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Executive Secretary
Economic Commission for Latin America and the Caribbean
Santiago, 22 August 2007
Agenda

- The world economy continues to provide a conducive environment for growth in Latin America and the Caribbean
- Indicators of growth in regional trade in goods and services
- Asia-Pacific, a region of growing importance
- Regional integration and proposals for convergence
- Some conclusions
In the past few years, Latin American and Caribbean exports have grown faster than world exports, but recently their rate of expansion appears to be slowing.
After having fallen by 2% per year in 1980-2002, the prices brought by the region’s main commodity exports climbed by 24% per year in 2003-2006.
The level of risk at the global level has risen

The crisis in the mortgage market has begun to affect the international economy
- Economic slowdown in the United States
  - Impact on world economy
  - Increased risk of protectionism
- Impacts on international financial markets
  - Uncertainty about the derivatives market
- Contagion and credit crunch in emerging markets
The region’s risk indicators are on the rise amid fears of contagion and insolvency as a result of the crisis in the subprime market.
The level of risk at the global level has risen

The crisis in the mortgage market has begun to affect the international economy

– Economic slowdown in the United States
  • Impact on world economy
  • Increased risk of protectionism
– Impacts on international financial markets
  • Uncertainty about the derivatives market
– Contagion and credit crunch in emerging markets

Further increases in oil prices generate inflationary risks and give rise to political concerns

China ceases to exert deflationary pressure

*Developed-country central banks’ decision to intervene reduces the risk of a crisis*
Latin America and the Caribbean are less vulnerable to external shocks

¿Why?
- Reduction of public and external debt
- Major build-up of reserves
- Less need for short-term funds
- Less of an exchange-rate impact

There are two risk factors, however
- Slowdown of the world economy
- “Structural” change in the demand for risk assets on financial markets
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Between 2001 and 2006, the expansion of merchandise exports was the dominant factor in price rises, especially for metals and petroleum.
The United States is still the Latin American and Caribbean region’s biggest trading partner

Index of merchandise export values, by main destination markets, 1980-2006 (2000=100)
Latin America’s share of service exports –the most dynamic segment of world trade– is declining.
Services represent 12% of the region’s total exports and account for a larger share in the Caribbean countries.
World exports of “other services” are growing faster than exports of goods and now account for almost one tenth of the total.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the ECLAC Economic Projections Centre.
Service exports are concentrated in a few countries, particularly some of the larger ones. The “other services” category is the biggest.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund and UNCTAD.
The region’s exports of “other services” are even more heavily concentrated in a few countries.

<table>
<thead>
<tr>
<th>Service Category</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction services</td>
<td>48%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Computer and informatics services</td>
<td>33%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Royalties and licences</td>
<td>35%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>Other business services</td>
<td>64%</td>
<td>14%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Challenges for achieving greater competitiveness in services in the long run

- **Upgrade the supply of skilled labour:**
  - More university-level courses of study related to information and communications technologies (ICTs);
  - Training for small and medium-sized enterprises (SMEs);
  - Technical instruction;
  - Improve and increase instruction in the English language and mathematics.

- **Lower the cost of telecommunications and improve their quality:**
  - Broadband access;
  - Promote quality certification.

- **Move forward with the liberalization of the services that can do the most to boost the region’s competitiveness.**

- **Adapt regulatory and competition frameworks to the demands of the services sector.**
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Asia-Pacific already accounts for between 20% and 37% of world GDP (depending on whether it is measured at current prices or in PPP). It is the source of 25% of global trade and the destination for 18% of total FDI.
Important features of Asian trade

- Intra-industry trade accounts for a large part of intra-Asian trade flows.
- This is coupled with a significant degree of vertical integration in the value chain (transnational corporations).
- The trade boom is taking place outside the scope of regional free trade agreements.
- China plays a vital role as both an origin and destination of trade flows. It is the tip of the iceberg in a vast regional trade platform.
- Today, trade agreements are reinforcing this trend.
Asia-Pacific: Destination and source of a large share of the region’s trade

Exports to Asia-Pacific (% of each country's total exports)

Imports from Asia-Pacific (% of each country's total imports)
Latin America and the Caribbean: Main products exported to China

