a medium-term strategy covering the period 2007-2013, which focuses on social and territorial cohesion, regional integration and higher education. Latin America is the beneficiary of a major medium-term (2007-2013) European Union cooperation programme worth 556 million euros. More than half of that amount will be devoted to promoting social and territorial cohesion and regional integration. Activities in the latter area include encouraging the internationalization of small and medium-sized enterprises and the development of the information society. In 2010, the Latin America Investment Facility took responsibility for overseeing these activities (see box II.2). The other cooperation programme funds are intended to improve the quality of higher education in Latin America through links with counterpart institutions in the European Union. In addition, several cooperation networks have been created, linking universities and technology centres in the two regions for the purpose of fostering environmental technology transfer (see table II.14).

Box II.2
LATIN AMERICAN INVESTMENT FACILITY

The Latin America Investment Facility (LAIF) was created by the European Union in 2009 as a new mechanism for promoting social and territorial cohesion and regional integration. Between 2007 and 2010, these areas were promoted by means of separate programmes. The purpose of this mechanism is to mobilize additional financing and thus to encourage beneficiary governments and public institutions to make crucial investments which cannot be financed by the market or by development finance institutions alone.

The Facility is designed to support the European Union's Regional Strategy for Latin America. Its three interconnected strategic objectives are to: (a) improve interconnectivity between and within Latin American countries, in particular by establishing better energy and transport infrastructure; (b) strengthen protection of the environment and support climate change adaptation and mitigation measures; and (c) promote equitable, sustainable socio-economic development through the improvement of social services infrastructure and support for small and medium-sized enterprises. Its budget for the 2009-2013 period is 125 million euros.

The mechanism can support different types of operations, including grants to co-finance investments in public infrastructure projects, financing of loan guarantees, interest subsidies, technical assistance and risk capital operations. The eligible financial institutions are European multilateral or national development finance institutions and Latin American financial institutions with European Union capital.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *En busca de una asociación renovada entre América Latina y el Caribe y la Unión Europea*, Santiago, Chile, May 2011.

Table II.14
EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN: COOPERATION PROJECTS CONCERNING CLEAN ENERGIES

Project	Overall objective	Participating countries	Period	Amount (millions of euros)
BIOTOP	Identify technical and research opportunities for Latin America in the biofuels sector, and create and support specific research and technology development cooperation activities between the region and the European Union.	Latin America: Argentina, Brazil, Chile, Mexico European Union: Austria, Denmark, Netherlands, Spain	2008-2010	1.29
SETATWORK	Promote the use of efficient technologies in industrial sectors related with carbon markets.	Latin America: Chile European Union: Bulgaria, Denmark, Germany, Italy, Poland, Portugal, Slovakia, Sweden, United Kingdom	2008-2010	1.21
JELARE	Foster innovative market-oriented education and research proposals in the renewable energy sector in Latin American and European higher education institutions.	Latin America: Bolivia (Plurinational State of), Brazil, Chile, Guatemala European Union: Germany, Latvia	2009-2011	(...)
CANEBIOFUEL	Create an innovative, cost-effective and industrially viable process for converting sugarcane biomass into ethanol.	Latin America: Brazil European Union: Sweden	2009-2011	2.49
DIBANET	Develop technologies for sustainable production of diesel biofuels from organic waste and residues in the European Union and Latin America.	Latin America: Argentina, Brazil, Chile European Union: Denmark, Greece, Hungary, Ireland, United Kingdom	2009-2012	4.84
BABETHANOL	Develop new sustainable processes for the production of ethanol from agro-industrial residues (lignocellulose).	Latin America: Costa Rica, Mexico European Union: Finland, France, Italy, Spain	2009-2013	4.39
CELA	Improve the quality of research and technology transfer at Latin American universities, strengthen their role in sustainable socioeconomic development, and encourage cooperation between higher education institutions in Latin America and the Caribbean and the European Union in applied research and the transfer of technology relating to climate change.	Latin America: Bolivia (Plurinational State of), Guatemala, Nicaragua, Peru European Union: Estonia, Germany	2011-2013	(...)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the European Commission Community Research and Development Information Service (CORDIS).

4. Conclusions and recommendations

Over the past three decades, the share of the European Union in Latin American and Caribbean trade has declined. Although the European Union remains the region's second largest trading partner, it could be overtaken by China by the mid-2010s (see section E). Moreover, the Latin American and Caribbean region accounts for less than 3% of total European Union trade.

There is marked asymmetry in the trade between the two regions. The region of Latin America and the Caribbean imports mainly manufactured goods from the European Union, whereas its exports are predominantly commodities, which make up a larger proportion of its exports to the European Union than of its exports to other destinations, including the region itself and the United States. Moreover, Latin American and the Caribbean export a narrow range of products to the European Union.

In recent years, Latin America and the Caribbean and the European Union have sought to give fresh impetus to their economic relations. These efforts are reflected in the partnership agreements concluded by the European Union with the Central American countries (including Panama) and with the Caribbean (CARICOM countries plus the Dominican Republic), as well as in the free trade agreement concluded with Colombia and Peru. In addition, negotiations with MERCOSUR were resumed in June 2010.

There is a window of opportunity to infuse new energy into the strategic partnership between Latin America and the Caribbean and the European Union. In a context of low economic growth in the European Union and relatively strong growth in Latin America and the Caribbean, the region has increasing appeal for European exporters and investors. Moreover, the European Union —the largest integrated market in the world and one with high per-capita income— continues to be a leading destination for Latin American and Caribbean exports. Furthermore, the European Union produces numerous goods and services that are key inputs for the region's production processes and that increase the competitiveness of its producers. It has therefore become a major partner in the transfer of technology and knowledge to the region.

The European Union is a global leader in environmental protection, measures to combat climate change and corporate social responsibility, all of which contribute to broader and more inclusive development. The European Union accounted for between 30% and 38% of all the patents granted worldwide between 2004 and 2006 in various categories of environmental technology (ECLAC, 2011c). Furthermore, for more than a decade European Union institutions have been promoting the systematic incorporation of the concept of corporate social responsibility in the strategies of European companies. Strengthening corporate partnerships between the region and the European Union should therefore contribute to the achievement of goals of achieving growth with greater equality and developing a less carbon-intensive competitive advantage, which should steer public policies in Latin America and the Caribbean in the next few years.

Given the highly complementary characteristics of the two regions, there is considerable potential for strengthening their economic ties. To that end, the following initiatives are recommended:

- The negotiations between MERCOSUR and the European Union should be concluded as soon as possible.
- Cumulation of origin should be allowed under all agreements between the European Union and countries of Latin America and the Caribbean, as the European Union has done in its agreements with Mediterranean countries. This would encourage the integration of production in the region and the development of regional and transregional value chains.
- The European Union should continue to support the strengthening of the various subregional integration schemes in Latin America and the Caribbean. The European Union's experience and cooperation could be especially valuable in areas such as free circulation of goods; harmonization of technical, sanitary and phytosanitary standards; and the elimination of non-tariff barriers to intraregional trade.
- The European Union should consider implementing cooperation programmes designed to help Latin American and Caribbean exporters to meet new requirements imposed by European Union governments and companies relating to climate change and food safety.
- Similarly, the European Union should consider strengthening its programmes to help Latin American and Caribbean exporters to comply with European Union quality requirements, technical specifications and sanitary and phytosanitary standards.
- The creation and strengthening of biregional business networks and partnerships should be encouraged in areas such as renewable energy technologies, information and communications, and microbiology. Initiatives such as the MERCOSUR-European Union Business Forum and the Ibero-American Secretariat

Business Forum could be strengthened, as could cooperation between chambers of commerce in the two regions.

- Cooperation between the two regions should be intensified in order to strengthen integration within Latin America and the Caribbean; improve the quality of its exports portfolio to enable it to take advantage of the opportunities created by partnership agreements; create a stronger link between the international integration of economies and the internationalization of small and medium-sized enterprises; and achieve growth with equality, as ECLAC has been advocating since its thirty-third session, held in Brasilia in June 2010.

E. Trade relations between Latin America and the Caribbean and the Asia-Pacific region

1. Trade

During the past decade, the region's trade with the Asia-Pacific region showed much stronger growth than its trade with other major partners. Between 2006 and 2010, Latin American and Caribbean exports to Asia-Pacific countries grew at more than three times the rate of the region's exports to the rest of the world. To a large extent, this was the result of a steep rise in exports to China, which grew at five times the rate of total exports to the rest of the world. The region's imports from the Asia-Pacific countries, in particular from China, have also grown more vigorously than total imports. Imports outweigh exports in the region's trade relationship with the Asia-Pacific region, which has generated a widening trade deficit with that region. Trade between Latin America and the Caribbean and China passed the US$ 100 billion mark in 2007 and stood at US$ 183 billion in 2010; trade with China now accounts for half of all trade with the Asia-Pacific region (see table II.15).

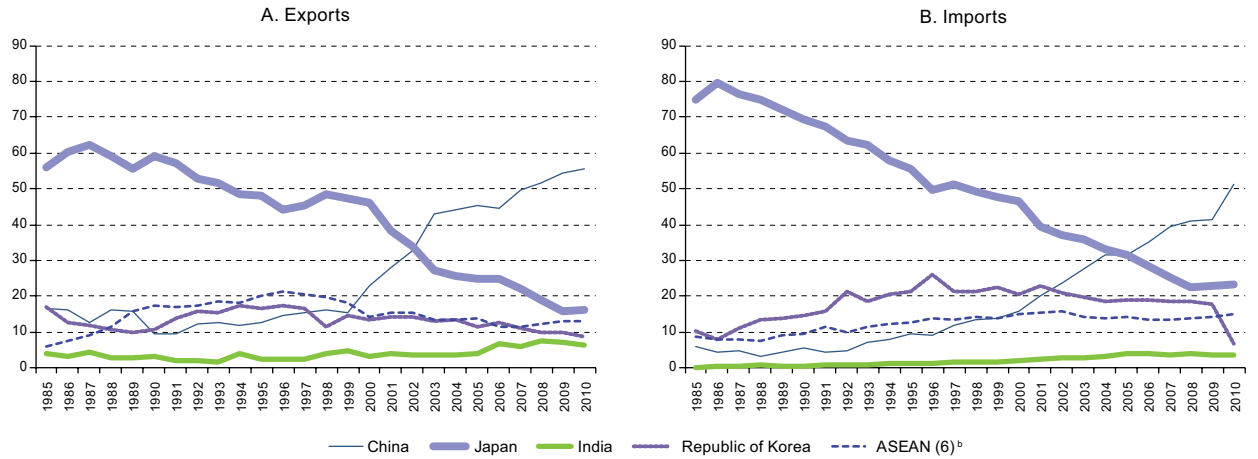
Table II.15
LATIN AMERICA AND THE CARIBBEAN: TRADE WITH THE WORLD AND SELECTED PARTNERS, 2006-2010
(Millions of dollars and percentages)

		2006	2007	2008	2009	2010	Annualized growth rate 2006-2010
Exports	World	670 749	758 143	878 981	679 195	865 095	6.6
	United States	335 437	350 171	380 736	281 762	354 395	1.4
	European Union	92 978	110 262	128 387	92 226	110 404	4.4
	Asia-Pacific	65 397	86 997	106 920	103 013	144 109	21.8
	China	22 175	34 786	42 806	47 612	71 840	34.2
	Other Asian countries	43 223	52 211	64 114	55 401	72 269	13.7
	Latin America and the Caribbean	115 394	138 219	172 374	128 018	163 361	9.1
	Rest of the world	61 542	72 494	90 565	74 176	92 827	10.8
Imports	World	583 308	697 940	852 694	638 498	837 015	9.4
	United States	203 267	227 369	264 649	200 234	255 432	5.9
	European Union	82 300	100 119	122 658	94 164	117 059	9.2
	Asia-Pacific	128 736	161 291	199 265	157 829	224 265	14.9
	China	49 088	67 355	89 197	75 464	111 646	22.8
	Other Asian countries	79 648	93 936	110 068	82 365	112 619	9.0
	Latin America and the Caribbean	119 597	142 963	180 280	132 055	164 695	8.3
	Rest of the world	49 409	66 198	85 841	54 215	75 565	11.2

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

The relative importance of each trading partner in the Asia-Pacific region has changed significantly over the past quarter-century, the most notable development being the waning share of Japan and the increasing prominence of China. While in 1985 Japan was the destination for 50% of Latin American and Caribbean exports to the Asia-Pacific region and the source of 70% of the region's imports, its share in both has fallen steadily. By contrast, China's share of Latin American and Caribbean exports to the Asia-Pacific region has risen steadily (from the mid-1990s), as have its imports to the region (from the early 1990s). Consequently, between 2000 and 2005, China overtook Japan as the region's leading Asia-Pacific trading partner (see figure II.19). India, meanwhile, in spite of strong growth over the past two decades, receives only 6.4% of Latin American and Caribbean exports to the Asia-Pacific region and supplies 3.4% of its imports. This places it behind the Republic of Korea as a trading partner for the region.

Figure II.19
ASIA-PACIFIC (SELECTED COUNTRIES AND GROUPS): SHARE OF TRADE WITH LATIN AMERICA AND THE CARIBBEAN, 1985-2010 [a]
(Percentages)

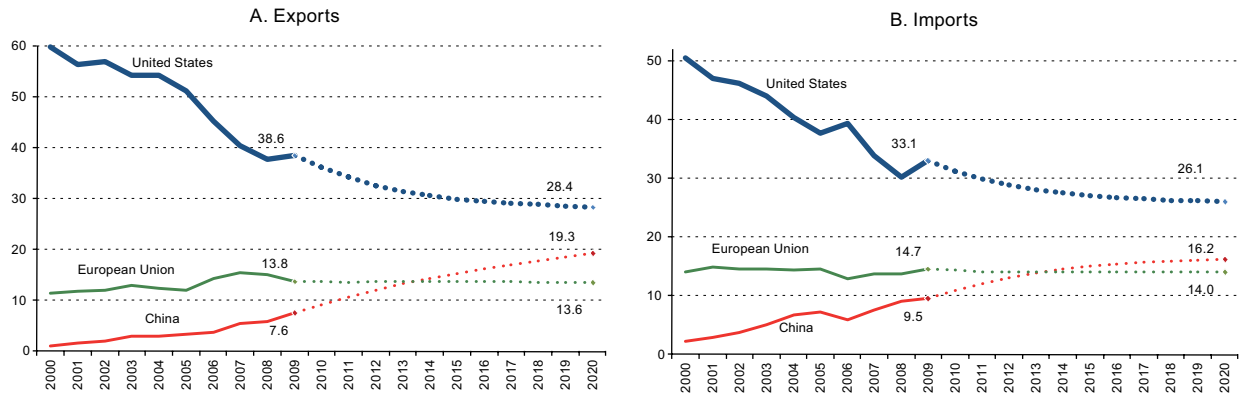


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE) and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database for Viet Nam (1985-1996) and Philippines, Singapore and Viet Nam (2010).
[a] These statistics were obtained from Asian countries and may not coincide with national data reported by Latin American and Caribbean countries.
[b] Includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

China is poised to overtake the European Union as the region's second trading partner around the middle of the present decade. If demand for the region's products in the United States, the European Union and the rest of the world continues to grow at the current pace, and demand from China grows at just half the rate recorded during the past decade, China will overtake the European Union in 2014 and become the second largest market for the region's exports. A similar outcome is projected for imports, and China is expected to surpass the European Union in 2015 (see figure II.20).

The relative importance of Asia as a market for Latin American and Caribbean exports varies significantly from country to country. While on average Asia accounts for slightly over 16% of the region's exports, it receives 50% of Chilean exports, 30% of Cuban exports and over 25% of Brazilian and Peruvian exports. At the other extreme, Asia receives 5% or less of total exports from Mexico, Central America (except for Costa Rica) and most Caribbean countries. The situation with China is analogous. China has become a key export market for Cuba, Chile, Brazil, Peru, Argentina and the Bolivarian Republic of Venezuela, in that order. In contrast, less than 3% of exports from Paraguay, Ecuador, Mexico, the Central American countries (except for Costa Rica) and most Caribbean countries go to China (see table II.16).

Figure II.20
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES):[a] SHARE OF THE UNITED STATES, THE EUROPEAN UNION AND CHINA IN FOREIGN TRADE, 2000-2020
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE) and national statistics.
[a] Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela (Bolivarian Republic of).

Table II.16
LATIN AMERICA AND THE CARIBBEAN: TRADE WITH SELECTED ASIAN COUNTRIES AND GROUPS, 2010
(Percentages of total exports and imports)

		Exports						Imports					
		China [a]	India	Japan	Republic of Korea	ASEAN [b]	Group total	China [a]	India	Japan	Republic of Korea	ASEAN [b]	Group total
Southern Cone	Argentina	9.4	2.0	1.2	1.1	4.8	18.4	14.4	1.0	2.1	1.7	3.3	22.6
	Brazil	17.0	1.7	3.5	1.9	3.3	27.4	16.2	2.3	3.8	4.6	3.7	30.7
	Chile	27.4	2.5	10.7	5.8	1.7	48.0	17.2	0.7	5.7	5.9	1.9	31.3
	Paraguay	1.0	1.6	0.9	0.1	1.5	5.0	34.8	0.6	3.5	1.5	1.5	41.9
	Uruguay	6.3	0.2	0.1	0.3	2.0	9.0	14.5	0.6	1.1	1.2	1.9	19.2
Andean countries	Bolivia (Plurinational State of)	3.1	0.1	6.7	5.3	0.0	15.2	10.6	1.0	5.8	0.8	1.1	19.3
	Colombia	5.6	0.9	1.3	0.9	1.4	10.1	14.5	1.7	2.8	2.3	2.1	23.4
	Ecuador	2.0	0.1	2.3	0.1	1.1	5.5	9.4	0.6	3.4	4.4	2.1	19.9
	Peru	16.5	0.6	5.1	2.6	1.0	25.8	18.3	1.7	4.6	3.5	2.5	30.6
	Venezuela (Bolivarian Republic of)	9.1	5.7	0.1	0.0	4.4	19.3	9.8	0.5	1.6	0.0	0.7	12.6
Mexico and Central America	Costa Rica	8.6	0.2	0.9	0.4	2.6	12.9	8.1	0.8	3.6	1.1	1.3	14.9
	El Salvador	0.5	0.1	0.4	0.4	0.3	1.7	7.5	0.4	1.8	1.0	1.0	11.7
	Guatemala	1.0	0.5	1.7	0.9	0.9	5.1	8.8	1.0	2.0	2.8	1.3	16.0
	Honduras	3.0	0.2	0.9	2.3	0.0	6.4	5.0	0.5	1.3	0.8	1.3	8.9
	Mexico	1.7	0.3	0.6	0.3	0.4	3.4	17.1	0.6	5.0	4.2	4.3	31.3
	Nicaragua	2.2	1.0	0.8	0.3	0.0	4.4	9.2	1.1	2.8	3.4	1.7	18.3
	Panama	0.8	0.1	0.9	0.2	0.3	2.3	32.0	0.6	3.0	2.5	14.0	52.1
Caribbean	Antigua and Barbuda	0.1	0.0	0.1	11.8	5.4	17.4	44.1	0.1	0.5	0.1	23.9	68.7
	Bahamas	0.0	0.0	0.0	0.0	20.0	20.1	4.9	8.0	7.1	12.0	5.8	37.8
	Barbados	1.4	0.3	0.0	0.1	0.5	2.2	5.6	0.8	3.6	1.0	2.0	13.0
	Belize	0.1	0.1	2.5	0.3	0.7	3.7	5.3	0.4	1.1	0.8	0.6	8.2
	Cuba	28.2	0.0	0.5	0.4	0.4	29.6	12.5	0.3	0.4	0.7	3.8	17.7
	Dominica	1.4	0.3	39.5	0.6	0.2	42.1	7.9	0.7	47.0	2.5	2.7	60.8
	Dominican Republic	3.1	0.9	0.2	0.0	0.6	4.8	11.0	0.6	2.1	0.9	1.6	16.2
	Grenada	0.0	0.1	0.0	0.0	0.6	0.7	1.6	0.2	1.6	0.6	0.5	4.4
	Guyana	2.3	0.3	0.9	0.1	1.3	4.9	6.4	1.7	3.6	0.8	1.6	14.1
	Haiti	1.1	0.2	0.2	0.1	0.8	2.4	7.0	1.1	1.8	0.5	2.5	12.9
	Jamaica	0.4	0.0	1.8	0.1	0.2	2.6	5.3	0.5	2.0	0.4	1.3	9.6
	Saint Kitts and Nevis	0.3	0.0	0.1	0.0	0.0	0.5	0.8	0.5	1.8	0.4	0.5	3.9
	Saint Lucia	0.1	0.6	0.0	0.0	0.3	1.1	0.3	0.0	0.3	0.1	0.1	0.9
	Saint Vincent and the Grenadines	0.2	0.0	0.0	0.0	0.3	0.5	5.7	0.2	2.3	0.3	0.6	9.0
	Suriname	1.0	0.1	0.5	0.0	0.0	1.7	9.3	1.6	5.8	0.9	2.1	19.6
	Trinidad and Tobago	0.7	0.5	0.4	3.1	0.2	4.9	4.7	2.8	2.5	0.7	2.1	12.8
	Latin America and the Caribbean	9.3	1.4	2.4	1.3	2.0	16.4	15.4	1.2	3.9	3.6	3.5	27.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE), national statistics (for Argentina, Chile, Honduras and Uruguay) and International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database (for Antigua and Bermuda, Bahamas, Belize, Cuba, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Suriname, Trinidad and Tobago and Venezuela (Bolivarian Republic of)).
[a] Comprises People's Republic of China, Hong Kong (Special Administrative Region of China), Macao (Special Administrative Region of China) and Taiwan Province of China.
[b] Association of Southeast Asian Nations.

