Latin America and the Caribbean in the World Economy

The region in the decade of the emerging economies
1. Uncertainty and winds of crisis in Europe and the United States
The recovery is losing momentum in the advanced economies, which are showing signs of slowing.

**ADVANCED ECONOMIES: GROSS DOMESTIC PRODUCT, 2008-2011**
*(Year-on-year quarterly rate of variation)*

Source: ECLAC on the basis of OECD.Stat.
Several countries in the euro area need profound adjustments to move towards the established fiscal sustainability objectives

SELECTED COUNTRIES OF THE EURO AREA: DEBT AND FISCAL DEFICIT, 2010
(Percentages of GDP)

Source: ECLAC, on the basis of the Statistical Office of the European Communities (EUROSTAT).
The difficulties in the industrialized countries are beginning to affect the emerging economies.

**INDUSTRIALIZED AND EMERGING ECONOMIES:**
**COMPOSITE LEADING INDICATORS, 2006-2011**
*(Annual rate of variation)*

Source: ECLAC, on the basis of OECD.Stat.
The developing countries are recovering faster than the advanced economies and have surpassed pre-crisis levels.

Source: ECLAC, on the basis of official figures and data from CPB Netherlands Bureau for Economic Policy Analysis.
The South has driven much of the upturn in international trade

GROWTH IN WORLD TRADE AND CONTRIBUTION OF DEVELOPING COUNTRIES, 2003-2010
(Percentages)

Source: ECLAC, on the basis of data from CPB Netherlands Bureau for Economic Policy Analysis.

WORLD: DISTRIBUTION OF EXPORTS, 1985 AND 2010
(Percentages of world trade)

1985
North-North 63%
North-South 19%
South-North 12%
South-South 6%

2010 a
North-North 21%
South-North 38%
North-South 24%
South-South 17%

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).
a Estimate on the basis of 90% of world exports.
In 2010, developing countries received 50% of global FDI flows

FDI FLOWS BY RECIPIENT REGION, 1990-2010
(Billions of dollars and percentages of the total)

Source: ECLAC, on the basis of figures from World Investment Report 2011 (UNCTAD).
The crisis hastened the reduction of the per capita income gap between the developing countries and the advanced economies.

**WORLD: PER CAPITA INCOME GAP, 1980-2016**

*(Index of difference in per capita GDP with respect to the developed economies, in logarithms and 1980=100)*

**Source:** ECLAC, on the basis of IMF (2011), “World Economic Outlook Database,” and World Economic and Financial Surveys.

**Note:** the lines correspond the evolution of the gap. A positive trend denotes a widening of the gap, while a negative trend denotes a narrowing of the gap (convergence).
There are growing areas of fragility in the international economy

- Conditions are deteriorating in the industrialized economies
  - Slow growth in the next few years
  - Growth below potential, high unemployment, excess liquidity, low interest rates and weak fiscal positions
  - Pressure of large public debt and onerous pension commitments by the end of the decade
  - A lost decade for the industrialized economies?

- International trade will be weaker in 2012

- Large disequilibria persist at the global level
  - Sovereign debt crisis in several European countries
  - Sharp slowdown and uncertainty over fiscal and debt situations in the United States
  - Risk of inflation in China
  - Divergence between North and South growth and monetary cycles
  - Large capital inflows and currency appreciation in developing countries
  - Global current account disequilibria are increasing again
The coming decade could still be a good one for the developing countries

- China’s economy will grow somewhere between 8% and 9% in 2011 and 2012
- Prices for raw materials could rise less sharply but will remain at historically high levels
- Over the past decade China has strengthened its economic ties with Asia-Pacific, Africa and Latin America and the Caribbean
  - The growth of the developing countries is depending increasingly on China, which is already a key trading partner for most of them
- South-South ties are growing
  - By 2017 South-South trade could exceed North-North trade
  - South-South investments are also developing quickly
  - The number of global trans-Latin and trans-Asian firms is increasing
  - In the event of another recession in the developed countries or a new global financial crisis, the manouevring room of the region’s countries will depend on:
    - Their external balances and international reserves
    - Their policy space with regard to monetary, fiscal and public debt management
    - The structure of their external trade, in terms of products and markets
2. Main features of extraregional trade
China has gained a much larger share of the region’s trade in the past decade, unlike the United States, whose share has decreased, and the European Union, whose share is stagnated.