**Percentages of each country’s total exports to China**

<table>
<thead>
<tr>
<th>Countries</th>
<th>Main exports according to SITC Rev. 2 at the 4-digit level (share over 5%)</th>
<th>No. of products</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Soybean seeds (47.6%), soybean oil (30.9%), petroleum (5.6%)</td>
<td>3</td>
<td>84.1%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Tin ore and concentrates (88.4%)</td>
<td>1</td>
<td>88.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>Iron concentrate (26.6%), soybean seeds (24%), iron ore agglomerates (6.4%), soybean oil (6.2%)</td>
<td>3</td>
<td>56.8%</td>
</tr>
<tr>
<td>Chile</td>
<td>Unrefined copper (54.2%), copper concentrates (21.6%), wood pulp (9.3%)</td>
<td>3</td>
<td>85.2%</td>
</tr>
<tr>
<td>Peru</td>
<td>Fishmeal (32.9%), copper (26%), iron concentrates (9.8%), iron alloys (7.0%), copper alloys (5.1%)</td>
<td>5</td>
<td>79.9%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Microcircuits (92.4%)</td>
<td>1</td>
<td>92.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>Electrical accessories (15.1%), microcircuits (15.3%), copper ore and concentrates (6.2%), iron bars (5.8%), scrap metal (5.4%)</td>
<td>5</td>
<td>47.8%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Raw cane sugar (46.6%), scrap metal (36.2%), refined sugar (6.5%)</td>
<td>3</td>
<td>89.3%</td>
</tr>
<tr>
<td>Cuba</td>
<td>Raw cane sugar (85.5%), copper (13.5%)</td>
<td>2</td>
<td>99.0%</td>
</tr>
</tbody>
</table>
China has become a platform for neighbouring countries’ exports to the United States and European Union.

<table>
<thead>
<tr>
<th>Region/trade</th>
<th>(X-M)</th>
<th>Commodities</th>
<th>Resource-based manuf.</th>
<th>Low technology</th>
<th>Intermediate technology</th>
<th>High technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN+6</td>
<td>-113.0</td>
<td>-9.2</td>
<td>-10.7</td>
<td>21.2</td>
<td>-41.3</td>
<td>-74.0</td>
</tr>
<tr>
<td>Latin American and the Caribbean</td>
<td>-3.5</td>
<td>-11.0</td>
<td>-2.8</td>
<td>5.3</td>
<td>3.4</td>
<td>1.8</td>
</tr>
<tr>
<td>United States</td>
<td>84.5</td>
<td>-4.9</td>
<td>0.4</td>
<td>46.6</td>
<td>13.6</td>
<td>28.7</td>
</tr>
<tr>
<td>European Union 27</td>
<td>44.6</td>
<td>1.4</td>
<td>0.1</td>
<td>29.6</td>
<td>-10.7</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Latin America is competing with the ASEAN countries, Australia and New Zealand.

IT-related precision instruments, machinery and electronics.

China is building up a hefty surplus in trade in manufactures with the United States and European Union.

2003-2005
Towards a more proactive strategy for positioning the region in Asia-Pacific

- Greater presence in various natural-resource-related segments of the value chain (logistics, marketing, quality, brand, etc.)
- Closer link between trade and investment
- Attraction of Asian investment
- Latin American investment in Asia-Pacific
- Joint ventures in R&D related to the region’s resources
- A broader scale: Plurinational initiatives
- Diversification of the production and export base
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Integration: Necessary and urgent

- The global economy demands broad, unified markets and integrated international value chains.
- Integration involves much more than just trade, but without trade, integration is more difficult.
- There is a greater awareness of the need to deal with asymmetries and address the social aspects of integration.
- It would be helpful to accept a plurality of options and different speeds, but they should all be directed towards a shared objective.
- Private stakeholders should be involved more in decision-making on integration issues.
- ECLAC advocates the convergence of trade agreements among the Latin American and Caribbean economies.
## Proposals for convergence: integration secretariats and ECLAC

<table>
<thead>
<tr>
<th>AREA</th>
<th>INTEGRATION SECRETARIAT</th>
<th>COMPLEMENTARY ECLAC PROPOSALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariffs</td>
<td>Speed up tariff reductions</td>
<td>ECLAC supports this proposal</td>
</tr>
<tr>
<td>Rules of origin</td>
<td>Harmonization of standards</td>
<td>Gradually move towards accumulation of origin</td>
</tr>
<tr>
<td>Trade protection</td>
<td>Retain national provisions subject to WTO rules (anti-dumping and subsidies)</td>
<td>Eliminate anti-dumping measures in intra-zone trade in respect of originating goods</td>
</tr>
<tr>
<td>Safeguards</td>
<td>A general safeguard (trade safeguard) and a safeguard applicable to a small group of agricultural goods</td>
<td>Eliminate safeguards in intra-community trade, but retain the mechanism during a transitional period For third parties, retain individual WTO mechanisms</td>
</tr>
</tbody>
</table>
Three challenges

Accumulation of origin: a race against time
- In free trade agreements with the United States?
- In association agreements with the EU?
- Above all, in intra-South American agreements

Links with China and Asia-Pacific
- Individual efforts or regional initiatives?
- Only through natural-resource exports?
- Only trade, no investment?

Integration in South America
- Open regionalism
- With more trade
- How and when to include Mexico, Central America and the Caribbean?
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The current uncertainty will lead to financial volatility in the coming weeks, but the international environment is expected to remain favourable.

Public policies should promote exports of skilled-labour-intensive services.

Convergence of trade agreements in the region should be encouraged.

- Flexibility, variable speeds and a shared final objective.

Alongside trade negotiations, there is considerable scope for moving forward with regional cooperation initiatives on energy, infrastructure, ICTs, innovation and aspects of social cohesion.

A strategic examination of links with Asia-Pacific is called for.

Trade strategies should not be considered without reference to advances in competitiveness and technological innovation.

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