Asia is more important to the region as a source of imports than as a destination for exports, although this also varies widely among countries. Asia's share of total imports is equal to or greater than 20% for the South American countries (except for the Bolivarian Republic of Venezuela) and Mexico, and is generally smaller for the Central American and Caribbean countries. The pattern is similar in the specific case of Chinese imports and exports (see table II.16).

During the second half of the last decade, the Latin American and Caribbean region was China's most dynamic trading partner and Japan's second most dynamic partner. Between 2005 and 2010, China's exports to Latin America and the Caribbean and its imports from the region grew at almost double the rate of total imports and exports (see table II.17). The region's share of trade with China has increased gradually, rising from a very low starting point to a 6% share of total Chinese exports and imports in 2010 (see figure II.21). Japanese exports to Latin America and the Caribbean grew faster than its exports to any other destination, while Japanese imports from the region were surpassed only by those from the Commonwealth of Independent States (see table II.18).

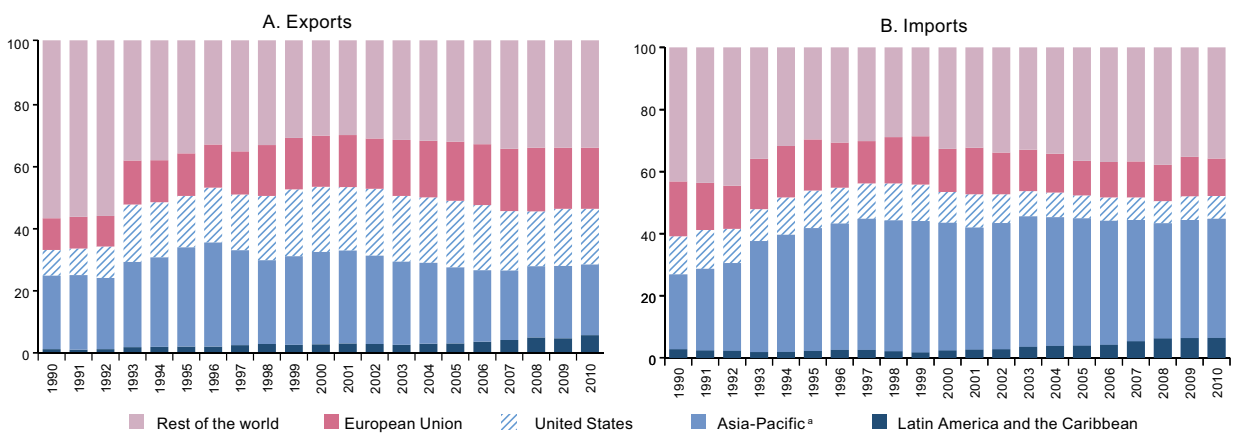
During the last decade, Latin America posted a deficit in its trade with Asia, owing to the growing trade deficit of Mexico and Central America. As mentioned earlier, only a small proportion of those countries' exports go to Asia, while an increasing percentage of their imports come from that region. The result is a widening trade deficit with China and the rest of Asia (see figure II.22B). Meanwhile, the South American economies, many of which send a high proportion of their exports to Asia, registered a more even trade balance with China and the rest of Asia during the last decade (see figure II.22A). That outcome was largely the result of the fact that prices for the commodities exported to Asia by South American countries rose during much of the decade.

Table II.17
CHINA: AVERAGE ANNUAL CHANGE IN TRADE WITH SELECTED PARTNERS, 1990-2010
(Percentages)

	Exports			
	1990-1995	1995-2000	2000-2005	2005-2010
Latin America and the Caribbean	32.2	17.8	26.8	31.4
Asia-Pacific [a]	26.5	9.3	20.3	13.9
United States	36.7	16.1	25.6	11.7
European Union	26.3	15.0	28.8	16.4
Rest of the world	8.6	7.1	26.6	17.0
World	19.1	10.9	25.0	15.7
	Imports			
Latin America and the Caribbean	14.5	12.7	37.6	27.9
Asia-Pacific [a]	32.4	12.2	23.9	14.7
United States	19.7	6.8	16.8	16.1
European Union	18.2	7.6	18.8	17.9
Rest of the world	11.2	13.4	26.8	15.7
World	19.9	11.3	24.0	16.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Includes Australia, Japan, New Zealand, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

Figure II.21
CHINA: SHARE OF SELECTED PARTNERS IN FOREIGN TRADE, 1990-2010
(Percentages)



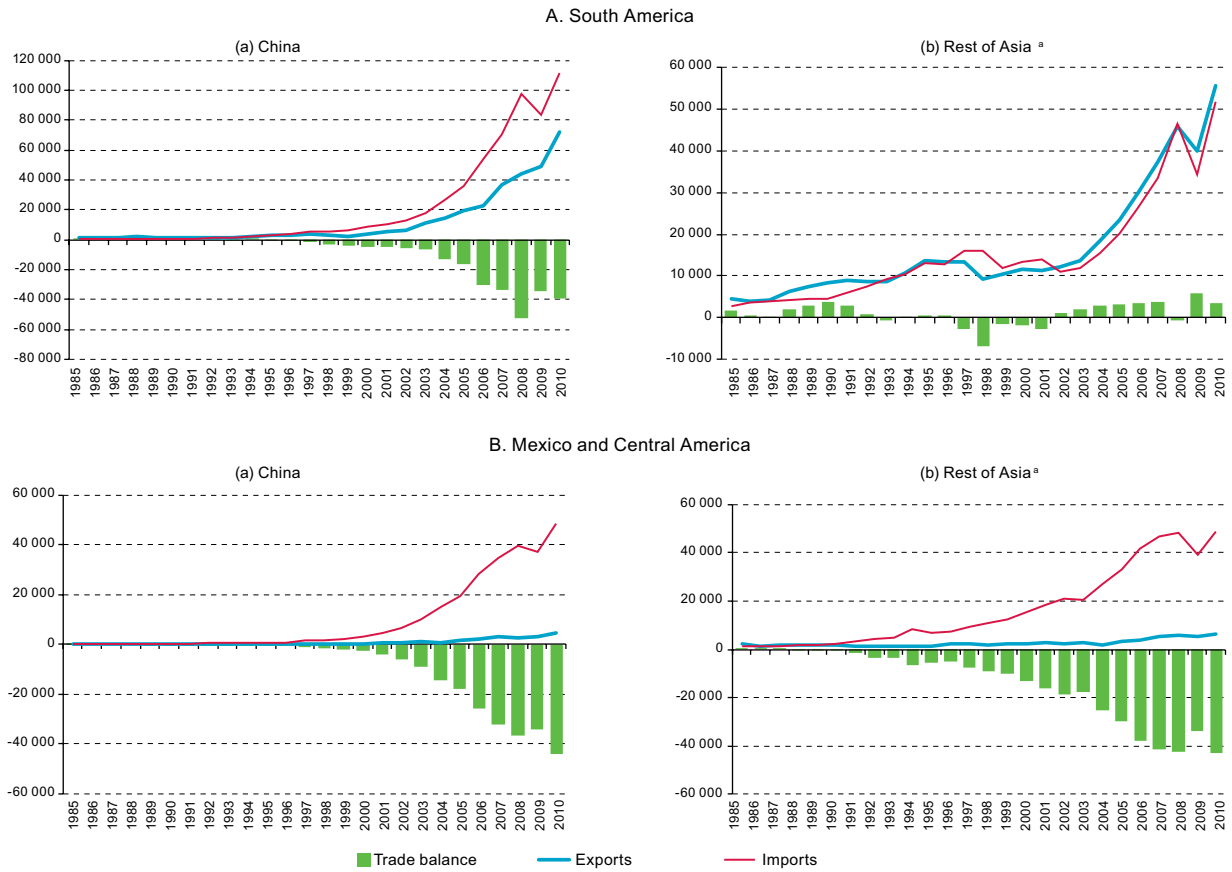
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Includes Australia, Japan, New Zealand, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

Table II.18
JAPAN: TRADE WITH SELECTED PARTNERS, 2005 AND 2010
(Millions of dollars)

Exports	2005	2010	Annual increase *(percentages)*
Latin America and the Caribbean	23 322	42 118	12.5
Asia	289 661	430 499	8.2
Commonwealth of Independent States	5 191	9 157	12.0
Middle East	16 575	25 182	8.7
Africa	8 253	12 001	7.8
North America	143 762	127 484	-2.4
Europe	93 952	98 372	0.9
Imports	**2005**	**2010**	**Annual increase *(percentages)***
Latin America and the Caribbean	14 774	26 761	12.6
Asia	230 383	313 185	6.3
Commonwealth of Independent States	6 825	17 167	20.3
Middle East	87 667	118 009	6.1
Africa	9 934	11 749	3.4
North America	73 543	78 151	1.2
Europe	65 974	75 517	2.7

Source: Database of Japan External Trade Organization (JETRO) [online] www.jetro.go.jp

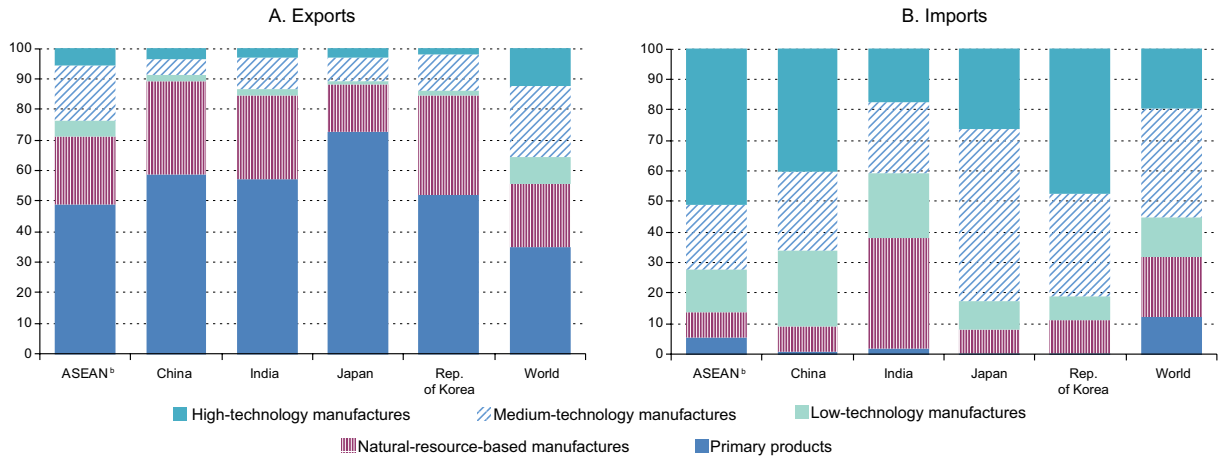
Figure II.22
SOUTH AMERICA, MEXICO AND CENTRAL AMERICA: EXPORTS, IMPORTS AND TRADE BALANCE WITH CHINA AND THE REST OF ASIA, 1985-2010
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE), International Monetary Fund (IMF), Direction of Trade Statistics (DOTS) database, and official information from countries.
[a] Includes India, Japan, Republic of Korea and the Association of Southeast Asian Nations (ASEAN).

Latin American and Caribbean exports to Asia are more concentrated than the region's exports to other major markets. Primary products and natural-resource-based products (mainly processed mineral products) dominate the region's exports to China, India, Japan and the Republic of Korea. Manufactures make up a slightly larger proportion of exports only in the case of countries that are members of the Association of Southeast Asian Nations (ASEAN) (see figure II.23). Owing in large part to rising demand from China, commodities are once again playing a leading role in the region's export structure, contributing to a renewed emphasis on production of primary products in the region's export sector in recent years (ECLAC, 2010b).

Figure II.23
LATIN AMERICA AND THE CARIBBEAN: TRADE STRUCTURE WITH SELECTED PARTNERS BY TECHNOLOGY INTENSITY, AVERAGE 2007-2009 [a]
(Percentages of total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Cuba and Haiti not included; data for Antigua and Barbuda refer only to 2007 and data for the Bolivarian Republic of Venezuela only to 2008; data for Honduras do not include 2008; data for Belize, Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Suriname and Grenada (exports only) do not include 2009.
[b] Association of Southeast Asian Nations.

Except in the case of Costa Rica and Mexico, the export mix of the countries of the region to Asian countries remains concentrated, comprising a few commodities. In almost every country except for Mexico, the three main export products represent over 80% of the value of total exports to the main destinations in Asia. It is worth noting that high-tech products figure among the main products exported by Costa Rica, El Salvador and Mexico (see table II.19). Of particular note – although it is an exceptional case – is Costa Rica's success in staking a place in Asian value chains in the electronics sector. According to figures from the World Trade Organization (WTO), trade between Costa Rica and China in parts and components associated with such chains jumped from 2.2% of bilateral trade in 1995 to 47% in 2008 (WTO, 2011b).

Asia is beginning to import new products from the region, although they do not generally feature among the top three export products. These products include poultry, vegetable oils, fresh fruit, frozen fish, crustaceans and molluscs, fruit and vegetable juices, wine and processed woods. Some fall into the category of primary products, but they are not considered commodities because there may be some qualitative differentiation among them. As family incomes rise in Asia, and the region's consumption patterns gradually become similar to those of the West, Asian demand for these products could expand considerably in the near future. A recent study by the Organization for Economic Cooperation and Development (OECD) indicates that 85% of middle class growth between 2009 and 2030 will occur in the Asia-Pacific region, and by 2030 two thirds of the world's middle class will live in that region (Kharas, 2010).[5] The study also indicates that this growth will be driven primarily by the expansion of the Chinese middle class, although a similar process may occur in India, given the economic reforms implemented there since 1991, the increased levels of investment, the dynamism of the manufacturing and services sectors and the benefits of high growth in China and other parts of Asia.

[5] The study defines the global middle class as those households with daily expenditure of between US$ 10 and US$ 100 per capita in purchasing power parity terms.

Table II.19

ASIA: TOP THREE PRODUCTS [a] IMPORTED FROM LATIN AMERICA AND THE CARIBBEAN, BY ORIGIN AND DESTINATION, AVERAGES 2008-2010

(Percentages)

