

ENHANCEMENT OF INTEGRATION OF REGIONAL VALUE CHAINS IN ASIA AND LATIN AMERICA AND THE CARIBBEAN (LAC)

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Lima, August 17th, 2016

PURPOSE



1. International context
2. What is the status of Regional Value Chains in LAC?
3. Are there trade linkages between Asia and LAC?
4. LAC trade policy: Regional integration and FTAs
5. Conclusion



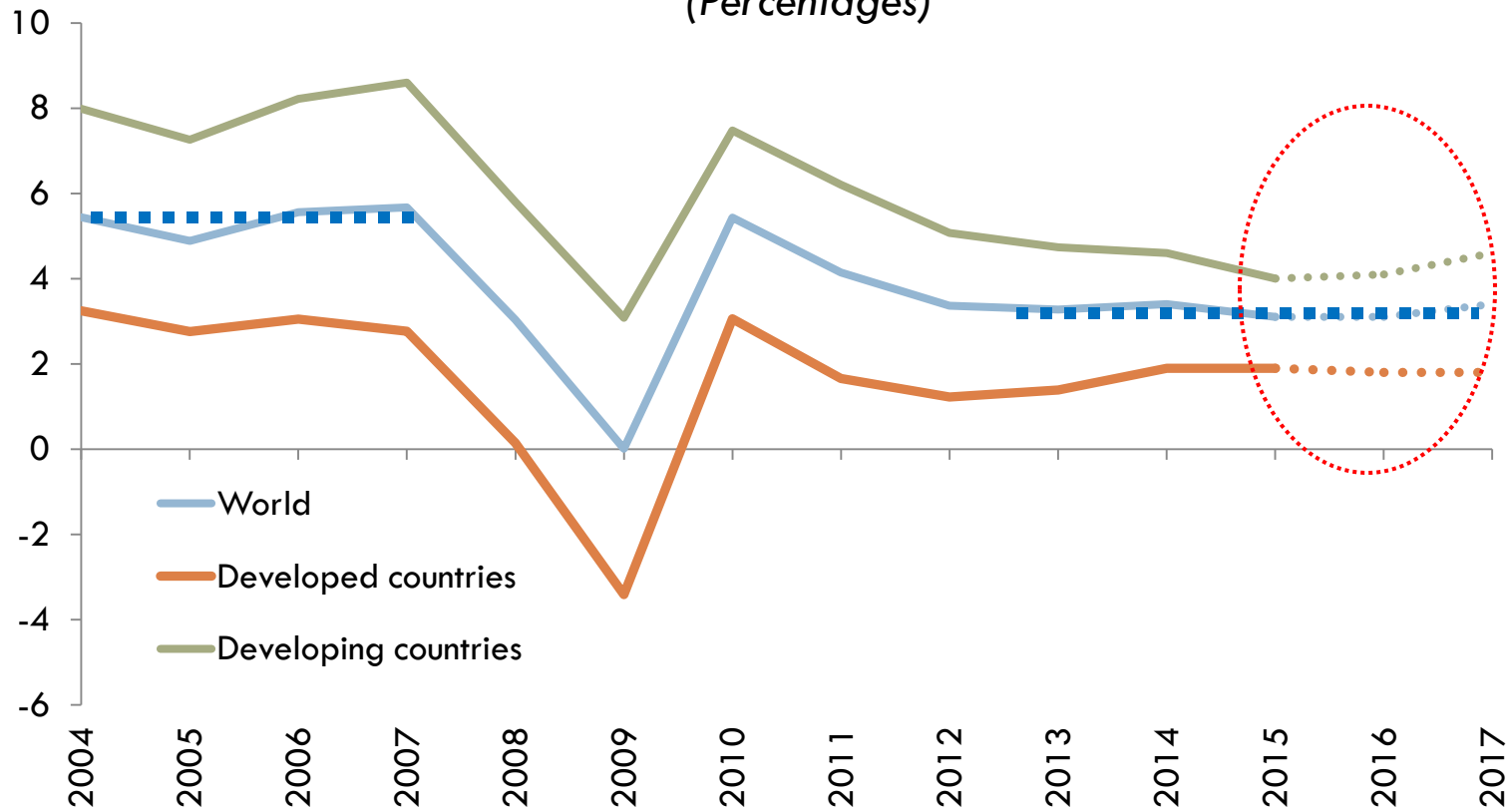
International Context



Global growth has not regained pre-crisis levels...