Source: ECLAC, on the basis of COMTRADE, CEPALSTAT and DOTS.
Hemispheric trade (within the region and with the United States) is dominated by manufactures.
Export diversification is still a pending task: few countries are in the area of greatest diversification.

**Latin America and the Caribbean: Degree of Export Diversification, 2008-2010**

(Logarithm-based Herfindahl-Hirschman Index)

**Source:** ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).

**Note:** Does not include maquila exports for Honduras and Nicaragua.
Diversification has increased by destination, but decreased by number of products

(Variation in Herfindahl-Hirschman index)

<table>
<thead>
<tr>
<th>Destinations</th>
<th>Decrease</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>Argentina</td>
<td>Bolivia (Plur. State of)</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>CARICOM</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Chile</td>
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<td></td>
<td>Mexico</td>
<td>Ecuador</td>
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<tr>
<td></td>
<td>Paraguay</td>
<td>El Salvador</td>
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<td></td>
<td>Peru</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uruguay</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Venezuela (Bol. Rep. of)</td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>Increase</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td></td>
<td>Guatemala</td>
</tr>
<tr>
<td>Honduras</td>
<td></td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Panama</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).
Note: Does not include maquila exports for Honduras and Nicaragua.
The region runs a large deficit with developing Asian countries (especially China) and a surplus with the United States (especially in the case of Mexico).

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE) and national sources.
The largest trading partners for Latin America and the Caribbean are the region itself and the United States.

LATIN AMERICA AND THE CARIBBEAN: DISTRIBUTION OF TRADE BY MAIN PARTNER AND REGION, 2007-2010
(Percentages of total external trade)

<table>
<thead>
<tr>
<th>Region / country</th>
<th>United States</th>
<th>European Union</th>
<th>Asia</th>
<th>Latin America and the Caribbean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>40.1</td>
<td>14.0</td>
<td>16.5</td>
<td>19.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>7.7</td>
<td>17.6</td>
<td>17.5</td>
<td>40.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>12.9</td>
<td>22.7</td>
<td>24.1</td>
<td>22.4</td>
</tr>
<tr>
<td>Paraguay</td>
<td>2.6</td>
<td>7.2</td>
<td>17.1</td>
<td>61.1</td>
</tr>
<tr>
<td>Uruguay</td>
<td>5.7</td>
<td>15.9</td>
<td>10.7</td>
<td>45.4</td>
</tr>
<tr>
<td>Bolivia (Plur. State of)</td>
<td>9.1</td>
<td>8.4</td>
<td>17.1</td>
<td>61.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>36.0</td>
<td>13.5</td>
<td>7.9</td>
<td>25.4</td>
</tr>
<tr>
<td>Ecuador</td>
<td>35.3</td>
<td>11.9</td>
<td>8.4</td>
<td>40.2</td>
</tr>
<tr>
<td>Peru</td>
<td>25.3</td>
<td>22.0</td>
<td>37.8</td>
<td>33.9</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>33.1</td>
<td>13.6</td>
<td>15.8</td>
<td>27.1</td>
</tr>
<tr>
<td>El Salvador</td>
<td>44.3</td>
<td>5.4</td>
<td>5.0</td>
<td>42.9</td>
</tr>
<tr>
<td>Guatemala</td>
<td>39.2</td>
<td>6.0</td>
<td>6.1</td>
<td>40.0</td>
</tr>
<tr>
<td>Honduras</td>
<td>39.4</td>
<td>15.8</td>
<td>6.2</td>
<td>35.0</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>26.6</td>
<td>11.0</td>
<td>8.6</td>
<td>43.5</td>
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<td>Chile</td>
<td>12.8</td>
<td>19.4</td>
<td>39.3</td>
<td>21.6</td>
</tr>
<tr>
<td>México</td>
<td>72.7</td>
<td>7.0</td>
<td>10.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Venezuela (Rep. Bol. de)</td>
<td>47.4</td>
<td>10.1</td>
<td>11.9</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of national sources.
The region is the main destination for exports from the United States and (together with China) the main source of its imports.