	China		Japan		Republic of Korea [b]		ASEAN (5)	
Argentina	Oilseeds and oleaginous fruits (60.7); fixed vegetable oils (19.6); crude oil (6.9)	87.3	Copper ores (21.2); aluminium (16.1); maize (corn) (12.4)	49.9	Copper ores (36.1); fixed vegetable oils (25.3); feeding stuff for animals (20.7)	82.4	Feeding stuff for animals (62.6); maize (corn) (10.6); oilseeds and oleaginous fruits (7.8)	81.1
Bolivia (Plurinational State of)	Base metal ores (37.1); tin (26.1); wood, simply worked (10.3)	73.6	Base metal ores (92.9); oilseeds and oleaginous fruits (3.3); tin (1.5)	97.7	Base metal ores (95.3); copper ores (1.4); wood, worked (0.7)	97.5	Base metal ores (33.5); chemicals (19.4); precious stones (10.7)	63.9
Brazil	Iron ore (47.5); oilseeds and oleaginous fruits (23.6); crude oil (8.0)	79.3	Iron ore (48.3); edible meat offal (11.9); aluminium (5.7)	66.0	Iron ore (29.5); iron in primary forms (16.9); feeding stuff for animals (8.0)	54.4	Feeding stuff for animals (11.5); iron in primary forms (10.5); oilseeds and oleaginous fruits (10.2)	32.3
Chile	Copper (58.2); copper ores (22.1); pulp and waste paper (6.0)	86.3	Copper ores (52.1); fish (13.2); wood in chips or particles (6.9)	72.3	Copper (43.9); copper ores (27.3); base metal ores (7.7)	79.0	Copper (29.7); iron ore (21.2); pulp and waste paper (14.0)	65.0
Colombia	Crude oil (54.8); ferro-alloys (23.5); coal, not agglomerated (9.78)	88.1	Coffee and coffee substitutes (68.8); other vegetable products (12.8); ferro-alloys (8.78)	90.5	Coffee and coffee substitutes (33.8); ferro-alloys (26.8); base metal scrap (25.3)	86.1	Petroleum products (56.6); crude oil (7.02); insecticides (5.40)	69.1
Costa Rica	Microassemblies (97.1); other electrical apparatus (0.8); apparatus for electrical circuits (0.7)	98.6	Microassemblies (67.9); parts for data-processing machines (11.7); coffee and coffee substitutes (6.5)	86.1	Microassemblies (74.1); parts for data-processing machines (10.4); ferrous scrap (5.3)	89.9	Microassemblies (53.4); parts for data-processing machines (36.1); unclassified goods (4.7)	94.2
Cuba	Nickel ore (63.7); sugars, molasses and honey (25.9); base metal ores (7.5)	97.2	Crustaceans, molluscs and aquatic invertebrates (44.7); tobacco, manufactured (28.7); coffee and coffee substitutes (11.0)	84.5	Petroleum products (45.3); internal combustion engines (18.7); base metal scrap (16.0)	80.2	Crude oil (40.4); tobacco, manufactured (25.7); drugs (9.1)	75.3
Dominican Republic	Copper ores (35.6); ferro-alloys (25.8); base metal scrap (13.4)	96.4	Medical appliances (20.4); ferro-alloys (20.0); footwear (17.0)	59.3	Ferro-alloys (67.1); ferrous scrap (8.3); other electrical apparatus (6.8)	79.7	Ferrous scrap (26.5); other medical appliances (25.5); electric power machinery (13.5)	78.2
Ecuador	Crude oil (92.2); wood, worked (2.6); base metal scrap (1.6)	93.8	Crude oil (22.9); feeding stuff for animals (18.6); fruit and nuts (17.7)	94.8	Base metal scrap (51.4); ferrous scrap (24.4); fish (3.8)	69.1	Crude oil (72.6); ferrous scrap (3.0); cocoa (2.5)	86.7
El Salvador	Other electrical apparatus (58.7); base metal scrap (31.4); garments (3.6)	88.2	Coffee and coffee substitutes (85.1); other electrical apparatus (6.2); other garments (3.5)	93.8	Ferrous scrap (30.4); garments (23.5); base metal scrap (15.0)	94.5	Sugars, molasses and honey (41.8); other electrical apparatus (27.1); fish (17.7)	90.9
Guatemala	Sugars and honey (51.3); plastics waste (19.3); base metal scrap (17.4)	87.1	Coffee and coffee substitutes (80.5); oleaginous seeds and fruits (10.0); spices (3.2)	82.1	Sugars and honey (85.7); base metal scrap (6.2); ferrous scrap (2.6)	92.4	Sugars and honey (53.4); spices (29.1); coffee and coffee substitutes (8.4)	43.3
Honduras	Base metal ores (58.8); iron ore (14.2); base metal scrap (13.9)	34.1	Coffee and coffee substitutes (66.3); garments (8.72); men's clothing, not knitwear (7.0)	25.5	Coffee and coffee substitutes (57.9); base metal ores (29.8); garments (4.5)	30.7	Ferrous scrap (23.2); other chemical products (11.1); base metal scrap (8.9)	38.3
Mexico	Microassemblies (14.7); copper ores (11.4); telecommunications equipment (7.9)	65.8	Telecommunications equipment (9.0); edible meat offal (8.3); other medical appliances (8.2)	76.7	Telecommunications equipment (15.3); copper (9.5); base metal scrap (5.9)	82.9	Telecommunications equipment (21.8); microassemblies (8.5); data-processing machines (7.9)	93.7
Nicaragua	Plastics waste (28.7); base metal scrap (24.2); wood, worked (12.7)	72.0	Coffee and coffee substitutes (57.6); oilseeds and oleaginous fruits (11.2); meat offal (7.8)	96.3	Ferrous scrap (56.2); base metal scrap (19.7); coffee and coffee substitutes (6.9)	98.6	Sugars and honey (87.1); ferrous scrap (5.4); other photographic apparatus and equipment (1.1)	83.7
Panama	Boats and floating structures (42.1); feeding stuff for animals (15.1); leather (14.6)	81.2	Boats and floating structures (55.5); unclassified goods (39.6); fish (1.1)	98.9	Boats (92.9); crude oil (4.3); petroleum products (1.3)	76.8	Boats (68.6); petroleum products (8.3); ferrous scrap (6.9)	89.5
Paraguay	Leather (47.7); wood, simply worked (22.4); base metal scrap (11.0)	71.5	Oilseeds and oleaginous fruits (98.3); vegetables (0.3); other vegetable products (0.2)	77.0	Fruit, preserved, and fruit preparations (46.9); sugars, molasses and honey (20.1); maize (corn) (9.6)	88.5	Leather (64.2); feeding stuff for animals (1.0); cotton (9.2)	70.4
Peru	Copper ores (33.9); base metal ores (21.0); feeding stuff for animals (16.5)	74.9	Copper ores (58.8); base metal ores (10.1); feeding stuff for animals (7.9)	57.5	Base metal ores (49.9); copper ores (32.2); petroleum products (6.3)	82.3	Copper ores (28.6); base metal ores (23.2); feeding stuff for animals (18.5)	65.7
Uruguay	Oilseeds and oleaginous fruits (48.3); pulp and waste paper (27.0); wool (11.1)	86.6	Essential oils (55.5); wood in chips or particles (20.4); other chemicals (6.0)	81.9	Cheese (34.6); pulp and waste paper (19.5); edible preparations (13.0)	67.3	Other edible preparations (28.0); leather (25.7); meat of bovine animals (10.9)	64.8
Venezuela (Bolivarian Republic of)	Crude oil (52.3); petroleum products (33.2); iron ore(8.9)	94.5	Aluminium (33.5); iron ore (28.2); ferro-alloys (19.5)	81.3	Ferro-alloys (61.5); base metal scrap (13.2); aluminium (10.3)	85.2	Petroleum products (96.1); crude oil (3.2); other hydrocarbons (0.3)	99.5
CARICOM	Alcohols and their halogenated derivatives (24.4); natural gas (12.5); wood in the rough (12.0)	49.1	Natural gas (53.2); boats (22.3); coffee and coffee substitutes (7.1)	82.8	Natural gas (84.7); alcohols and their halogenated derivatives (4.5); petroleum products (3.6)	92.9	Petroleum products (80.3); ferro-alloys (6.3); ferrous scrap (6.2)	92.9

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

[a] Based on the Standard International Trade Classification (SITC); Rev. 3, at the three-digit level.

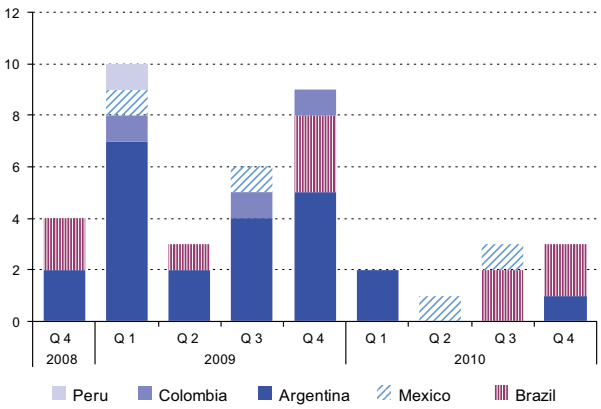
[b] Corresponds to 2007-2009.

The region is facing competition in the Asia-Pacific markets, in some instances from the Asian economies themselves. Although many Latin American countries are major suppliers of natural resources for China, that country has diversified its sources of supply, reducing the region's bargaining power. In many natural resource sectors the region is competing with a handful of developed economies, such as Australia, Canada, New Zealand and the United States, some developing countries in Asia (in particular those belonging to ASEAN) and some African countries (see table II.20).

However, this competition could open the door to attractive trade partnerships, in both production and technology, if approached from a strategic perspective. To give a few examples, if Brazil is competing with Australia in selling iron to the Chinese market, Chile is competing with Japan to sell copper cathodes, and Peru is competing with the United States and Australia to sell lead concentrate, there may be an opportunity for joint investments and strategic partnerships in trade and technology, which would enable them to better satisfy the demand from China and the rest of Asia and to do so to their mutual benefit.

Since the recent international financial crisis, Chinese exports have regularly been the target of anti-dumping investigations around the world, including in Latin America and the Caribbean. Nonetheless in 2010 the number of investigations launched against China for dumping fell sharply with respect to 2009 in Latin America and the Caribbean (see figure II.24). The recovery of demand in the region was probably a major reason for this, as this would have eased the competition between domestic producers and their overseas competitors. All anti-dumping investigations of Chinese exports in Latin America and the Caribbean in 2010 occurred in three countries: Argentina, Brazil and Mexico. These are also the countries that have the largest manufacturing sectors in the region, and their products compete with Chinese products in a number of areas.

Figure II.24
LATIN AMERICA AND THE CARIBBEAN: ANTI-DUMPING INVESTIGATIONS OF CHINA, FOURTH QUARTER 2008 TO FOURTH QUARTER 2010
(Number of investigations launched)



Source: Chad P. Bown, "Global Antidumping Database", [online] www.brandeis.edu/~cbown/global_ad/.

Mexico is worthy of special mention, as Chinese imports have generated fierce resistance among the production sectors affected. In response to pressure exerted by these sectors, Mexico signed a transitional trade agreement with China in June 2008. Under this agreement, the so-called "compensatory quotas" applicable to 204 tariff headings, mainly in the textile, garment and footwear sectors, were extended until December 2011. Mexico is therefore able to impose tariffs higher than those agreed within the World Trade Organization on Chinese imports covered by these headings. With these quotas set to expire shortly, the parties will need to agree on mechanisms to avoid renewed tensions in bilateral trade.[6]

2. Investment

The region has gradually gained importance as a destination for foreign direct investment (FDI) from Japan and the Republic of Korea. According to official data, total Japanese FDI in the region at year's end in 2010, excluding investment channelled through the financial centres in the Caribbean, stood at over US$ 44 billion. This constitutes the largest amount of cumulative Japanese FDI invested in emerging economies outside of Asia. As of March 2011, the Republic of Korea had invested over US$ 7.1 billion in the region, again excluding funds flowing through Caribbean financial centres. This figure is equivalent to total Korean FDI in Eastern Europe and Russia, and exceeds the amounts invested by that country in the Middle East and Africa (see figure II.25). The region's share of total FDI from these two countries is 5% and 4%, respectively.

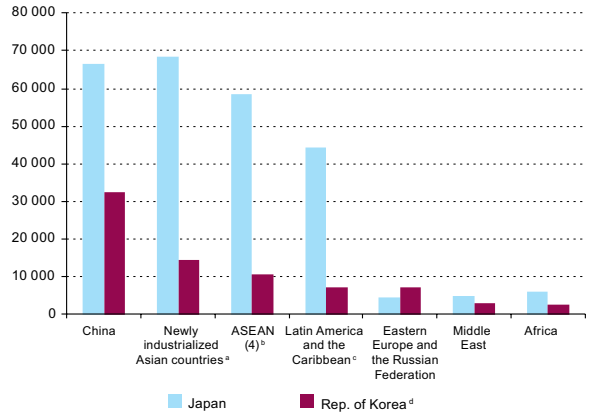
[6] These issues, including the search for ways to reduce Mexico's trade deficit with China, were discussed at the Second China–Mexico Strategic Dialogue, held in Beijing in July 2011.

Table II.20
CHINA: MAIN PRODUCTS IMPORTED FROM LATIN AMERICA AND THE CARIBBEAN AND SHARE OF THE FIVE MAIN SUPPLIERS, 2010
(Percentages of total imports of each product)

No.	Harmonized System (2002) code	Product	Share of imports from Latin America and the Caribbean	First supplier	Second supplier	Third supplier	Fourth supplier	Fifth supplier
1	260111	Iron, non-agglomerated	21.2	Australia (45.1)	Brazil (22.1)	India (14.8)	South Africa (5.4)	Iran (Islamic Republic of) (2.3)
2	120100	Soybean	15.2	United States (45.1)	Brazil (32.4)	Argentina (19.8)	Uruguay (2.4)	Canada (0.1)
3	740311	Copper cathodes	12.2	Chile (46.5)	Japan (8.4)	Kazakhstan (6.3)	Zambia (5.1)	Australia (4.3)
4	270900	Crude oil	11.4	Saudi Arabia (18.9)	Angola (16.8)	Iran (Islamic Republic of) (8.9)	Oman (6.7)	Russian Federation (6.5)
5	260300	Copper concentrate	7.4	Chile (30.2)	Peru (15.3)	Australia (10.3)	Mongolia (7.0)	Mexico (5.8)
6	854229	Integrated circuits	4.1	Taiwan Province of China (26.4)	Republic of Korea (22.1)	Malaysia (16.5)	Japan (10.0)	United States (5.6)
7	271019	Other petroleum oils	2.2	Republic of Korea (23.3)	Singapore (19.0)	Malaysia (10.9)	Russian Federation (10.8)	Venezuela (Bolivarian Republic of) (9.8)
8	470329	Wood of non-coniferous species	1.8	Brazil (39.7)	Indonesia (22.3)	Uruguay (9.2)	United States (8.5)	Chile (5.0)
9	260112	Iron, agglomerated	1.7	Brazil (30.4)	Kazakhstan (14.0)	Ukraine (10.2)	Australia (8.9)	Canada (7.0)
10	230120	Fishmeal	1.4	Peru (57.9)	Chile (13.9)	United States (7.3)	Russian Federation (5.6)	Thailand (4.1)
11	150710	Crude soybean oil	1.0	Brazil (67.3)	United States (21.2)	Argentina (11.3)	Republic of Korea (0.1)	
12	260700	Lead concentrate	1.0	Peru (29.1)	Australia (15.9)	United States (15.6)	Russian Federation (5.8)	Mexico (4.3)
13	740200	Copper, not refined	0.9	Zambia (42.8)	Chile (25.4)	Democratic Republic of the Congo (14.8)	Pakistan (3.9)	Peru (1.9)
14	020714	Meat offal, frozen	0.9	Brazil (57.6)	Argentina (24.9)	United States (14.0)	Chile (2.9)	France (0.5)
15	170111	Cane sugar	0.8	Brazil (64.3)	Cuba (29.3)	Australia (3.1)	Guatemala (2.7)	Myanmar (0.4)
16	260800	Zinc concentrate	0.8	Australia (32.6)	Peru (31.0)	India (3.9)	Mongolia (3.8)	Turkey (3.8)
17	870323	Vehicles with cylinder capacity between 1500 and 3000 cm^3	0.7	Germany (42.7)	Japan (25.5)	United States (9.7)	Republic of Korea (7.0)	Mexico (3.7)
18	740400	Copper waste	0.7	United States (15.5)	Australia (14.1)	Spain (13.6)	Germany (9.7)	Malaysia (7.1)
19	470321	Wood of non-coniferous species	0.6	Canada (35.2)	United States (20.4)	Chile (16.2)	Russian Federation (12.3)	Finland (8.2)
20	750120	Intermediate nickel products	0.5	Cuba (66.2)	Indonesia (23.2)	Canada (7.9)	Germany (1.2)	Australia (0.3)

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

Figure II.25
JAPAN AND REPUBLIC OF KOREA: FOREIGN DIRECT INVESTMENT STOCK IN CHINA AND EMERGING REGIONS AND GROUPS UP TO YEAR-END 2010 [a]
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Japan External Trade Organization (JETRO) [online] www.jetro.go.jp and the foreign direct investment database of Korea Eximbank [online] www.koreaexim.go.kr.

[a] Figures for the Republic of Korea are to March 2011.

[b] Includes Hong Kong (Special Administrative Region of China), Taiwan Province of China, Republic of Korea and Singapore. In the case of foreign direct investment from the Republic of Korea, this group comprises Hong Kong (Special Administrative Region of China), Taiwan Province of China and Singapore.

[c] Includes Indonesia, Malaysia, Philippines and Thailand.

[d] Excludes the main financial centres.

China's foreign direct investment in the region has historically been very low, especially when compared with its high levels of bilateral trade. The level of China's bilateral trade with Latin American and Caribbean countries (almost US$ 125 billion in 2009) contrasts sharply with its foreign direct investment in the region (US$ 255 million in 2009, excluding investment through Caribbean financial centres) (ECLAC, 2010b). This figure represents 0.6% of total Chinese direct investment worldwide and 0.3% of FDI inflows to Latin America and the Caribbean (ECLAC, 2011a). According to official Chinese sources, total Chinese FDI in the region up to year's end in 2009, excluding the Caribbean financial centres, amounted to US$ 1.958 billion, or 0.8% of the total.

Chinese investment in the region soared in 2010, however. In that year, China invested over US$ 15 billion (ECLAC, 2011a), giving it a 9% share and making it the third largest foreign investor in Latin America and the Caribbean, after the United States (17%) and the Netherlands (13%). Chinese investment has mainly targeted Brazil, Argentina and Peru, countries with which it maintains significant trade relations. Over 90% of these investments have gone to natural resource extraction, mainly in the hydrocarbons sector and to a lesser extent, mining. Chinese investment in Mexico and Central America (with the exception of Costa Rica) was negligible by comparison. Total Chinese investment in the region announced for 2011 amounts to US$ 22.7 billion (see table II.21). Time will tell whether this trend is temporary or whether 2010 marked the beginning of a new era in economic relations between China and the region, one in which high levels of trade will be accompanied by increasing investment (ECLAC, 2011d).

Asian FDI in Latin America in recent decades has been prompted mainly by three factors: access to natural resources, access to markets and greater efficiency in production and administration (efficiency-seeking FDI). In the manufacturing sector, Asian industries, including textiles, paper, automobiles, electronics, information technology and communications, have selected Mexico or MERCOSUR countries —Brazil in particular— as the site for their first production bases in Latin America. This move affords them a means of gaining a foothold and expanding their presence in the NAFTA and MERCOSUR markets. In addition, Mexico can facilitate access not only to the United States but also to the countries of Central America and the Caribbean, while MERCOSUR can offer a potential platform for export to other Latin American countries, enabling them to capitalize on geographical proximity and the network of MERCOSUR trade agreements in the region.

Table II.21
CHINA: FOREIGN DIRECT INVESTMENT IN SELECTED ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN
(Millions of dollars)

Country	Confirmed investments		Expected investments
	1990-2009	2010	2011
Argentina	143	5 550	3 530
Brazil	255	9 563	9 870
Colombia	1 677	3	...
Costa Rica	13	5	700
Ecuador	1 619	41	...
Guyana	1 000	...	...
Mexico	127	5	...
Peru	2 262	84	8 640
Venezuela (Bolivarian Republic of)	240	...	...
Total	7 336	15 251	22 740

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Thomson Reuters, fDi Markets [online] http://www.fdimarkets.com/ and interviews with representatives of the companies concerned.

Efficiency-seeking Asian FDI in the region creates both opportunities and challenges. Provided that salaries in developing countries in Asia continue to rise, this type of FDI could become an important Asian platform for offshore exports to markets in the United States, Europe and even Latin America. Efficiency-seeking FDI inflows tend to boost the recipient country's manufacturing exports, enhancing its international competitiveness through transfer and assimilation of foreign technology, training of human resources, creation and expansion of production chains and development of local businesses.

There are nonetheless some drawbacks to this kind of FDI, such as low value added, with an emphasis on static rather than dynamic local comparative advantages; heavy dependence on imported components; and absence of industrial clusters. These disadvantages have been seen in a number of FDI projects in Latin America, regardless of origin. For example, when Korean investments in the region are compared with Korean investments in Asia, it is clear that the investments in Latin America still have relatively limited aims such as securing a supply of natural resources, gaining better access to markets or setting up export platforms that use imported components to make end products intended for the United States market.

Latin America has also recently invested substantial sums in various sectors in China. Brazilian investments in China between 2002 and 2007, for example, amounted to US$ 175 billion. The largest investments were made in the aeronautical, electrical, information technology, agro-industrial and footwear sectors. One of the main Argentine investors is the Techint group, which has invested heavily in the iron and steel sector in China (ECLAC, 2010c). Arcor, an Argentine food producer, has set up a complex distribution network encompassing 50 Chinese cities. Mexican investors include Bimbo, the country's largest food producer, and Grupo Maseca, also a food corporation, which opened a factory in Shanghai with an investment of approximately US$ 100 million in 2006. Thus, though incipient, Latin American investment in China, especially by trans-Latin firms, is growing.

3. Strategic aspects of the biregional trade relationship

In the past few years integration in the Asia-Pacific region has evolved from a de facto situation towards a more formal structure. ASEAN has spearheaded this de jure integration process through a series of trade liberalization initiatives with other Asian countries. Following the signing of multiple trade agreements in the Asia-Pacific region, some kind of tariff preference now applies to almost half of all trade within Asia. At the same time, with various objectives in mind (in particular, greater market access), Australia, China, Japan, India, the Republic of Korea, Singapore and other Asia-Pacific economies have signed free trade agreements and established strategic partnerships with Latin America.

The de jure economic integration process in the Asia-Pacific region has not been uniform, and has taken different paths and proceeded at different rates of implementation. The impact on Latin America and the Caribbean of the proliferation of trade agreements in the Asia-Pacific region is difficult to predict, and will depend to a large extent on the evolution of the various initiatives currently being negotiated or studied. These include a project to create a free trade area covering the 10 ASEAN members, plus China, Japan and the Republic of Korea (known as ASEAN+3), to which Australia, India and New Zealand might eventually be added (known as ASEAN+6). In addition, negotiations are under way to expand the Trans-Pacific Partnership (TPP).[7]

Latin American exports face strong competition in the Chinese and Indian markets from ASEAN economies. Although currently China relies more on Latin America and the Caribbean than on ASEAN for its primary products, ASEAN supplies a bigger share of its natural-resource-based manufactures, an area in which the region's potential for export expansion and diversification should become evident in the years to come. In the case of India, the share of the ASEAN countries is greater than that of the region in both categories (see table II.22).

[7] This process, in which two countries of the region (Chile and Peru) are participating, is being led by the United States. Section C of this chapter provides additional detail.

As trade barriers between Asian countries are progressively dismantled, more trade may be diverted away from Latin America and the Caribbean. China, India, Japan, the Republic of Korea and other Asian economies all maintain high tariffs in sectors in which the region has an export interest, such as agriculture, textiles and garments and some machinery sectors (see table II.23). As a result, the reduction or elimination of these tariffs in the framework of existing agreements between ASEAN and each of the four countries mentioned above, in addition to that of a future ASEAN+3 agreement, would give the ASEAN countries an advantage over the Latin American and Caribbean region. The trade lost by Latin America and the Caribbean could be substantial unless proactive policies are put in place through bilateral or subregional trade agreements to enable the countries of the region to access the main Asian markets on an equal footing with their Asian counterparts.

Table II.22
CHINA AND INDIA: SHARE OF ASEAN [a] AND LATIN AMERICA AND THE CARIBBEAN IN TOTAL IMPORTS AND EXPORTS, BY TECHNOLOGY INTENSITY, AVERAGE 2006-2009
(Percentages)

		China		India	
		Imports	Exports	Imports	Exports
Primary products	ASEAN [a]	6.8	12.7	7.4	11.8
	Latin America and the Caribbean	17.0	1.8	5.9	0.5
Natural-resource-based manufactures	ASEAN [a]	13.3	11.3	15.3	12.8
	Latin America and the Caribbean	9.2	6.0	2.8	3.7
Low-technology manufactures	ASEAN [a]	6.3	5.7	7.9	3.1
	Latin America and the Caribbean	1.8	4.3	0.9	2.9
Medium-technology manufactures	ASEAN [a]	6.0	9.6	7.9	12.4
	Latin America and the Caribbean	1.1	5.8	1.7	4.5
High-technology manufactures	ASEAN [a]	17.0	7.9	11.1	10.6
	Latin America and the Caribbean	1.3	3.4	0.6	5.4
Other	ASEAN	4.2	6.9	2.6	17.2
	Latin America and the Caribbean	0.1	1.7	0.3	0.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).
[a] Association of Southeast Asian Nations.

As a result, trans-Pacific trade agreements are rapidly increasing in number. Chile and Peru have been the most proactive in this regard, as the two countries in Latin America and the Caribbean that send the largest proportions of their total exports to the Asia-Pacific region. They have been joined recently by Costa Rica, which has signed free trade agreements with China and Singapore, and Colombia, which is negotiating an agreement with the Republic of Korea (see table II.24). These initiatives demonstrate that Latin American countries are endeavouring to take a longer-term view of their relations with the Asia-Pacific region, although to date there is no common strategy.

Japan's experience with economic partnership agreements highlights the importance that it attaches to cooperation as a complement to trade liberalization and investment. The economic partnership agreement between Japan and Mexico includes, for the first time in the history of this kind of agreement signed by Japan, a specific chapter on bilateral cooperation, which covers nine areas: promotion of trade and investment, support industries, small and medium-sized enterprises, science and technology, technical and vocational education and training, intellectual property, agriculture, tourism and the environment. In the six years since this agreement has been in force, Japan has expanded and deepened its cooperation in all these areas. Likewise, Japan's international cooperation in Asia has complemented and deepened economic integration efforts in that region (ECLAC, 2009). The Latin America and Caribbean region is seeking to emulate this integrated approach in its economic ties with other Asian partners such as China and the Republic of Korea.

Table II.23

ASIA (SELECTED COUNTRIES): AVERAGE MOST-FAVOURED-NATION APPLIED TARIFFS, BY PRODUCT GROUP, 2009 [a]

(Percentages)

	All products	Animal products	Milk products	Fruits, vegetables and plants	Coffee and tea	Cereals and cereal preparations	Vegetable oils and fats	Sugars and confectionery	Beverages and tobacco	Cotton	Other agricultural produce	Fish and fish products	Minerals and metals	Oil	Chemical products	Wood, paper, etc.	Textiles	Clothing	Leather, footwear, etc.	Non-electrical machinery	Electrical machinery	Transport equipment	Other manufactures
China	9.6	14.8	12.0	14.8	14.7	24.2	10.9	27.4	22.9	15.2	11.5	10.7	7.4	4.4	6.6	4.4	9.6	16.0	13.4	7.8	8.0	11.5	11.9
India	12.9	33.1	33.7	30.4	56.3	32.2	18.2	34.4	70.8	12.0	21.7	29.8	7.5	3.8	7.9	9.1	13.6	16.1	10.2	7.3	7.2	20.7	8.9
Indonesia	6.8	4.4	5.5	5.9	8.3	5.8	3.9	8.0	51.8	4.0	4.3	5.8	6.4	0.3	5.2	5.0	9.3	14.4	9.0	2.3	5.8	10.6	6.9
Japan	4.9	12.3	147.5	12.2	15.6	60.8	10.6	23.5	14.2	0.0	5.7	5.5	1.0	0.6	2.2	0.8	5.5	9.2	9.7	0.0	0.2	0.0	1.2
Malaysia	8.4	3.9	2.3	3.6	5.7	4.5	1.8	2.5	155.2	0.0	0.6	1.2	11.2	0.7	2.9	10.1	10.3	15.9	13.9	3.6	4.3	11.6	4.8
Philippines	6.3	21.0	3.9	9.8	15.7	10.9	5.6	16.0	8.2	2.6	3.4	8.1	4.9	2.9	3.8	6.6	9.1	14.9	6.6	2.3	4.0	9.1	4.9
Republic of Korea	12.1	22.1	67.5	57.7	53.9	134.5	37.5	17.1	31.7	0.0	16.1	16.0	4.6	4.1	5.7	2.2	9.1	12.6	7.8	6.0	6.2	5.5	6.7
Singapore	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taiwan Province of China	6.1	16.7	15.5	20.5	8.5	31.8	18.4	16.1	16.0	0.0	3.3	18.6	2.8	2.6	2.8	0.4	7.4	11.7	5.2	3.1	4.0	8.4	3.3
Thailand	9.9	28.7	24.8	30.5	28.3	18.1	10.0	22.3	41.9	0.0	9.4	11.7	6.0	6.0	3.1	6.9	8.0	29.8	12.4	4.1	7.5	20.3	10.2
Viet Nam	10.9	14.6	12.8	24.4	29.8	21.6	8.6	15.8	50.0	6.0	6.8	25.7	8.6	13.5	4.2	13.5	10.0	19.7	15.4	4.0	10.9	18.9	12.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), *World Tariff Profiles 2010*.
Note: Pink shading indicates that the tariff is between 10% and 19.9%, green, that it is between 20% and 49.9%, and yellow, that the tariff is 50% or more.
[a] Simple averages.

Table II.24
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES AND GROUPS): PREFERENTIAL TRADE AGREEMENTS WITH ASIA-PACIFIC COUNTRIES, AUGUST 2011

Country	Agreements in force	Agreements signed	Agreements being negotiated
Chile [a]	Australia, Republic of Korea, China, India, Japan, TPP [b]	Malaysia	Viet Nam, [c] Thailand
Colombia			Republic of Korea
Costa Rica	China	Singapore	
El Salvador	Taiwan Province of China		
Guatemala	Taiwan Province of China		
Honduras	Taiwan Province of China		
MERCOSUR	India		
Mexico [a]	Japan		
Nicaragua	Taiwan Province of China		
Panama	Taiwan Province of China, Singapore		
Peru [a]	China, Singapore, Republic of Korea	Thailand, Japan	TPP [b]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Organization of American States (OAS), Foreign Trade Information System [online] www,sice,oas,org
[a] Member of the Asia-Pacific Economic Cooperation (APEC) forum.
[b] Trans-Pacific Partnership. The members are Brunei Darussalem, Chile, New Zealand and Singapore.
[c] Negotiations successfully concluded in June 2011.

4. Conclusions and recommendations

China is emerging from the crisis with a stronger production, technology and finance base, and with closer ties with the Asia-Pacific economies. Recent estimates suggest that its gross domestic product, measured in terms of purchasing power parity, will surpass that of the United States in 2016, making it the world's largest economy.[8] This trend coincides with a considerable strengthening of China's trade links with emerging and developing economies. The severe impact of the world crisis on industrialized economies and China's remarkable resilience, coupled with its closer ties with developing economies, explain the current two-speed recovery of the global economy.

Asia-Pacific is the most dynamic region in the world economy, and Latin American and Caribbean countries should strive to forge a new relationship with it. Given the risks and uncertainties inherent in the world economy in the current post-crisis period, the countries of the region should redouble their efforts to identify and seize the opportunities afforded by greater integration with the Asia-Pacific countries. These efforts will be more fruitful if the region adopts a coordinated approach, since, by taking advantage of synergies, economies of scale and combined political will, it will be able to aspire to more ambitious trade and investment goals.

Current economic and trade conditions are highly favourable for pursuing a new kind of relationship between the two regions. Indeed, the favourable growth outlook in both regions offers a unique opportunity to lay the foundations for a new era in trade and investment relations. To that end, the region can and should seek to (i) diversify its exports to the Asia-Pacific countries; (ii) create interregional trade partnerships; (iii) increase mutual investment, emphasizing infrastructure in Latin America and the Caribbean and the introduction of the region's products into Asian value chains; (iv) significantly increase cooperation with regard to innovation, technology businesses and human capital; and (e) establish forums for high-level dialogue between the region's governments and those of the region's

[8] International Monetary Fund (IMF), World Economic Outlook Database, April 2011 [online] http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx (date of reference 4 July 2011).

principal Asia-Pacific trading partners. Such forums already exist for dialogue with the European Union and the United States, but not with China.

Against this backdrop, it is especially important to strengthen the Forum for East Asia – Latin America Cooperation (FEALAC). Set up in 1999, the Forum brings together 18 Latin American countries and 16 Asia-Pacific countries, including all the region's main trading partners, except India. Its main objective is to promote closer economic, political and cooperation ties between the two regions. Five ministerial meetings have been held for that purpose since 2001, the most recent in Argentina in August 2011.

In addition to maintaining a dialogue with the Asia-Pacific region as a whole, Latin America and the Caribbean should establish individual strategies for some Asia-Pacific countries, given the dissimilarities among them. Because of those differences, and the varying levels of interest in and importance of relations between the Asia-Pacific countries and Latin America and the Caribbean, individual dialogues and activities should be organized, at least with four key players: China, Japan, the Republic of Korea and ASEAN.

Appropriate action needs to be taken to address concerns about and defensive attitudes towards China's industrial exports in the region. The Latin American iron and steel industry, for example, has expressed great concern over the market penetration rate of Chinese imports in that sector, which, according to the Latin American Iron and Steel Institute (ILAFA), climbed from 3% in 2005 to almost 30% in 2010.[9] Loss of market position within the region is not the only concern; there is also the threat of displacement in third markets. In this area and in other manufacturing industries, Chinese and Latin American producers perhaps need to adopt a more coordinated, medium-term perspective, focusing on complementarities and opportunities for cooperation. In the absence of such dialogue, trade conflicts are likely to continue, prompting new dumping accusations and giving rise to non-tariff barriers.

The huge excess savings of China and other Asia-Pacific countries make them superb potential investors in Latin America and the Caribbean. The Asia-Pacific countries, especially China, have money available that could provide additional funding for important infrastructure, energy, transport and logistics projects in the region. Given the low interest and growth rates projected for industrialized economies over the next five years, the prospects for profitable projects in growing economies may generate keen interest in Latin America and the Caribbean on the part of Asia-Pacific investors.

In this context, the governments of the region should consider assembling a joint portfolio of investment projects designed to attract funding from Chinese banks and companies and the Chinese government. Investment by China in infrastructure and energy projects would not only strengthen its economic relations with the region, but would also generate positive externalities for the process of Latin American regional integration. Infrastructure projects developed within the framework of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Meso-America Project would be natural candidates for such investment.

Efforts to strengthen economic relations with Asia should not focus only on trade and investment; they should also seek to foster cooperation. The region can learn a great deal from Asia and would benefit from closer interregional cooperation. The integrated three-prong approach taken by Japan, incorporating trade, investment and cooperation, offers a particularly good model. The region should seek to emulate this comprehensive approach in its relations with other Asian counterparts.

The time is right for the Latin American and Caribbean countries to come together and set regional priorities for their relations with the Asian countries, proposing a mutually beneficial strategic partnership. What is needed most urgently is for the region's governments to take steps to establish a regional agenda for trade, investment, infrastructure, logistics, tourism and technology exchanges that will lead to closer strategic ties with the Asian countries, enabling Latin America and the Caribbean to take advantage of the buoyancy of the Asian economies in order to generate a pattern of growth that is not only strong and stable, but that will be more sustainable, with greater social impact and more support for innovation. China, for its part, could make good use of its vast international reserves by supporting such investments and by capitalizing on its presence in regional multilateral banks to encourage projects aimed at modernizing the production methods and technology and enhancing the export capacity of small and medium-sized enterprises in Latin American and the Caribbean. It could also foster a more active exchange between universities and technology centres, and a closer dialogue between business organizations, in order to explore and promote mutually advantageous agendas that will help forestall potential trade disputes through dialogue and shared benefits.

[9] See [online] http://www.ilafa.org/noticias/Paginas/ImportacionesSider%C3%BArgicasRegionales.aspx (date of reference 13 June 2011).

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Chapter III

Challenges for Latin America and the Caribbean in achieving better integration with the world economy

A. Introduction

This chapter describes some of the main challenges that the transformation process under way in the world economy poses to the economic integration efforts of Latin America and the Caribbean. Following the introduction, section B summarizes the changes that have the greatest influence on the region's international integration in the future, while section C briefly reviews the main assets that the region can use to tackle those transformations. Section D examines the region's trade integration performance based on different variables, including current and potential share of intraregional trade in the region's total trade, intraregional share in the region's manufacturing exports, and the effect on intraregional commerce of the trade in parts and components (widely used as an indicator of the presence of value chains). That section also gives an overview of the main arguments why strengthening integration is vital to improve the region's international standing. Section E presents some policy guidelines in that vein, while section F provides some conclusions.

B. The international context

The Latin American and Caribbean region is both a witness and a protagonist in the changing world economy, as the economic centre of gravity moves towards what are known as emerging countries. As described in chapter I, in recent years emerging countries have become more important, not only in terms of world output, but also in trade and foreign direct investment (FDI) flows, in international reserve holdings and even in new patents. Thus for the first time in 2010, emerging and transition economies received over half of total foreign direct investment flows. These countries were also the source of 29% of FDI flows, their largest share ever. The bulk of FDI originating in developing countries went to other developing countries (UNCTAD, 2011). If current trends continue, emerging economies will be responsible for half of world output and exports by the end of this decade.

The international governance structure represented by the Bretton Woods institutions appears ill-equipped to tackle these major changes. As emerging economies have grown in importance, international governance forums have been forced to reflect this reality. This process has been challenging. This can be seen in the difficulties during discussions to reform international financial institutions and the Doha Round negotiations of the World Trade Organization (WTO). More recently established bodies, such as the Group of Twenty and the BRIC Group (Brazil, Russian Federation, India and China), which seek more decision-making power for emerging countries in major international debates, are not yet in a position to take a leading role. They do, however, have the necessary clout to negotiate with industrialized economies. These opportunities are unprecedented, and they should be encouraged so that developing economies can combine growth and equality with international integration.

This shifting centre of gravity in the world economy is being led by Asia-Pacific, which highlights that region's growing importance for Latin America and the Caribbean. This importance is attributable not only to Asia-Pacific's rapid economic growth (see chapter I), but also to its large and growing population. Indeed, Asia now represents 60% of the world population. Although this proportion is expected to decline gradually over the next four decades (mainly as a result of slower population growth in China), there is still a contrast with the expected standstill in population figures in the European Union (see table III.1). The expected surge in Asian middle classes over the next few decades (see chapter I) offers a major opportunity for the Latin American and Caribbean exporters. The consumer patterns of the middle classes usually reflect a demand for differentiated services, which could create openings in areas such as agroindustry or niche tourism.

This suggests that, over the next few decades, the quality of the region's international economic integration will be strongly determined by its links with other emerging economies. The main channel for these links today is the region's trade with other developing countries (South-South trade). Another channel that has been gaining in importance is investment, both in terms of inflows of Asian capital including FDI and in terms of outward investments made by the region's companies (especially trans-Latins) in Asia and other emerging regions. There is also considerable scope for developing partnerships between Latin American and Caribbean companies and those of other emerging regions in the form of a variety of production arrangements that are becoming increasingly common in the context of global value chains. Examples include contract manufacturing, services outsourcing, contract farming, franchises and licensing. Such forms of transborder activity have greatly increased in recent years, and this is particularly significant in developing countries (UNCTAD, 2011).

As far as trade is concerned, developing economies have become an increasingly important destination for the region's exports. Over the past 10 years, the share of industrialized economies in the Latin American and Caribbean region's exports fell from 76% to 61%, while the share of developing economies rose from 24% to 39%. This trend is even sharper if Mexico —which sends over 80% of its exports to the United States— is not included. In that case, over half the region's exports go to developing economies (see table III.2).

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

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, World Population Prospects, revision 2010.
[a] Includes Brunei Darussalam, Cambodia, Philippines, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand, Timor-Leste and Viet Nam.