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE) and United States International Trade Commission.
The region has a growing number of agreements with partners outside Latin America and the Caribbean

LATIN AMERICA AND THE CARIBBEAN: TRADE AGREEMENTS WITH SELECTED EXTRAREGIONAL PARTNERS

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>European Union</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>CARICOM</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>CACM</td>
<td>X</td>
<td></td>
<td>X^a</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>MERCOSUR</td>
<td></td>
<td>X^b</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Colombia</td>
<td>X^c</td>
<td>X^a</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Panama</td>
<td>X^c</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Peru</td>
<td>X</td>
<td>X^a</td>
<td>X</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

^a Negotiations concluded, signature forthcoming.  
^b Under negotiation.  
^c Signed, not yet in force.

Source: ECLAC, on the basis of the Foreign Trade Information System of the Organization of American States.
Elements of an extrarregional agenda

United States
- The United States has had no strategy for the region in the past few years. The main pending issues include:
  - Approval of agreements with Colombia and Panama
  - Renewal of Andean preferences (ATPDEA) and the Generalized System of Preferences
- Propose to the United States the possibility of cumulation of origin among all its agreements with the region

European Union
- Complete trade negotiations under way
- Promote cumulation of origin among the different agreements with the region in order to promote intra- and extraregional productive integration

Asia-Pacific
- Diversify the region’s exports to Asia-Pacific
- Increase and diversify Asian investments, promote investments by the region in Asia (trans-Latins)
- Address concerns over high rates of penetration by Asian manufactures
- Need for a coordinated approach to Asia and China in particular
3. Towards a new form of open regionalism
South-South trade has become more significant within world trade in the wake of the crisis and could exceed North-North trade by 2017.

EXPORTS BY REGION, 1985-2020
(Percentages of the total)

Source: ECLAC, on the basis of official figures
Nota: Figures for 2011-2020 are projections on the basis of the long-term linear trend.
By 2030, Asia-Pacific will account for two thirds of the world’s middle class and over half of global consumption.

MIDDLE CLASS CONSUMPTION EXPENDITURE AND POPULATION, 2009, 2020 AND 2030

Source: ECLAC, on the basis of Homi Kharas, “The Emerging Middle Class in Developing Countries”, January 2010.

a Figures for 2020 and 2030 are projections.

b Consumption expenditure was calculated on the basis of purchasing power parity (PPP).
In 2011, the region’s exports will have grown 27%, with an increase of 18% in prices and 9% in volume.

LATIN AMERICA AND THE CARIBBEAN: ANNUAL RATES OF VARIATION IN GOODS EXPORTS BY VOLUME AND PRICE, 2011

(Percentages)

<table>
<thead>
<tr>
<th>Region</th>
<th>Volume</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>South America</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Chile</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>Andean countries</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Central America</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Mexico</td>
<td>9</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of projections on the basis of information for the period January-June 2011, and data on regional price baskets. Projections.
The Caribbean and Central American economies are particularly vulnerable to international commodity price volatility.

**LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE BY TYPE OF PRODUCT, AVERAGE FOR 2009-2010**

*(Percentages of GDP)*

<table>
<thead>
<tr>
<th>Deficits</th>
<th>Surpluses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy</strong></td>
<td><strong>Minerals and metals</strong></td>
</tr>
<tr>
<td>Guyana</td>
<td>Trinidad and Tobago</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Venezuela (Bol. Rep. of)</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>Bolivia (Plur. State of)</td>
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<tr>
<td>Dominica</td>
<td>Ecuador</td>
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<tr>
<td>Nicaragua</td>
<td></td>
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<tr>
<td>Bahamas</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** ECLAC, on the basis of CEPALSTAT database and United Nations Commodity Trade Database (COMTRADE).

*Data on metals and minerals for Suriname were obtained from mirror statistics.*
Intrasubregional trade remains below its historical peaks, with the highest rate in the Central American Common Market.