Table III.2
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY MAJOR DESTINATIONS, 2000-2002 AND 2008-2010
(Percentages of each country's and/or subregion's total exports) [a]

	2000-2002				2008-2010			
		Developing economies				Developing economies		
	Industrialized economies	Latin America and the Caribbean	Other developing economies	Total	Industrialized economies	Latin America and the Caribbean	Other developing economies	Total
Latin America and the Caribbean	76.2	16.5	7.3	23.8	60.6	20.6	18.9	39.4
Latin America and the Caribbean (excluding Mexico)	59.1	28.2	12.8	40.9	46.2	27.2	26.6	53.8
South America	57.9	28.3	13.8	42.1	44.9	25.7	29.4	55.1
Andean countries	68.9	25.8	5.3	31.1	61.2	22.3	16.5	38.8
Bolivia (Plurinational State of)	44.1	54.3	1.6	55.9	25.7	64.9	9.4	74.3
Colombia	64.9	32.5	2.6	35.1	59.2	28.7	12.1	40.8
Ecuador	57.9	30.9	11.2	42.1	61.2	26.4	12.4	38.8
Peru	66.9	18.3	14.8	33.1	58.1	18.2	23.7	41.9
Venezuela (Bolivarian Republic of)	75.3	21.9	2.8	24.7	67.2	15.6	17.1	32.8
Chile	60.2	22.7	17.1	39.8	48.4	16.2	35.4	51.6
Southern Common Market (MERCOSUR)	50.9	31.0	18.1	49.1	34.7	29.7	35.5	65.3
Argentina	33.7	46.4	19.9	66.3	28.0	41.8	30.1	72.0
Brazil	60.0	22.6	17.5	40.0	37.9	24.1	38.0	62.1
Paraguay	19.6	73.8	6.6	80.4	13.1	72.0	14.9	86.9
Uruguay	32.5	50.3	17.1	67.5	23.1	47.4	29.6	76.9
Central American Common Market (CACM)	59.1	35.1	5.8	40.9	55.3	37.3	7.4	44.7
Costa Rica	72.0	22.0	6.0	28.0	58.5	28.8	12.7	41.5
El Salvador	30.2	66.6	3.2	69.8	53.7	44.5	1.9	46.3
Guatemala	45.5	45.4	9.1	54.5	46.9	45.2	7.9	53.1
Honduras	65.0	33.1	1.9	35.0	61.4	35.2	3.4	38.6
Nicaragua	54.9	41.5	3.7	45.1	65.2	32.6	2.2	34.8
Mexico	95.1	3.6	1.3	4.9	89.0	7.5	3.5	11.0
Panama	71.4	25.5	3.1	28.6	23.3	75.1	1.6	76.7
Cuba	58.7	9.7	31.6	41.3	...	...	...	...
Dominican Republic	92.4	6.3	1.3	7.6	73.8	21.4	4.8	26.2
Caribbean Community (CARICOM)	70.3	27.8	2.0	29.7	73.1	23.9	3.0	26.9

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

The developing economies are increasingly important export markets for almost all subregions and countries within Latin America and the Caribbean, but there are substantial differences. The members of the Southern Common Market (MERCOSUR) rely much more on emerging economies as export markets —for two thirds of their total exports on average— than the Central American and Andean countries, Mexico and the Caribbean. This again points to the region's two distinct export patterns. On the one hand, Mexico, Central America (except Costa Rica), the Caribbean (except Cuba) and a few Andean countries retain close links to the United States market. On the other hand, most South American economies that export natural resources have gradually shifted their sales to China and the rest of Asia (see chapter II).

Along with the growing weight of emerging countries, other hallmarks of the world economy in the next few years will be the structuring of production into value chains,[1] intensive technological change and the need to move to lower-carbon production patterns. These three elements will shape an international context in which competitiveness is increasingly dependent on countries' capacities to absorb new techno-economic paradigms that embed more knowledge into goods, services and production processes. In addition to offering considerable opportunities, this new international framework requires the region's countries to make major efforts to generate and absorb technology, as well as develop human resources (ECLAC, 2010a).

C. The region's assets

The recent global financial crisis showcased the increased robustness of macroeconomic policies in Latin America and the Caribbean. Although the region's output, employment and social indicators were not spared the negative impacts of the crisis, they proved more resilient than in previous episodes (when smaller shocks caused worse economic and social consequences). The region's unprecedented resilience in coping with the crisis is a reflection of the economic capacities built up during the favourable international economic cycle and the implementation of good macroeconomic management practices, including fiscal responsibility, control over inflation and external accounts, and maintaining an appropriate level of international reserves. These were the strengths that, for the first time and unlike in previous episodes, enabled the region not only to avoid crises related to exchange rates, finances and the balance of payments , but also to adopt countercyclical measures to reduce the impact on employment and social conditions in the case of most countries. As a result, regional GDP has experienced a dramatic upturn, with growth of 5.9% in 2010 and projected growth of 4.4% in 2011 (ECLAC, 2011b).

Improved social indicators and the growth of the middle class in recent years have helped to increase the strategic value of the Latin American and Caribbean market. The region's solid growth performance over most of the last decade went hand in hand with a steady rise in per capita income between 2003 and 2008 (climbing again from 2010 onwards). And, in step with the upturn in the regional economy since 2010, the considerable progress made in reducing poverty and unemployment during the favourable 2003-2008 cycle (poverty down from 44% to 33%, and unemployment down from 11% to 7.4%) has resumed. The projected fall in regional unemployment to pre-crisis levels in 2011, and the increase in formal wage employment as a proportion of total employment in several countries, should lead to further poverty reduction (ECLAC, 2011b). The backdrop to all of the above is the expansion of the middle classes in Latin America over the past two decades. Between 1990 and 2007, the number of middle-class households increased by 56 million in the ten Latin American countries that represent 80% of the region's population, bringing the total number of such households to 128 million (Franco, Hopenhayn and León, 2011). This widening of the consumer market increases the region's attractiveness as a trading partner and destination for foreign investment.

The region's abundance of natural resources is another strategic asset. The Latin American and Caribbean region is a major global agricultural producer, particularly for soybean (with the region accounting for almost half of

[1] See chapter I and WTO and IDE-JETRO (2011).

worldwide production), beef (generating nearly a third of production) and milk (accounting for just under a quarter of production) (see table III.3.A). The situation is similar for mineral production. The region is responsible for over 45% of world copper production, and more than 20% of global production of molybdenum, zinc and tin (see table III.3.B). In terms of energy, the region represents 40% of world biofuels production (see table III.3.C).

Table III.3
WORLD DISTRIBUTION OF THE PRODUCTION OF SELECTED RESOURCES, 2007-2009 AVERAGES

A. Crop and livestock products
(Percentages of world total and millions of tons)

	Fruit and vegetables	Maize	Rice	Soybean	Wheat	Beef	Milk
	(percentages)						
Latin America and the Caribbean	11.9	16.5	4.0	48.1	4.2	31.1	23.1
European Union	8.4	7.0	0.4	0.3	20.7	2.0	1.6
Asia-Pacific	5.9	4.3	28.2	0.7	2.9	7.1	4.1
United States and Canada	4.5	41.2	1.4	37.9	13.1	17.3	23.4
Rest of world	69.3	31.1	66.0	13.0	59.1	42.5	47.8
Total *(millions of tons)*	4 515.4	2 432.8	2 021.4	672.4	1 977.9	830.2	2 069.9

B. Minerals
(Percentages of world total and millions of tons)

	Copper	Aluminium	Lead	Zinc	Nickel	Tin	Molybdenum
	(percentages)						
Latin America and the Caribbean	46.7	6.7	14.9	22.8	12.2	21.2	27.8
European Union	9.9	9.6	4.9	7.0	1.9	0.0	0.2
Asia-Pacific	18.2	43.6	59.9	47.3	38.6	73.2	37.5
United States and Canada	11.4	14.1	12.9	12.6	14.7	0.0	28.0
Rest of world	13.7	26.0	7.3	10.3	32.6	5.6	6.5
Total *(millions of tons)*	47.0	115.0	11.6	34.2	4.4	1.0	0.7

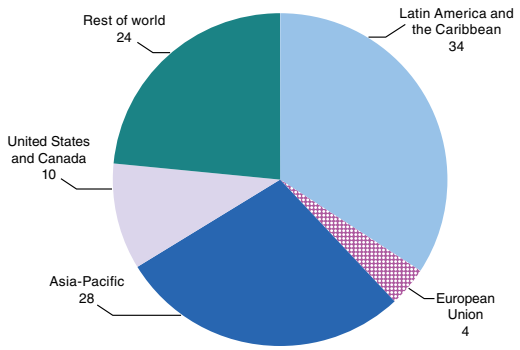
C. Energy
(Percentages of world total)

	Oil [a]		Gas [b]		Ethanol [c]	Electricity generation [d]	Energy consumption [c]
	Production	Consumption	Production	Consumption	Production		
	(percentages)						
Latin America and the Caribbean	12.7	8.7	7.0	6.9	40.3	6.6	3.1
European Union	2.7	17.6	6.1	16.1	3.8	16.4	7.3
Asia-Pacific	9.9	30.4	14.0	16.1	4.0	36.2	17.2
United States and Canada	12.1	25.2	24.8	25.3	51.6	24.5	11.3
Rest of world	62.5	18.1	48.2	35.6	0.0	16.4	61.0
Total *(units)*	11 656.6	11 811.5	9 002.4	8 888.3	101.0	60 337.6	69 326.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), FAOSTAT database [online] http://faostat.fao.org/default.aspx; World Metal Statistics (WBMS) and British Petroleum, Statistical Review of World Energy 2010.
[a] Measured in millions of tons.
[b] Measured in billions of cubic metres.
[c] Measured in tons of oil equivalent.
[d] Measured in terawatt hours.

The Latin American and Caribbean region has the world's largest freshwater reserves. The region hosts one third of the planet's entire water reserves (see figure III.1). This is a massively important asset, given the increasingly strategic nature of water. Indeed, water is as essential for socioeconomic development as it is for ecosystem conservation. However, the world as a whole (and many water basins in the region) is showing signs of relative water scarcity, such as environmental degradation, pollution, aquifer depletion, unsustainable usage and problematic allocation. One in every three people in the world is facing a water shortage (Comprehensive Assessment of Water Management in Agriculture, 2007). Projected world population growth will probably exacerbate this situation in the decades to come.

Figure III.1
WATER RESERVES BY REGION, 2007
(Percentages of the world total)



Source: World Resources Institute (2007), EarthTrends: Environmental information, [online] http://earthtrends.wri.org.

Along with sub-Saharan Africa, Latin America and the Caribbean is the region with the greatest potential to expand crop-growing areas. The region is thought to have around 885 million hectares that could be brought under crop production, which represents a third of worldwide availability (see table III.4). As with water, this represents a strategic advantage. Indeed, given projections for world population growth, by 2050 it is estimated that annual cereal production will have to increase by 1.0 billion additional tonnes, and beef production by 200 million tons (Campbell, 2011).

Table III.4
AVAILABILITY OF ARABLE LAND BY REGION
(Thousands of hectares and percentages)

Region	Potential arable area *(thousands of hectares)*	Arable area in use in 1994 *(thousands of hectares)*	Arable area available *(thousands of hectares)*	Arable area in use *(percentages)*
Asia-Pacific	777 935	477 706	300 229	61.4
Europe	384 220	213 791	170 429	55.6
Africa and Middle East	49 632	71 580	-21 948	144.2
North America	479 632	233 276	246 356	48.6
North Asia, East of the Urals	297 746	175 540	122 206	59.0
South and Central America	1 028 473	143 352	885 121	13.9
Sub-Saharan Africa	1 109 851	157 608	952 243	14.2
World	4 127 489	1 472 853	2 654 636	35.7

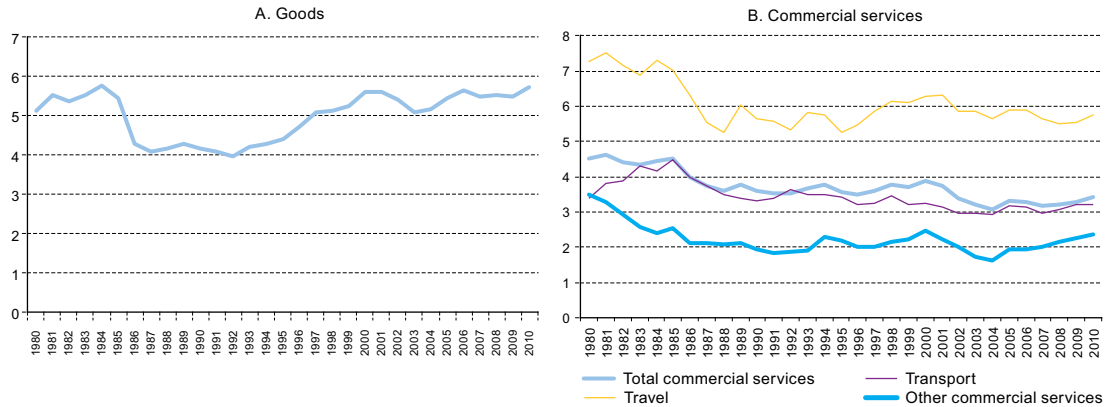
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Food and Agriculture Organization (FAO), TERRASTAT database [online] http://www.fao.org/ag/agl/agll/terrastat/#terrastatdb, consulted on 15 July 2011.

D. Integration and the region's challenges in developing its international linkages

The Latin America and the Caribbean region has failed to significantly increase its share in global merchandise exports over the past three decades. Its share merely edged up from 5.1% in 1980 to 5.7% in 2010. Despite the high prices recorded between 2003 and 2008 for many of the region's commodity exports, its share of world goods exports was practically the same at the beginning of this decade as at the end of the last (see figure III.2a). This represents a slack performance in terms of export volume (see ECLAC, 2009, chapter II). In any event, this stagnation was largely determined by the sluggish performance of Mexican exports: while this country's share in world merchandise exports fell from 2.6% in 2000 to 2% in 2010, the rest of the region's share rose from 3% to 3.8% in the same period. This pattern was strongly influenced by the growth of South American exports of natural resources to Asia, again confirming the existence of two different patterns in the region, one complementing and one competing with Asia.

Also in the past three decades, the region's share in global service exports has slipped from 4.5% in 1980 to 3.4% in 2010. Of even greater concern is the region's small share in "Other business services", the fastest-growing export category worldwide during the past decade (see figure III.2b). This category includes the most technology- and knowledge-intensive activities, such as engineering, architecture, design, information technology, and legal and accounting services. The region's lag in producing and exporting these services has direct and indirect effects on its merchandise export performance and on its international competitiveness in general. This is because production support services (such as financial, telecommunications and professional services) are key to the manufacturing process, as well as representing a significant proportion of the final price of finished manufactures.

Figure III.2
LATIN AMERICA AND THE CARIBBEAN: SHARE IN WORLD EXPORTS OF GOODS AND TRADE SERVICES, 1980-2010
(Percentages)



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

In an international context characterized by the growing participation of emerging economies in world exports, the region's performance appears rather sluggish. Over the past decade, the volume of the region's merchandise exports and the value of its service exports grew more slowly than the respective world averages (2.1% versus 3.4%, and 7.3% versus 9.3%, respectively). Only the value of merchandise exports in the region came close to the world average (7.4% versus 7.6%), thanks to high raw material prices during much of the past decade (see ECLAC, 2009, chapter III). These are all worrying facts because achieving sustained high growth rates will require the region's countries (especially small and medium-sized ones) to continue basing growth on export development.

Although there are considerable differences across the subregions as regards export orientation, a problem they all share is the lack of value added and embedded knowledge and technology. South American countries specialize mainly in exporting primary products and processed primary products, which has been reinforced by strong demand from Asia (particularly China). Central American countries and Mexico have deepened their specialization in exports of garment and some electronic and electrical items (and automotive industry outputs in the case of Mexico). Many of these exports come from maquila operations or free zones, and mainly take the form of assembly activities. Lastly, Caribbean countries have increased their specialization in services, particularly tourism, financial, back-office and call-centre services.

The common denominator in all three patterns is specialization based on static competitive advantages, such as abundant natural resources or unskilled labour, and the lack of value added or knowledge creation for the final products and production processes. Irrespective of the category, the region's export products have become commodities with unstable prices that are sensitive to economic conditions in developed countries. Furthermore, they are very import-intensive (particularly those based on assembly operations), which affects the trade balance and hinders the building of linkages with the rest of the production system.

The emergence of global value chains and the growing importance of innovation in international production and trade are forcing the region to take new steps to integrate into the world economy. Since the 1980s, the region's countries have made huge efforts to open their markets and reduce anti-export bias, first by means of unilateral liberalization and then through trade agreements. Nevertheless, openness and liberalization have been necessary but not sufficient conditions for increased

trade to translate into sustained economic growth. The current international economic climate requires the region by go further by making simultaneous progress in three interrelated areas: (i) from trade openness and export orientation to business globalization strategies; (ii) from interindustry integration in international trade to insertion in global value chains (or in high-technology or specialized service niches, especially for small countries); and (iii) from competitiveness based on purely national efforts to a competitiveness with a growing number of public-private partnerships and regional cooperation elements.

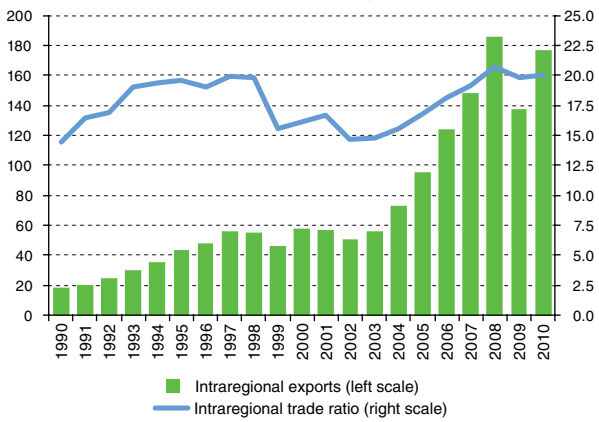
The above poses a twofold challenge. The first is to find a strategic vision that links policies on export promotion and diversification, innovation and technological dissemination, FDI attraction and human resource training. The second is to promote public-private partnerships to define common aims and work together to achieve them, thus emulating (while adapting to the various national situations) the experiences of many countries in Europe, Asia and Oceania that have successfully integrated into the world economy (Devlin and Moguillansky, 2010).

Regional integration processes must take up these new challenges. Failure to do so would leave them at risk of being increasingly passed over by private economic agents and even national governments themselves. In this record, there are many reasons why the regional market is essential for improving the international integration of Latin America and the Caribbean and moving towards changing production patterns with equity. Intraregional trade: (i) contributes to production diversification and, being more manufacturing-intensive, provides greater value added and knowledge content than trade with the rest of the world; (ii) is more friendly towards small and medium-sized enterprises (SMEs) —and therefore more employment-friendly; (iii) is closely linked to intraregional service trade and investment flows; and (iv) generates economies of scale and learning, which makes it a potential platform for tackling more demanding markets (ECLAC, 1994).

In addition to these conventional reasons for integration, there is also the fact that in today's globalized economy, competitiveness increasingly involves regional elements. In fact, competitiveness includes aspects such as adequate infrastructure, efficient transport systems, telecommunications connectivity and simple and streamlined customs procedures. In all these areas, coordinated action among governments would be more fruitful than isolated national efforts.[2] Far-reaching integration can thus provide regional public goods that neither markets nor national governments alone can provide successfully. For instance, the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Meso-America Project are institutional arrangements that aim to coordinate national efforts to develop a good regional physical infrastructure. In addition, national specificities tend to become diluted in the face of major global economic trends. The region's economies (with the exception of Brazil and Mexico) are not big enough to be attractive by themselves unless they form part of a regional bloc.

Intraregional trade within Latin America and the Caribbean remains limited compared with other regions. Over the past two decades, intraregional exports have increased tenfold. Throughout this period, however, the share of intraregional exports in the region's total exports has never exceeded 20% (see figure III.3). This percentage is lower only in sub-Saharan Africa, and is far from the 46% average for intraregional trade in East Asia and the Pacific between 2006 and 2009. It is only in the Central American Common Market that intrasubregional trade has represented a steady 25% of total exports over the past decade. At the other extreme are Andean Community countries, where the intrasubregional market has never represented more than 10% of total exports during the past 20 years (see figure III.4).

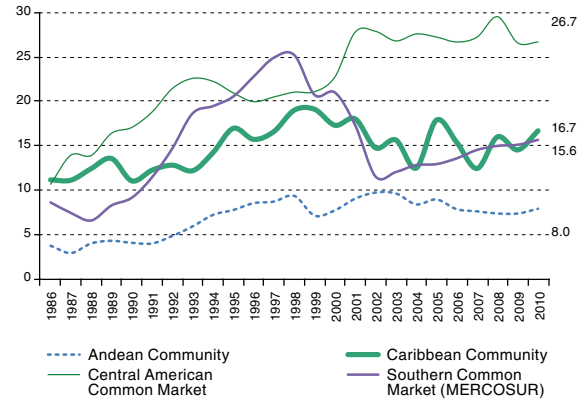
Figure III.3
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, 1990-2010
(Billions of dollars and percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), national statistical institutes and the International Monetary Fund (IMF), Direction of Trade Statistics (DOTS).

[2] For instance, the possibility of using free trade agreements with so-called "mega markets" (including the United States, the European Union and China) as an export platform for several neighbouring countries involves similar levels of infrastructure, logistics, customs facilities, quality control and other requirements. All of these rely competitiveness levels being similar in the participating economies.

Figure III.4
SUBREGIONAL INTEGRATION SCHEMES IN LATIN AMERICA AND THE CARIBBEAN: SHARE OF INTRASUBREGIONAL EXPORTS IN TOTAL EXPORTS, 1986-2010
(Percentages)



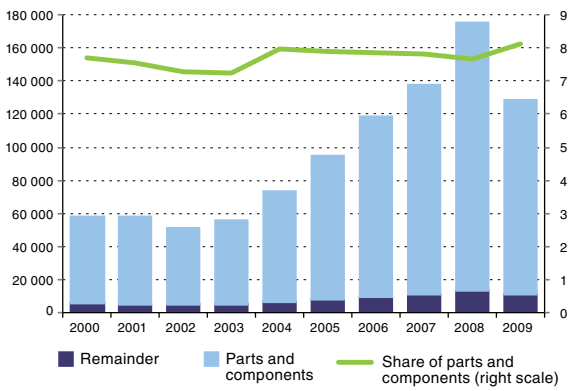
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the respective subregional integration schemes.

In contrast with East Asia and South-East Asia, intraregional trade in Latin America and the Caribbean remains dominated by trade in final goods. The rapid growth of Asian intraregional trade has been closely linked to the increasing geographical fragmentation of production along value chains, and has therefore been characterized by strong growth in trade in parts and components (see WTO and IDE-JETRO, 2011). On the other hand, the share of parts and components in the intraregional trade of Latin America and the Caribbean remained at a stable 7% to 8% during the past decade (see figure III.5).[3] This pattern places the region outside the arrangements for industrial organization that prevail worldwide, which shows there remain major challenges in achieving greater productive integration among Latin American and Caribbean economies.

Several studies have found that the various subregions of Latin America and the Caribbean, and the region as a whole, are not fully exploiting the potential offered by intraregional trade. Various estimates of potential intraregional and intrasubregional exports, based on historical flows and the structural characteristics of integration scheme members (including income levels, distance and degree of openness) reveal higher levels than those currently observed for all schemes (Durán and Lo Turco, 2010). These gaps are thought to be wider for MERCOSUR and the Andean Community (see figure III.6). There is also considerable scope for increasing the mutual trade flows of the region's countries with Mexico, given that a high proportion of this country's foreign trade is with the United States. Although the gap between actual and potential intraregional trade is probably around 20% for the region as a whole, alternative estimates based on gravity models incorporating a higher number of variables[4] point to a gap of closer to 30% (IDB, ECLAC and World Bank, 2011). In terms of export structure, there is greater potential to expand intraregional trade in medium- to high-technology manufactures and natural resources (see figure III.7).

The regional market has a strategic value, given both its significant share as a destination for Latin American and Caribbean manufacturing exports and its growing middle class. Over half of the manufacturing exports (not based on natural resources) of 14 Latin American and Caribbean countries go to other countries within the region. In fact, if Mexico is excluded, 52% of the region's manufacturing exports go to other countries in the region itself (see table III.5). The region itself is also the main export market for SMEs in Latin America and Caribbean (ECLAC, 2009, chapter III). The regional market today is clearly the most important for high-value-added and knowledge- and labour-intensive exports. As such, these exports are the most conducive to inclusive and environmentally sustainable development based on dynamic competitive advantages (as opposed to the region's traditional static comparative advantages associated with its abundant natural resources and low-cost labour). The regional market is even more attractive given the surge in its middle classes over the past 20 years.

Figure III.5
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS OF PARTS AND COMPONENTS, 2000-2009 [a]
(Millions of dollars and percentages of total intraregional exports)

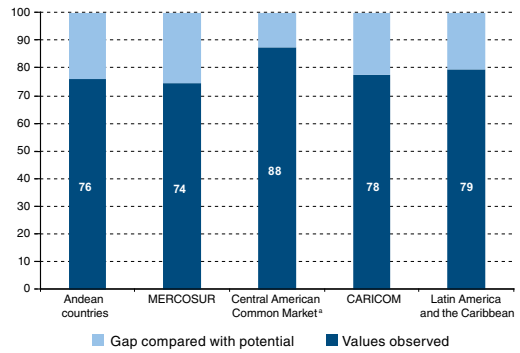


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Refers to subcategories 42 and 53 of the Classification by Broad Economic Categories. Does not include Antigua and Barbuda, Cuba or Haiti. Figures for 2007 do not include the Bolivarian Republic of Venezuela, those for 2008 do not include Honduras, and those for 2009 do not include Dominica, Grenada, Saint Kitts and Nevis or Saint Lucia.

[3] The definition of parts and components includes machinery, transport equipment and electronics. It does not therefore reflect the production integration that may exist among countries in other sectors such as agroindustry or the chemical industry.

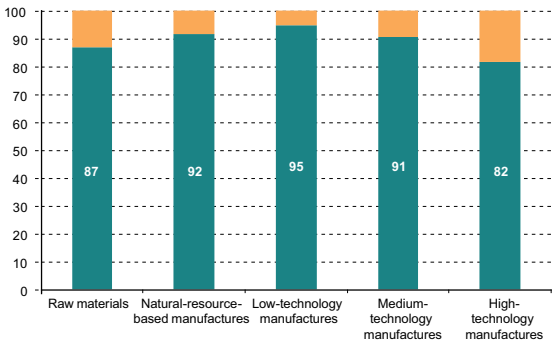
[4] In these estimates, the gap is the difference between actual exports and those predicted in an "optimum scenario", which assumes: (a) the conclusion of a network of free trade agreements linking countries within the region and also the region with the United States and Canada; and (b) that all the region's countries achieve the per capita infrastructure endowment of the United States (IDB, ECLAC and World Bank, 2011).

Figure III.6
LATIN AMERICA AND THE CARIBBEAN AND SUBREGIONAL INTEGRATION SCHEMES: INTRAREGIONAL AND INTRASUBREGIONAL EXPORTS, 2008
(Percentages of potential intraregional and intrasubregional exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Durán and A. Lo Turco "El comercio intrarregional en América Latina: Patrón de especialización y potencial exportador", *Los impactos de la crisis internacional en América Latina: ¿Hay margen para el diseño de políticas regionales?*, M.I. Terra and J. Durán Lima (coords.), Red MERCOSUR series, No. 18, Montevideo, August 2010.

Figure III.7
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS BY TECHNOLOGY INTENSITY, 2008
(Percentages of potential intraregional exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Durán and A. Lo Turco "El comercio intrarregional en América Latina: Patrón de especialización y potencial exportador", *Los impactos de la crisis internacional en América Latina: ¿Hay margen para el diseño de políticas regionales?*, M.I. Terra and J. Durán Lima (coords.), Red MERCOSUR series, No. 18, Montevideo, August 2010.

Table III.5
LATIN AMERICA AND THE CARIBBEAN: SHARE OF SELECTED DESTINATIONS FOR MANUFACTURING EXPORTS, 2008-2010 AVERAGES [a]
(Percentages)

Country [b]	Latin America and the Caribbean	United States	European Union	Asia [c]	Rest of the world
Dominica	91.8	2.9	2.0	0.0	3.3
Ecuador	89.5	5.5	1.6	0.5	2.9
Saint Vincent and the Grenadines	80.4	9.7	6.4	0.1	3.4
Panama	77.7	17.7	0.5	2.1	2.0
Paraguay	76.9	3.1	9.0	4.0	7.0
Argentina	75.0	6.4	10.2	2.4	6.0
Colombia	70.1	11.7	6.7	5.4	6.2
Uruguay	66.4	3.6	11.2	6.2	12.6
Chile	64.5	9.4	10.8	7.0	8.4
Belize	61.0	36.6	1.6	0.5	0.3
Peru	59.6	28.2	7.6	1.7	2.8
Guatemala	55.5	40.0	2.0	0.5	2.0
Grenada	54.8	14.8	17.0	10.6	2.9
Honduras	54.7	42.3	1.0	0.7	1.3
Venezuela (Bolivarian Republic of)	47.5	20.3	17.4	5.9	8.9
Bolivia (Plurinational State of)	45.3	30.9	19.4	2.2	2.3
Brazil	44.8	15.6	18.1	6.8	14.7
Guyana	40.2	32.0	8.8	5.6	13.4
El Salvador	39.8	58.3	1.2	0.2	0.5
Barbados	37.0	33.8	13.4	1.4	14.4
Suriname	35.5	32.0	23.6	0.2	8.9
Nicaragua	33.2	54.0	7.8	0.7	4.3
Trinidad and Tobago	29.2	41.4	17.8	1.0	10.6
Costa Rica	26.4	37.9	10.4	18.7	6.6
Saint Lucia	26.3	64.5	3.4	0.7	5.1
Dominican Republic	19.3	68.3	7.2	2.4	2.8
Jamaica	14.5	67.8	7.6	4.4	5.6
Mexico	7.5	81.9	4.4	1.3	4.9
Bahamas	4.3	84.9	5.1	1.9	3.8
Saint Kitts and Nevis	1.7	96.1	0.7	0.4	1.2
Latin America and the Caribbean	24.1	58.5	7.6	2.9	6.9
Latin America and the Caribbean (not including Mexico)	51.9	19.6	12.8	5.6	10.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Includes low-, medium- and high-technology manufactures, but does not include natural-resource-based manufactures. For Argentina, Chile, Honduras, Bolivarian Republic of Venezuela, Trinidad and Tobago and Uruguay, the figures are from 2008-2009. For Belize, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Suriname, they are from 2008. For Honduras, the period is 2009-2010. Antigua and Barbuda, Cuba and Haiti were not included, as the information required was not available for those countries.
[b] In decreasing order of share of Latin America and the Caribbean in manufacturing exports.
[c] Includes China, Japan, Republic of Korea and Hong Kong Special Administrative Region of China.

In this context, it would be valuable to deepen economic integration in the regional sphere. For those countries (mainly South American ones) that have intensified their specialization in commodities in recent years, increased regional economic integration would balance growing Asian demand for such products by reducing exposure to commodity price volatility and helping to develop more sophisticated export categories. Greater integration would also help to open new niches for those countries (mainly Mexico and Central America) whose manufacturing exports are facing increasing Asian competition in their main traditional market, the United States.

The small percentage of intraregional trade in Latin America and the Caribbean is partly attributable to the natural-resource-based export pattern of many of its economies, but it also has to do with the lack of an integrated economic space. Despite significant progress, trade liberalization remains incomplete, both among subregions and within integration schemes. More specifically, there are non-tariff barriers that may be more restrictive than tariffs themselves, given their often opaque and discretional nature. Recent episodes of trade friction within the region show that much remains to be done in this regard. Furthermore, there is insufficient political will to move forward with the accumulation of origin agenda, and this limits the opportunities to creating regional value chains.

The development of value chains in the region is restricted not only by persistent obstacles to merchandise trade and limitations on cumulation of origin, but also by the uneven treatment of regulatory issues. The experiences of East Asia and Central and Eastern Europe appear to bear out the idea that functional value chains require a minimum level of regulatory harmonization among participating countries. In those regions, de facto (market-led) integration has been accompanied by formal integration (led by governments and represented by various trade agreements). Beyond trade preferences, the importance of these agreements lies in the fact that they usually involve a harmonization of national policies, rules and standards governing trade and investment among signatory countries.[5] This harmonization is considered particularly important for the proper functioning of value chains in areas such as treatment of foreign investment, technical rules, intellectual property protection and competition policy (WTO, 2011). This is known as the "deep integration" agenda, as opposed to "superficial integration", which consists simply of removing tariff and non-tariff barriers at borders. Formal trade agreements ultimately consolidate the results of de facto integration and promote further integration by fixing transparent and legally enforceable rules of play.

The pending agenda in the region is particularly important from the point of view of deep integration. Trade in services is lagging even behind merchandise trade with regard to liberalization (even within integration schemes). The progress made in defining common regimes has been insufficient in crucial areas such as treatment of foreign investment, public procurement and incentive policies. In these and other areas, there are major differences in the scope and depth of commitments made within the various schemes. Such shortcomings are magnified by the lack of credible mechanisms for settling trade disputes.

Frustration at these shortfalls and other factors have led some of countries to conclude free trade agreements with partners from outside the region, although these do not constitute a true alternative to regional integration. These agreements improve access to important markets but usually lack a broad development focus, and therefore do not guarantee increased international competitiveness. In particular, agreements with industrialized countries tend to contain provisions in aforementioned areas (including services, investment, government procurement, intellectual property, and environmental and labour measures) that may limit the public-policy autonomy of the region's countries. This is the case whenever such provisions impose stricter commitments than those laid down in agreements of the World Trade Organization (WTO) (Rosales and Sáez 2010), and are not necessarily appropriate for the level of institutional development or the development priorities of the region's countries. In the subregional or regional spheres, on the other hand, Latin American and Caribbean countries have greater autonomy to agree on appropriate levels of regulation in such matters. As noted earlier, integration is an obvious way to provide important regional public goods, which are generally missing from the agenda of agreements with partners outside the region.

[5] The clearest examples are the Association Agreements concluded between the European Union and Central and Eastern European countries in the 1990s, through which the latter gradually acquired the same corpus of regulations as the European Community. This made it possible to consolidate and intensify the de facto integration that had been under way since the fall of the Berlin Wall. This process led to most Central and Eastern European countries joining the European Union from 2004 onwards.

E. Some policy guidelines

Tapping the considerable potential offered by the regional market will require action on several fronts. Progress needs to be made in the regulatory dimension of integration, as well narrowing the physical infrastructure gaps that limit regional connectivity (and with it the possibility of balanced territorial development). This section introduces some policy guidelines to make better use of the potential of trade integration. These guidelines have formed part of ECLAC recommendations for several years (for instance ECLAC, 2009 and 2010a) and the international context facing the region today has made them that much more relevant.

1. Economic and trade integration

There is broad scope for generating synergy and increasing convergence among the various components of the region's economic integration architecture. First, it would be advisable to complete the network of preferential agreements among the region's economies, with the main missing links being those between Mexico and South America. Second, progress should be made towards greater convergence among the various preferential agreements in the region, so as to maximize synergies and minimize problems of fragmentation. The two aspects are dealt with separately below.

Given the size of the economies involved, the link between Mexico and MERCOSUR is the only element missing in the network of preferential trade links within the region. Except for the free trade agreement between Mexico and Uruguay that has been in force since 2004, the relationship remains regulated by partial scope agreements that basically deal with the automotive trade. This explains the importance of the decision by the Governments of Brazil and Mexico in November 2010 to open negotiations for a strategic economic integration agreement. If the agreement comes to fruition, it could energize the entire process of Latin American economic integration, acting as a catalyst for convergence between South America and Meso-America. The agreement could also help to reduce the strong dependence of Mexican exports on the United States market (ECLAC, 2010b). However, the negotiations have not yet opened. In any event, progress is continuing in new preferential links between Mexico and Central America, and between Mexico and South America, on the other. This was demonstrated by Peru's recent signing of free trade agreements with Mexico (in April 2011), Panama and Costa Rica (both in May 2011).

There are also new initiatives under way to achieve greater convergence among countries and integration schemes. First, Mexico and the Central American countries are moving forward with negotiations aimed at combining their three existing trade agreements into a single accord. Second, the official launch of the initiative known as the Pacific Alliance, which is aimed at forming a deep integration scheme encompassing Colombia, Chile, Mexico and Peru took place in April 2011(see box III.1).

As is already happening in Meso-America, South American countries should take up the agenda of economic and trade convergence in their subregion. Over several years, there have been technical proposals on the table for moving forward with this aim. For instance, in 2006 the Secretariats of MERCOSUR, the Andean Community and the Latin American Integration Association (LAIA) produced a series of proposals along these lines, in accordance with the mandate conferred on them in September 2005 by the Heads of State and Government of the then South American Community of Nations. This mandate referred back to the aim of gradually forming a South American free trade area (ECLAC, 2010a). These proposals include a wide range of issues,[6] providing a good technical basis to resume discussions on a possible trade convergence process within South America.

[6] These include tariffs, rules of origin, customs valuation, trade protection mechanisms, non-tariff measures, technical barriers to trade, sanitary and phytosanitary measures, trade in services, investment, intellectual property, competition policy, public procurement and dispute settlement.

Box III.1
PACIFIC ALLIANCE

The Pacific Alliance was created on 28 April 2011 by the Lima Declaration, which was signed by the Presidents of Chile, Colombia, Mexico and Peru (with Panama as an observer). Its main aim is to set up an area of deep integration to encourage regional integration, as well as to increase the growth, development and competitiveness of member economies. Gradual progress will therefore be made towards the free circulation of goods, services, capital and people among member countries. The Lima Declaration states that the Pacific Alliance is open to Latin American countries that share its goals, and that it aims to contribute to the consolidation of the Latin American Pacific Basin Initiative (of which all the Alliance's countries are members) as a space of discussion and a mechanism for approaching Asia-Pacific.

In the first stage, the work of the Pacific Alliance will be concentrated in the following areas: (i) movement of business workers and facilitation of migratory flows (including police cooperation); (ii) trade and integration, including trade facilitation and customs cooperation; (iii) services and capital, including the possibility of integrating stock markets; and (iv) cooperation and dispute-settlement mechanisms. This work will be handled by technical groups.

The Lima Declaration lays down the following mandates, on which progress will be assessed at a meeting in Mexico in December 2011:

- To formulate a draft framework agreement, in order to standardize existing free trade agreements among member countries, to be submitted to Presidents for their consideration in December.
- To drive processes of physical and electrical interconnection within existing bilateral and subregional working groups.
- To set up a high-level group to oversee the progress of technical groups, assess new areas of work and prepare a proposal for approaching and relating to other regional groups or agencies, especially in Asia-Pacific.

Source: Lima Declaration, April 2011.