**LATIN AMERICA AND THE CARIBBEAN: EXPORTS BETWEEN MEMBERS OF REGIONAL GROUPINGS, 1986-2010**

(Percentages of the total exports of each grouping)

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andean Community</td>
<td>13.5</td>
</tr>
<tr>
<td>CARICOM b</td>
<td>23.0</td>
</tr>
<tr>
<td>Central American Common Market</td>
<td>34.7</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>23.0</td>
</tr>
</tbody>
</table>

**LATIN AMERICA AND THE CARIBBEAN: VOLUME OF INTRAREGIONAL MANUFACTURING EXPORTS, 2010**

(Percentages of total manufactures)

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andean Community</td>
<td>13.5</td>
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<tr>
<td>MERCOSUR</td>
<td>23.0</td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).

- Data for Barbados, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, Suriname, and Trinidad and Tobago correspond to 2009.

Source: ECLAC, on the basis of official information from the regional integration schemes.

- Does not include Bolivarian Republic of Venezuela.
- Does not include Bahamas or Haiti.
There are few regional value chains in the transport, machinery and electronics sectors of intraregional trade in Latin America and the Caribbean.

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS OF PARTS AND COMPONENTS

A. Total for the region, 2000-2009
(Millions of dollars and percentages of the intraregional total)

B. Selected groupings, 2009
(Percentages of the intraregional total)

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America and the Caribbean</td>
<td>8.1</td>
</tr>
<tr>
<td>ASEAN+3 b</td>
<td>27.9</td>
</tr>
<tr>
<td>NAFTA</td>
<td>17.4</td>
</tr>
<tr>
<td>European Union</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).

a Corresponds to subcategories 42 and 53 of the Classification by Broad Economic Categories.

b Includes the 10 members of ASEAN plus China, Japan and the Republic of Korea.
The region is facing these new conditions with major strengths, but also significant weaknesses

**Strengths**

- Economic growth, macroeconomic stability and improvement in employment and poverty indicators
- Growing middle class
- Abundant natural-resources endowment:
  - A third of the world’s potential farming areas and freshwater reserves
  - 31% of world production of biofuels and 13% of world petroleum
  - 47% of world production of copper, 28% of molybdenum and 23% of zinc
  - 48% of world production of soybean, 31% of beef, 23% of milk and 16% of maize
  - 20% of the surface area of natural forests and abundant biodiversity

**Weaknesses**

- Production and export structure based on static comparative advantages more than dynamic competitive advantages
- Lags in innovation, science and technology, education and infrastructure
- Productivity lags and large gaps between sectors
Challenges for the region: improve its position in the international economy (within each country)

• Strengthen countercyclical macroeconomic policies
  – Need to prepare for the possibility of a period of currency appreciation in commodity-exporting countries
  – This would make export diversification more difficult, increasing the need for greater productivity across all sectors of the economy
  – Monetary and fiscal policy must be coordinated with reserves accumulation, regulation of capital flows and macroprudential measures

• Productive development policies (diversification and inclusive growth)
  – Incorporate more value added and knowledge into exports
  – Diversify across products and markets
  – Promote clusters underpinned by comparative advantages and public-private partnerships
  – Improve governance of natural resources
  – Promote innovation (participation in global networks)
  – Encourage internationalization (trans-Latin firms)
  – Support SMEs (certification, traceability, carbon footprint)
Challenges for the region: gain a better position in the international economy (regional tasks)

• **Strengthen open regionalism** (regional public goods)
  – Infrastructure: energy, transport and logistics
  – Trade facilitation; financial support for intraregional trade
  – Innovation and regional value chains (critical mass and greater scale)
  – Payment settlement mechanisms and regional reserve funds
  – Progress towards a more integrated regional market

• **Rethink strategies for global and regional alliances**
  – Exploit opportunities for South-South trade and investment
  – Joint approach to building closer ties with Asia-Pacific (especially China)

• **Bargaining power**
  – Build on regional assets (natural resources, demographics, markets and economy)
  – Consolidate shared positions with respect to global agenda on:
    • Regulations on sovereign debt and functioning of risk rating agencies
    • Volatility of commodity prices
    • International liquidity and current account imbalances
    • Doha Round
    • Climate change
    • Reform of the international financial and monetary system
2010-2011

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in the World Economy

The region in the decade of the emerging economies