A useful first step towards convergence and greater productive integration would be to allow cumulation of origin among the region's countries. Some of the economic complementarity agreements (ECA) concluded in the framework of LAIA already provide for cumulation for materials originating in non-member countries. This is particularly true of the ECAs between MERCOSUR and the Andean countries: ECA 36 between MERCOSUR and the Plurinational State of Bolivia, ECA 58 between MERCOSUR and Peru and ECA 59 between MERCOSUR and Colombia, Ecuador and the Bolivarian Republic of Venezuela. For instance, ECA 58 states that materials from Bolivarian Republic of Venezuela, Colombia, Ecuador and Plurinational State of Bolivia shall be treated as originating in MERCOSUR or Peru. The same applies to ECA 59 as regards materials from the Plurinational State of Bolivia and Peru. However, most of the other ECAs do not yet consider this possibility (see LAIA, 2011). This reduces the opportunity for developing regional and subregional value chains, thus limiting the possibilities for greater productive integration.

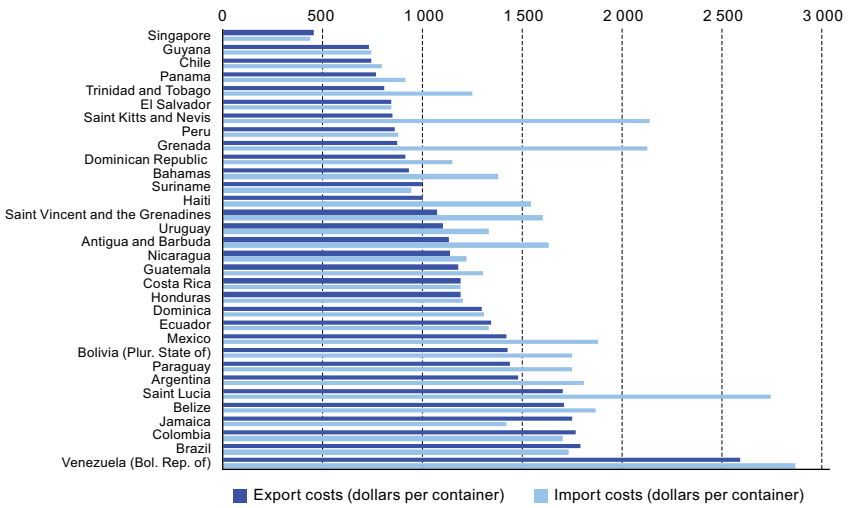
The region already has some multilateral initiatives under way to promote cumulation of origin. One initiative is the aforementioned negotiations between Mexico and Central American countries. Another has been ongoing since 2010 in the context of the Latin American Pacific Basin Initiative. In the latter case, efforts have been hampered by the fact that some member countries have not concluded free trade agreements with each other. As the number of non-preferential trade relations within the Latin American Pacific Basin Initiative comes down (for instance, with the entry into force of recent agreements between Peru and Costa Rica, Mexico and Panama), it should become easier to work towards broad cumulation of origin among the 11 members.

Another major challenge is to preserve as much as possible the tariff preferences and normative commitments between the Bolivarian Republic of Venezuela and member countries of the Andean Community. The trade preferences linking Bolivarian Republic of Venezuela, Colombia, Ecuador, Peru and Plurinational State of Bolivia expired in April 2011, five years after the latter withdrew from the Andean Community. In this context, bilateral negotiations have been held between each of the remaining members of the Andean Community and the Bolivarian Republic of Venezuela, with a view to concluding new productive and economic complementarity agreements that make it possible, inter alia, to preserve the tariff arrangements. The Bolivarian Republic of Venezuela has already concluded similar agreements separately with Plurinational State of Bolivia and Ecuador and is negotiating for accords with Colombia and Peru. Meanwhile, it has been agreed that Andean preferences will now remain in force until 22 October 2011.

2. Trade facilitation

Latin America and the Caribbean lags behind the world leaders in terms of costs associated with foreign trade operations. In most of the region's countries, the cost of exporting —and especially of importing— a container is several times higher than in Singapore, the world's most efficient economy (see figure III.8). This is due to various shortcomings, including transport infrastructure deficiencies, inefficient customs procedures and an insufficient supply of quality logistics services at internationally competitive prices.

Figure III.8
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES) AND SINGAPORE: AVERAGE EXPORT AND IMPORT COSTS, 2010
(Dollars per container)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *Doing Business 2011*.

In this context, trade facilitation should be understood as a broad concept that includes not only reduced red tape and shorter completion times for foreign trade, but also adequate availability of infrastructure for transport and logistics services. As a result, this involves gradually filling the wide infrastructure deficit in the region. That will require huge investment, which means that the resulting benefits will necessarily take a long time to mature (see section E.3). Notwithstanding, efficiency gains can be made in the shorter term and at a lower cost by further streamlining customs and other procedures that affect merchandise trade across national borders. Examples include reforms aimed at introducing one-stop windows for foreign trade and programmes for authorized economic operators.

The implementation of reforms such as those described falls mainly within the competence of national governments, including the strengthening of cooperation among various agencies (such as customs, health and migration services). However, the subregional or regional coordination of national efforts may create significant synergies in this area. One example of this is integrated border control and standardized procedures and formalities, which can all help to reduce overlap and cost, as well as facilitating the smoother movement of goods across borders.

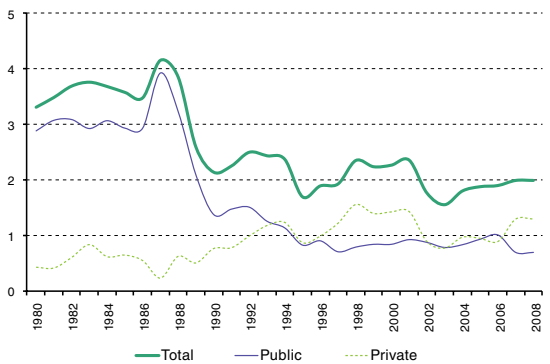
Certain recent experiences illustrate the potential of subregional cooperation for trade facilitation. Members of the Meso-America Project are gradually implementing the Meso-American procedure for the international shipment of goods (TIM). This consists in introducing IT systems and standardized procedures at border checkpoints, so as to optimize customs and quarantine procedures and formalities for international goods in transit. Pilot tests for the TIM procedure at the El Amatillo border crossing between El Salvador and Honduras have resulted in a reduction in average transit time from over one hour to eight minutes (ECLAC, 2010a, chapter V).

Based on this experience, and as part of efforts to set up a customs union, members of the Central American Common Market have set the target of implementing an electronic customs system by 2015. This includes the compulsory use of electronic declarations, full interconnection of the computer systems of national customs, harmonization of customs procedures and the introduction of a virtual one-stop shop for foreign trade (Pellandra and Fuentes, 2011).

3. Infrastructure

Latin America and the Caribbean is well known for having a wide infrastructure gap. Indeed, investment in economic infrastructure[7] has declined in the region over the past 30 years, falling from almost 4% of GDP in 1980-1985 to 2% between 2007 and 2008 (see figure III.9). The quality of transport infrastructure (including roads, ports, airport and railways) in particular falls short of the world average in almost all of the region's economies, and is below the South-East Asian average in all countries in the region (IDB, ECLAC and World Bank, 2011). This has a negative impact not only on the quality of the region's integration in the world economy, but also on its capacity to achieve territorial development along with growing social cohesion (ECLAC, 2011a).

Figure III.9
LATIN AMERICA (6 COUNTRIES): INVESTMENT IN INFRASTRUCTURE, 1980-2008 [a]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of D. Perrotti and R. Sánchez, "La brecha en infraestructura en América Latina y el Caribe", *Recursos naturales e infraestructura series*, No. 154, Santiago, Chile, ECLAC, 2011.

[a] The six countries are Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Projections of needs for the next few years leave no doubt that Latin America and the Caribbean is allocating insufficient funding to economic infrastructure. ECLAC has estimated that the region will have to invest around 5.2% of GDP per year between 2006 and 2020 if it is to meet the needs of its projected economic growth.[8] Latin America and the Caribbean would need to spend 7.9% of GDP annually between 2005 and 2020 in order to attain the levels of per capita infrastructure stock already present in a group of fast-growing East Asian economies[9] (which is four times more than the average spend in the period 2007-2008) (ECLAC, 2011a).

Regional and subregional cooperation should aim to narrow the infrastructure gap. The lynchpins of transborder development, including bioceanic corridors, may have a doubly positive impact. First, they help to increase the competitiveness of the countries and regions they link by reducing transport time and costs associated with intraregional and extraregional trade. Second, they contribute to a more balanced territorial development among countries, and among regions within a country, by opening up new production and communication opportunities (ECLAC, 2010a). In this context, some important developments have taken place in the framework of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Meso-America Project, involving intergovernmental coordination efforts to define, finance and implement a given portfolio of high-impact regional projects in the areas of transport, energy and communications (see box III.2).

7 Economic infrastructure refers to all the permanent engineering structures, equipment and physical facilities that are the basis for providing energy, transport, telecommunications, water and sanitation services to productive sectors and households (ECLAC, 2011a).

8 These results assume 3.9% annual growth in regional GDP and 1% annual population growth (ECLAC, 2011a).

9 Malaysia, Republic of Korea, Singapore and Hong Kong Special Administrative Region of China.

Box III.2
REGIONAL INFRASTRUCTURE INTEGRATION: INTEGRATION OF REGIONAL INFRASTRUCTURE IN SOUTH AMERICA AND THE MESO-AMERICA PROJECT

Initiative for the Integration of Regional Infrastructure in South America (IIRSA), in the framework of the Union of South American Nations (UNASUR)

IIRSA, which was created in 2000 with an initial mandate of 10 years, is one of the regional infrastructure integration processes that has made progress. As of mid-2011, the IIRSA project portfolio contained 524 transport, energy and communication infrastructure projects, divided into 10 integration and development pillars, which could generate estimated investment of US$ 96.111 billion. The projects in the portfolio are selected on the basis of a regional vision agreed upon by the 12 South American countries. Although a project's inclusion in the portfolio does give it initial priority, this is no guarantee of funding or implementation. According to the most recent data published by the Initiative, concrete progress had been made on 73.7% of IIRSA portfolio projects (which is 386 projects): 53 projects (10%) were already concluded; 176 (34%) were being implemented; and 158 (30%) were at the preparatory stage.

With the creation of the Union of South American Nations (UNASUR) in May 2008, and its South American Infrastructure and Planning Council (COSIPLAN) in August 2009, IIRSA was incorporated into that framework as a technical advisory forum for the Council, and as a priority item on the common agenda of UNASUR. The UNASUR countries are preparing a new priority project agenda and a 2012-2022 strategic action plan (with the assistance of ECLAC for formulation and implementation), and these will be defined and approved by the ministers of COSIPLAN at the end of 2011. The aims of the 2012-2022 strategic action plan include: to enhance methodologies and tools in order to implement and complete projects; to incorporate social participation mechanisms; to focus on funding for high-impact projects in the region; to carry out project monitoring and assessment; and to move forward with harmonizing regulatory and institutional frameworks.

Meso-American Integration and Development Project (Meso-America Project)

The Meso-America Project was officially launched in mid-2008 (although its work began in 2001 under its predecessor, the Puebla-Panama Plan) with the aim of promoting cooperation, development and integration among 10 countries (from Mexico to Colombia, plus the Dominican Republic), through the development of infrastructure and social projects. Its agenda covers many areas, including transport, energy, telecommunications, trade facilitation and competitiveness, health, environment, natural disasters and housing.

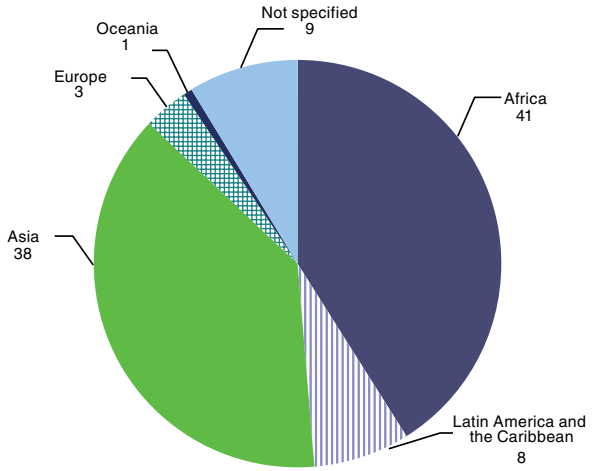
The Project has achieved significant advances in infrastructure, transport (particularly road transport in the form of the Meso-American International Road - RICAM), trade facilitation (Meso-American Procedure for the International Shipment of Goods - TIM) and energy (particularly the Electrical Interconnection System for Central America - SIEPAC). Other vital issues, such as short-haul maritime transport, are currently being discussed as a matter of priority. ECLAC is taking part in the Interinstitutional Technical Group, as well as contributing technical cooperation in the areas of infrastructure, transport, energy, competitiveness, information society, and disasters and climate change, further to a mandate handed down by the Summit of Heads of State and of Government of the Tuxtla Mechanism for Dialogue and Concertation. In terms of transport, the most recent mandates relate to public policymaking for transport, logistic chain security and transnational infrastructure projects.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), 2011.

The region could benefit more from aid for trade, as a means of tackling its shortfalls in physical infrastructure and trade facilitation. Despite considerably improving access to its main markets thanks to trade agreements, the Latin American and Caribbean region still has major internal barriers to improving its integration in world trade flows. These include the aforementioned shortcomings in terms of trade facilitation and infrastructure, as well as insufficient information on trade opportunities, inadequate financing for SMEs and problems complying with standards of quality, safety or environmental sustainability demanded by the most stringent markets. The WTO Aid-for-Trade initiative set up in 2005 aims to assist developing countries in overcoming limitations such as those listed above.

The Latin American and Caribbean region receives a relatively small proportion of Aid-for-Trade funds. The region's share in these flows was 8% in 2009 (the most recent year for which regionally comparable information is available). This figure is much lower than those for Asia and Africa (the main destination regions of aid for trade) (see figure III.10). This is partly because most of the region's economies are considered as middle-income countries. However, there is scope for Latin America and the Caribbean to increase its share of aid for trade flows. For this to happen, the region's countries would have to define priorities and identify and present relevant projects that could receive new inflows of resources. In this sense, the region should prioritize attracting funds for projects, such as those being developed by IIRSA and the Meso-America Project, that involve several countries and include a clear trade facilitation component. In addition, those subregional integration schemes that have recently concluded association agreements with the European Union —such as the Central American Common Market and the Caribbean Community— may benefit from the latter's technical and financial assistance for moving towards the free circulation of goods and services.

Figure III.10
AID FOR TRADE: REGIONAL DISTRIBUTION, 2009 [a]
(Percentages of the total)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of OECD-DAC, Aid activities database (CRS).
[a] Commitments declared by donors.

4. Strengthening the social component of integration and tackling asymmetries

Integration is not limited to the economic and trade dimensions, and social aspects should be given more prominence in integration, especially in a region characterized by inequality. This does not imply focusing less on economic and commercial aspects, but rather building up complementarity between these and social issues. In this context, it is vital to promote integration arrangements that help to reduce the sharp development asymmetries among and within the various subregions and integration schemes in Latin America and the Caribbean.

For instance, MERCOSUR accounts for much of the region's territory and output, as well as the highest average per capita income and social spending (see table III.6). However, these averages conceal major disparities within MERCOSUR, as there is a very wide gap in terms of these indicators among member countries (see table III.7). The situation is similar within other subregions and integration schemes in Latin America and the Caribbean. Reducing such asymmetries is a prerequisite for the sustainability and legitimacy of integration processes (ECLAC, 2010a).

Table III.6
LATIN AMERICA AND THE CARIBBEAN: ASYMMETRIES AMONG SUBREGIONS AND INTEGRATION SCHEMES, 2010
(Millions of square kilometres, millions of inhabitants, current dollars and dollars at constant 2000 prices)

Subregion	Territory *(millions of km²)*	Population *(millions of inhabitants)*	Per capita GDP *(current dollars)*	Per capita GDP *(dollars at constant 2000 prices)* [a]	Per capita social spending [b] *(2000 dollars)*
Andean Community	469	100	5 129	8 748	275
Southern Common Market (MERCOSUR)	1 188	246	9 903	11 887	1 308
Central American Common Market	42	39	3 060	5 683	258
Caribbean Community (CARICOM)	46	17	3 872	4 473	...
Latin America and the Caribbean	2 041	590	8 286	11 236	914

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] Calculated on the basis of purchasing power parity.
[b] Based on the average for 2006-2008.

Table III.7
LATIN AMERICA AND THE CARIBBEAN: ASYMMETRIES WITHIN SUBREGIONS AND INTEGRATION SCHEMES, 2010
(Number of times by which the group's highest value exceeds the lowest)

Subregion	Total GDP	Per capita GDP	Population	Territory	Per capita social spending [a]
Andean Community	15.4	3.3	4.6	5.0	3.5
Southern Common Market (MERCOSUR)	118.5	3.9	58.0	15.8	13.1
Central American Common Market	6.3	6.7	3.1	6.2	8.8
Caribbean Community (CARICOM)	59.2	26.5	194.0	826.8	…
Latin America and the Caribbean	5 120.9	26.5	3759.6	32 749.5	19.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] Based on the average for 2006-2008.

Asymmetries are a cross-cutting issue. As such, special efforts are required to ensure that all areas of integration adopt an asymmetric benefit approach to the advantage of less developed economies. This requirement was a key part of the recommendations on open regionalism formulated by ECLAC in the mid-1990s (see point 5 in box III.3). In addition to those recommendations, the following specific actions have lost none of their relevance (see ECLAC 2009 and 2010a):

- stronger structural fund schemes targeting less developed countries, based on the positive experience of the MERCOSUR Structural Convergence Fund (FOCEM) and similar initiatives in other subregional schemes;
- greater market openness of the larger members to exports from less developed countries, including a reduction of tariff barriers and non-tariff barriers;
- appropriate consideration on the part of larger members of the impact that their macroeconomic policy and export and investment incentive policies have on the competitiveness of smaller economies; and
- increased efforts to build subregional value chains, which should be encouraged to include enterprises from less developed countries.

Box III.3
OPEN REGIONALISM IN LATIN AMERICA AND THE CARIBBEAN: ECONOMIC INTEGRATION AS PART OF CHANGING PRODUCTION PATTERNS WITH EQUITY

Integration and changing production patterns with social equity

One positive effect of integration is the chance to tap economies of scale and cut transaction costs, which erode the competitiveness of goods and services produced in the region. In addition, greater efficiency may be reflected in higher levels of savings, in more investment and in greater productivity of the factors of production overall. Furthermore, the benefits of integration apply to the economic and institutional system in general, by contributing to economic stability and the credibility of member countries.

Another important potential of integration has to do with absorption of technological progress and production linkages. To drive changes in production patterns, intraregional trade liberalization should be promoted to expedite the intra-industrial specialization process currently under way and boost employment for skilled labour, while strengthening enterprises and building closer ties between suppliers and users. In addition, countries undertaking joint physical and energy infrastructure projects may also achieve economies of scale and obtain greater returns on their investment. Lastly, integration can help to achieve a development model which facilitates economic growth and social equity simultaneously, by expanding demand both horizontally through market integration and vertically though social integration at the country level.

Towards open regionalism

(a) International linkages and integration agreements

All the region's governments have made efforts in recent years to improve their competitiveness and their linkages with the international economy by means of intraregional trade agreements. Integration commitments are therefore seen as policies that complement efforts to achieve more open and transparent economy. For Latin America and the Caribbean, integration is also a mechanism for diversifying risk in an international economy fraught with uncertainty.

(b) De facto integration and policy-driven integration

In Latin America and the Caribbean, the various formal integration agreements have been accompanied by a parallel process of "de facto" integration, facilitated by a coherent, stable macroeconomic framework, unilateral trade liberalization, non-discriminatory promotion of exports, deregulation and elimination of obstacles to foreign investment. Here, de facto and de jure integration must support and complement each other, by means of policies that boost development in the region's business sector.

(c) Open regionalism

Open regionalism is "a process of growing economic interdependence at the regional level, promoted both by preferential integration agreements and by other policies in a context of liberalization and deregulation, geared towards enhancing the competitiveness of the countries of the region and, in so far as possible, constituting the building blocks for a more open and transparent international economy" (ECLAC, 1994).

Box III.3 (concluded)

It results from reconciling the two phenomena described in the above paragraphs —the interdependence that stems from special, preferential agreements, and that which basically arises from the market signals that are produced by trade liberalization in general— and complements integration and international-competitiveness-building policies. What differentiates open regionalism from non-discriminatory openness is that it includes the preferential element of integration agreements, while at the same time eliminating the barriers applicable to third parties and making it easier for new members to accede to the agreements.

Characteristics favouring open regionalism

Integration through open regionalism requires certain characteristics. First, it needs broad liberalization at the sector and country level to encourage investment growth, absorption of technical progress and the use of economies of scale. It must also be governed by stable and transparent rules to eliminate uncertainty around broad market access, and also in order to allow for the future multilateralization of processes as new countries become members.

Open regionalism also reduces the transaction costs of regional suppliers. Accordingly, building infrastructure, harmonizing rules and regulations and implementing institutional reforms play an important role in integration. Regional institutions that work to shore up the balance of payments should be legally and financially strengthened. This would help the countries to adjust their external accounts by degrees, thereby encouraging their participation in integration processes.

The need for flexible, open sectoral arrangements

An integration process intended to promote technological progress requires governments to act as catalysts by generating flexible business coordination structures that facilitate the intermediation of technology transfer and the creation of information networks. Generally speaking, it is vital to boost supply and implement institutional arrangements to help capture the full range of potential benefits of trade liberalization.

Making it easier for SMEs to obtain financing and technology could help to drive change in production patterns with social equity. Similarly, the absorption of technologies should be expedited at the regional level by various means, such as through greater mobility of skilled labour from one enterprise to another, reciprocal investment, the joint use of infrastructure and inputs and the generation of links with highly innovative countries.

Equality of opportunities for all countries

The unequal distribution of the benefits of integration is a concern to the region. This is especially true for less developed or smaller economies, which show less capacity to make use of economies of scale, access to technology and inputs or the systemic conditions in which enterprises operate. The following are some of the ways of including these considerations in integration processes:

- Gradual and progressive tariff reduction processes to ease the adjustment of production activities.
- Special treatment that would generate benefits both for countries with less capacity to take advantage of the potential of integration and for the other countries.
- Credit or fiscal mechanisms to provide incentives for intraregional investment in countries with less capacity to tap integration potential. Possible measures include the financing of private-sector investment projects on somewhat softer terms, or providing fiscal incentives to private enterprises that invest in those countries.
- Facilitation of the spread of technologies to less developed countries, for instance by facilitating the mobility of skilled human resources among countries.
- Avoidance of very stringent rules of origin with which less developed countries would find it difficult to comply.
- Inclusion of provisions that enable new members to accede to existing agreements, to forestall the generation of polarized investment and competitive advantages for a small group of countries.
- Introduction of policies in integration agreements to combat possible unfair competition from larger firms in the region.

Medium- and long-term policy coordination

Trade integration may increase the need to coordinate policies. As first, this coordination could include information exchange, cooperation and harmonization in areas such as labour regulations and standards and mobility of people (which involves complex regulation if each country has a different policy) or in terms of supranational competition policies that may complement liberalization policies. Once the trade integration process is sufficiently established in the region, some macroeconomic policies could be loosely coordinated.

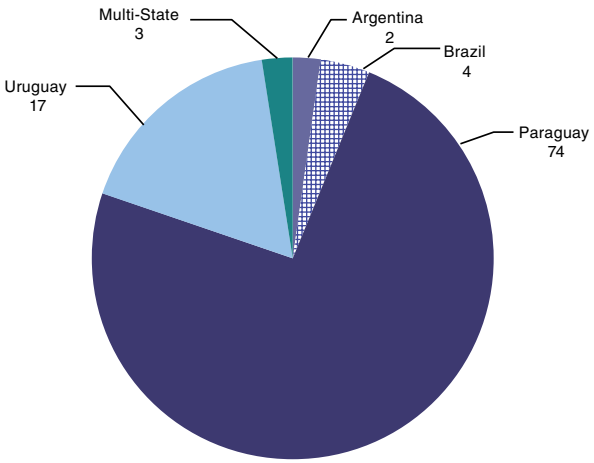
Institutional aspects

The institutions in charge of implementing economic integration processes must reflect the degree of advancement of those processes. More complex processes that contemplate policy coordination require more highly developed institutions. At any rate, it would be advisable to favour flexible schemes that are adaptable enough to ensure that the pace of institutional development is determined by the momentum of the process itself. It would also be desirable to encourage and facilitate greater participation by organizations representing various social interests.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Open regionalism in Latin America and the Caribbean. Economic integration as a contribution to changing productions patterns with social equity*, Libros de la CEPAL, No. 39 (LC/G.1801/Rev.1-P/I), Santiago, Chile. 1994. United Nations publication, Sales No. E.94.II.G.3.

The MERCOSUR Structural Convergence Fund (FOCEM) remains the region's main benchmark in terms of institutional arrangements aimed specifically at tackling asymmetries. The Fund was set up in 2004 and has been operating since 2006. Its aim is to fund programmes to: (i) promote structural convergence; (ii) develop competitiveness; (iii) promote social cohesion, especially in the smaller economies and less developed regions; and (iv) support the functioning of the institutional structure and strengthen the integration process. Since the Fund was set up, financing has been approved for 38 projects, worth a total of US$ 850 million. The Fund is made up of financial contributions from MERCOSUR member States, and the distribution of contributions, as well as the funds paid out, is skewed in favour of the two smallest members (particularly Paraguay) (see figure III.11).

Figure III.11
MERCOSUR STRUCTURAL CONVERGENCE FUND: DISTRIBUTION OF RESOURCES FOR PROJECTS APPROVED, 2007-2011
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the MERCOSUR Secretariat [online] http://www.mercosur.int/focem/ [date of reference: 25 July 2011].

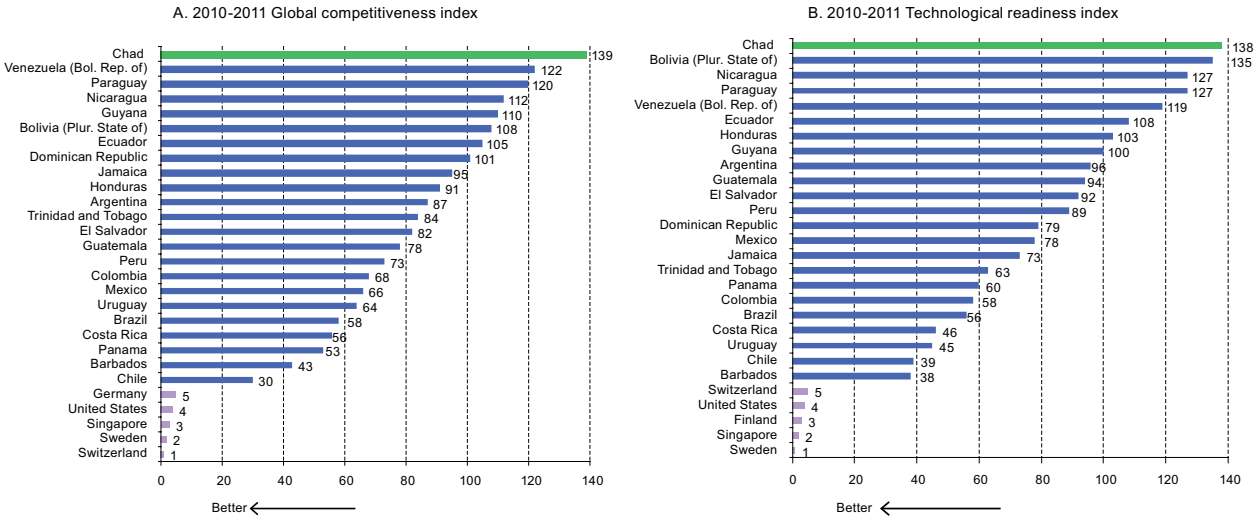
5. Increasing regional cooperation on innovation and competitiveness

The Latin American and Caribbean region is lagging behind in terms of international competitiveness. This is consistently borne out by the results of various international indices. One of these is the Global Competitiveness Index (GCI), produced annually by the World Economic Forum. The GCI is calculated using 12 pillars reflecting the wide range of spheres that influence the systemic competitiveness of an economy.[10] The most recent GCI results for 2010-2011 reveal that only two of the region's countries (Chile and Barbados) rank in the top 50 (see figure III.12a).

The Networked Readiness Index (NRI) is also calculated every year by the World Economic Forum, and measures how enabling the environment is, how prepared countries are for the use of information and communications technologies (ICTs) and the current use of technologies by various economic agents. Generally speaking, the region's performance in the last NRI survey (2010-2011) did not rank among the top positions (see figure III.12b). In fact, the region is below the world average for the three sub-indexes that make up the NRI (environment, preparedness and usage). In terms of environment, the area where the region scored lowest (in relation to the world average) was the political and regulatory environment, which assesses the extent to which national legal frameworks facilitate innovation and penetration of ICTs. The region is also behind in terms of "government preparedness", which measures the priority afforded to ICTs on the national agenda and in national competitiveness strategies. Lastly, the results for usage of ICTs show that the region lags behind in terms of penetration and diffusion of ICTs among individual users, which is measured by indicators such as total number of Internet users, telephone subscribers with data access and Internet access in schools.

[10] The pillars are: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

Figure III.12
SELECTED COUNTRIES: COMPETITIVENESS AND TECHNOLOGICAL READINESS INDICATORS, 2010-2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Economic Forum, *The Global Information Technology Report 2010-2011. Transformation 2.0* and *The Global Competitiveness Report 2010-2011.*

In July 2011, the results were announced for the Global Innovation Index (GII) 2011, produced by the INSEAD business school in collaboration with the World Intellectual Property Organization (WIPO), the Confederation of Indian Industry and the multinational firms Booz and Company and Alcatel Lucent. The GII aims to reflect a broad vision of innovation, by including not only traditional variables such as research and development investment, but also indicators of innovation-enabling environments. This is based on two sub-indexes: Innovation Input Index (III) and Innovation Output Index (IOI). The III is based on information on five areas: institutions, human capital and research, infrastructure, market sophistication and business sophistication. The IOI is constructed from data on two areas: scientific production and creative production.

The GII results for Latin America and the Caribbean show that, out of the 20 countries evaluated (out of a total of 125), only Chile (ranked 30), Costa Rica (ranked 45) and Brazil (ranked 47) were in the top 50. More specifically, in comparison with the top five economies in the world, the region lags far behind in investment in human capital and research, market sophistication and scientific production (measured by the creation, impact and dissemination of knowledge) (see table III.8).

Table III.8
LATIN AMERICA AND THE CARIBBEAN AND SELECTED COUNTRIES: GLOBAL INNOVATION INDEX, 2010-2011
(Points and percentages)

Group	Global Innovation Index (GII)	Innovation Input Sub-Index (III)						Innovation Output Sub-Index (IOI)		
		Institutions	Human capital and research	Infrastructure	Market sophistication	Business certification	Total	Scientific production	Creative production	Total
Average for Latin America and the Caribbean	31.43	55.69	31.61	28.18	35.51	34.02	37.00	19.00	32.73	25.86
Average for 5 highest scoring economies [a]	60.04	90.45	61.59	49.13	70.16	68.20	67.90	53.93	50.43	52.18
Ratio between the two groups *(percentages)*	52	62	51	57	51	50	54	35	65	50

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Global Innovation Index 2010-2011 [online] www.globalinnovationindex.org/gii/main/analysis/rankings.cfm (consulted on 1 August 2011).
[a] These economies are, in reverse order: Switzerland, Sweden, Singapore, Hong Kong Special Administrative Region of China and Finland.

Taken as a whole, these results show the region is lagging far behind in precisely those areas that are of growing importance in the context of the knowledge economy. This is largely because, with the notable exception of Brazil, the region's countries allocate limited resources to research and development. According to figures from the United Nations Educational, Scientific and Cultural Organization (UNESCO) compiled by the World Bank, average regional spending for this heading in 2007 was 0.68% of GDP (compared with 2.41% of GDP in high-income OECD economies).[11]

Given the limited individual capacities of many of the region's countries to substantially increase their research and development spending, it appears vital to combine national efforts and prioritize a partnering approach. For instance, this could be achieved by integrating national technological centres into plurinational research activities and business ventures, thereby generating synergies and a critical regional mass of human and financial resources. At the national level, this approach requires: (i) greater coordination among various public agencies associated with different aspects of competitiveness; and (ii) the creation of public-private partnerships for the sharing of information and the definition of jointly agreed aims.

In this context, the following are proposed: (i) establish a regional forum for innovation to foster cooperation and joint action and help the countries of the region to meet the challenges posed by innovation and technological development; (ii) create a regional cooperation fund for innovation to source financing for the programmes or actions identified at the regional forum or at other forums for cooperation; (iii) promote the creation and development of regional business foundations for innovation; (iv) prepare an annual report on regional innovation initiatives that will guide relevant regional and national efforts and contribute to the sharing of experiences; (v) continue conducting comparative analyses of national information society strategies through country reviews; (vi) support the White Book of e-Government Interoperability in Latin America and the Caribbean as a common framework for regional action and discussion on ICT; (vii) develop regional capacity in effective ICT use in e-government, ICT-related industries, high-speed networks, health and education (ECLAC, 2010a).

6. Using the link with Asia-Pacific to deepen regional integration

The Chinese authorities understand the region's need to diversify its exports to China. In a recent speech to the region made at ECLAC headquarters, the Chinese Vice-President Xi Jinping stated that China was willing to work with the region's countries to increase mutual exports of products with high value added, increase the volume of trade and optimize the trade structure.[12] This understanding was also reflected in recent statements by the Trade Minister, Chen Deming, during a recent visit to Brazil and Argentina, and the President of the China Council for the Promotion of International Trade (CCPIT), Wan Jifei. CCPIT is taking a number of steps in this direction, making use of its links with the Bi-national Chambers of Commerce. Nevertheless, coordinated actions among the region's governments are required to make the most of these preliminary initiatives and open the way for a more robust programme that reflects the urgent need to diversify exports as part of the region's development.

Facilitating investment from China and the rest of Asia through a one-stop shop that promotes and monitor investments is a key challenge for regional integration. These investments, especially when they target infrastructure, energy, transport and logistics, would not only help to strengthen trade flows with Asia-Pacific, but would also generate externalities for the regional integration process itself within Latin America and the Caribbean.

Latin America and the Caribbean could soon prepare a document describing guidelines for developing closer ties with China. China took the first step in this direction in November 2008, with a proposal on relations with Latin America and the Caribbean.[13] The regional coordination needed to prepare a response to China's proposal would lay the foundations for organizing, in the next few years, a Summit of Heads of State from China and Latin America and the Caribbean. This could see the creation of a shared agenda of trade and investment projects. Given the importance of this issue for the growth and equity prospects of Latin America and the Caribbean, it would seem advisable for the recently created Community of Latin American and Caribbean States (CELAC) to include it on its agenda.

[11] See World Bank (online) http://data.worldbank.org/topic/science-and-technology (consulted 4 August 2011).

[12] Remarks by the Vice-President of the People's Republic of China, Xi Jinping, "Jointly creating a more promising future for comprehensive cooperation between China and Latin America and the Caribbean", Santiago, Chile, 10 June 2011.

[13] See "China's Policy Paper on Latin America and the Caribbean" [online] www.fmprc.gov.cn/eng/zxxx/t521025.htm

F. Conclusions

The dramatic transformations under way in the world economy are challenging the region to rethink its integration in the world economy and its network of global partnerships. The growing share of emerging economies in various economic aggregates is a trend reinforced by the context of fragile recovery and great uncertainty in the United States and Europe, which is expected to continue for some years to come. In addition, production, trade and investment are increasingly structured around regional and global value chains. In the light of such changes, the Latin American and Caribbean region has strengthened its ties with other emerging regions, particularly with Asia. Economic growth in Asia (and especially China) has given the region the opportunity to build up its resilience and growth capacity. This process brings issues of its own, such as incentives for the entrenchment of an export pattern based on unprocessed natural resources (in the case of South America) and the displacement of Mexican and Central American manufacturing exports in the United States market.

In this new international context, the region must achieve integration in the world economy in a way that optimizes the benefits of its growing links with Asia and other emerging regions, while also seeking to reduce its costs. Much of the response to this challenge lies in strengthening regional integration. Contrasting with a world economy marked by the emergence of value chains, the region has low levels of productive integration, which limits the sophistication of its export supply. This is partly attributable to weaknesses within the integration process itself. Furthermore, today's globalization economy is increasingly structured around macro-regions, insofar as there are only a few national markets large enough to make them attractive independently from their regional context. Lastly, as uncertainty continues to reign over the growth prospects of industrialized countries, over the next few years the regional market must compensate for possible drops in demand for the region's exports in those markets. For all these reasons, in the coming years Latin American and Caribbean governments should make it a high priority to make gradual progress towards forming a large integrated economic space.

The current phase in the world economy underpins the ongoing relevance of the concept of open regionalism proposed by ECLAC almost 20 years ago. The aim of open regionalism is for explicit integration policies to be compatible with and complement policies aimed at increasing international competitiveness. In other words, the objective is to develop regional strengths in order to better tackle the global challenges. What distinguishes open regionalism from non-discriminatory export promotion is that it includes a preferential element, reflected in integration agreements and reinforced by the geographical proximity and cultural affinity of the region's countries.

As integration deepens in a framework of open regionalism, it acts as a factor of competitiveness by complementing integration in the main international markets with the boost to intraregional trade. This then encourages intra-industry trade, export diversification and a greater presence of SMEs in export flows. The larger scale of a regional market would not boost trade within the region, but would also attract more FDI and help to form and strengthen trans-Latin enterprises. The regional framework would, as well, provide an enabling setting for the start-up and development of regional production chains and for the exchange and leveraging of innovation processes. Equity too would benefit from increased globalization of SMEs and job creation in more value- and knowledge-intensive activities than those usually typical of the region's exports to third markets.

Creating an integrated economic space on a regional scale is an ambitious project, and as such must be tackled gradually. An important first step would be to promote cumulation of origin among the region's economies. Progress would also have to be made in the gradual harmonization of regulatory issues such as services, investment and procurement, in the light of the positive link between such standardization and the development of regional value chains. Further down the line (both technically and politically), discussions could be held on convergence among existing integration schemes.

What is equally if not more important than deepening economic and trade integration is to make joint progress in a number of other areas such as infrastructure development, tackling asymmetries and innovation. Progress in these areas would not only increase the entire region's international competitiveness but would also generate more balanced territorial development with increased social cohesion. Here, regional and subregional institutional arrangements, such as IIRSA, the Meso-America Project (in terms of infrastructure) and FOCEM (in reducing development asymmetries), have shown their value and should be deepened and extended to other areas in which regional public goods can be created.

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