World and regions: GDP growth, 2004-2017

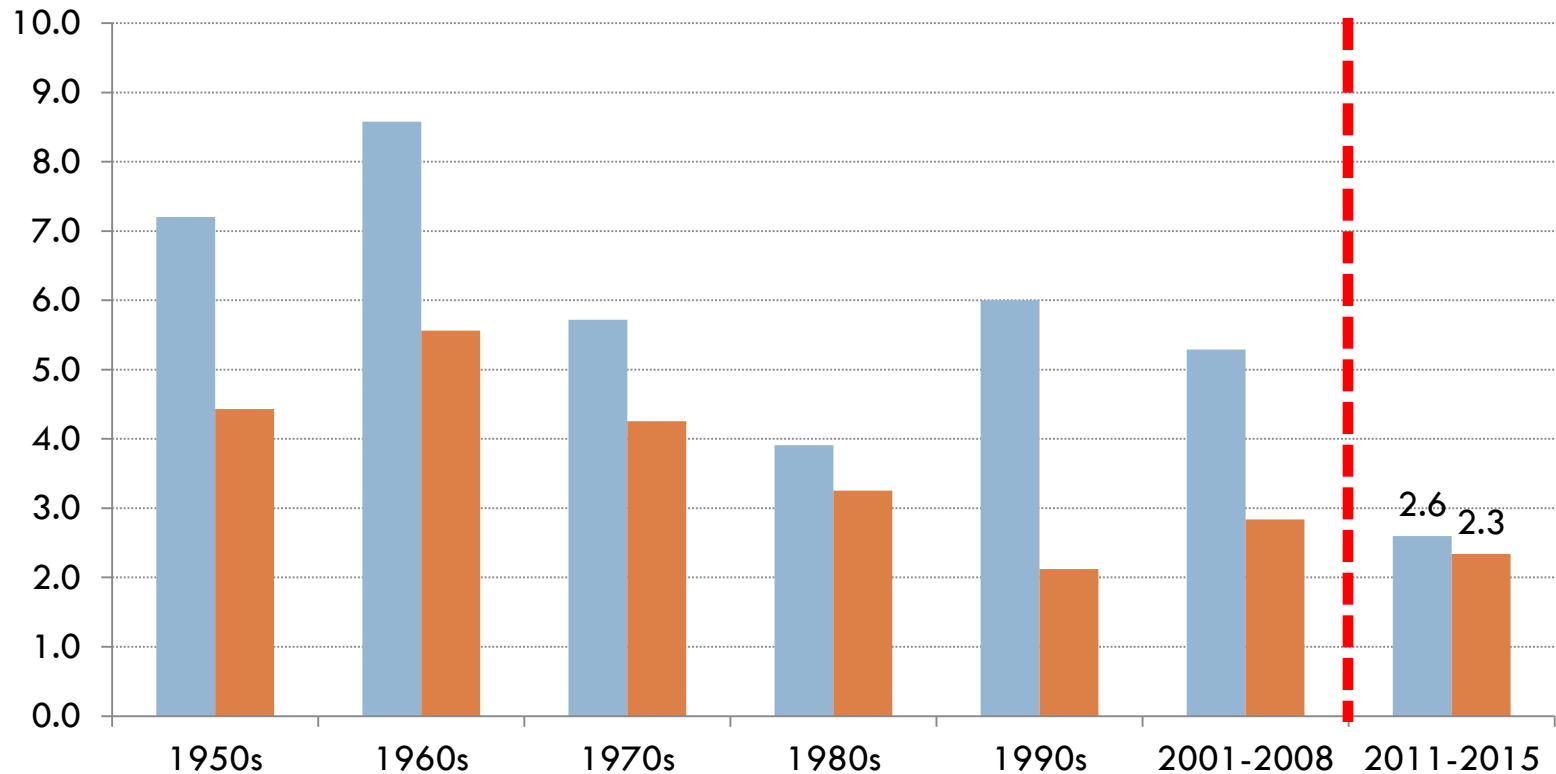
(Percentages)



Source: ECLAC, based on IMF World Economic Outlook, July 2016

... and trade growth is now similar to output growth

World: average annual growth in exports and gross domestic product, selected periods
(Percentages)



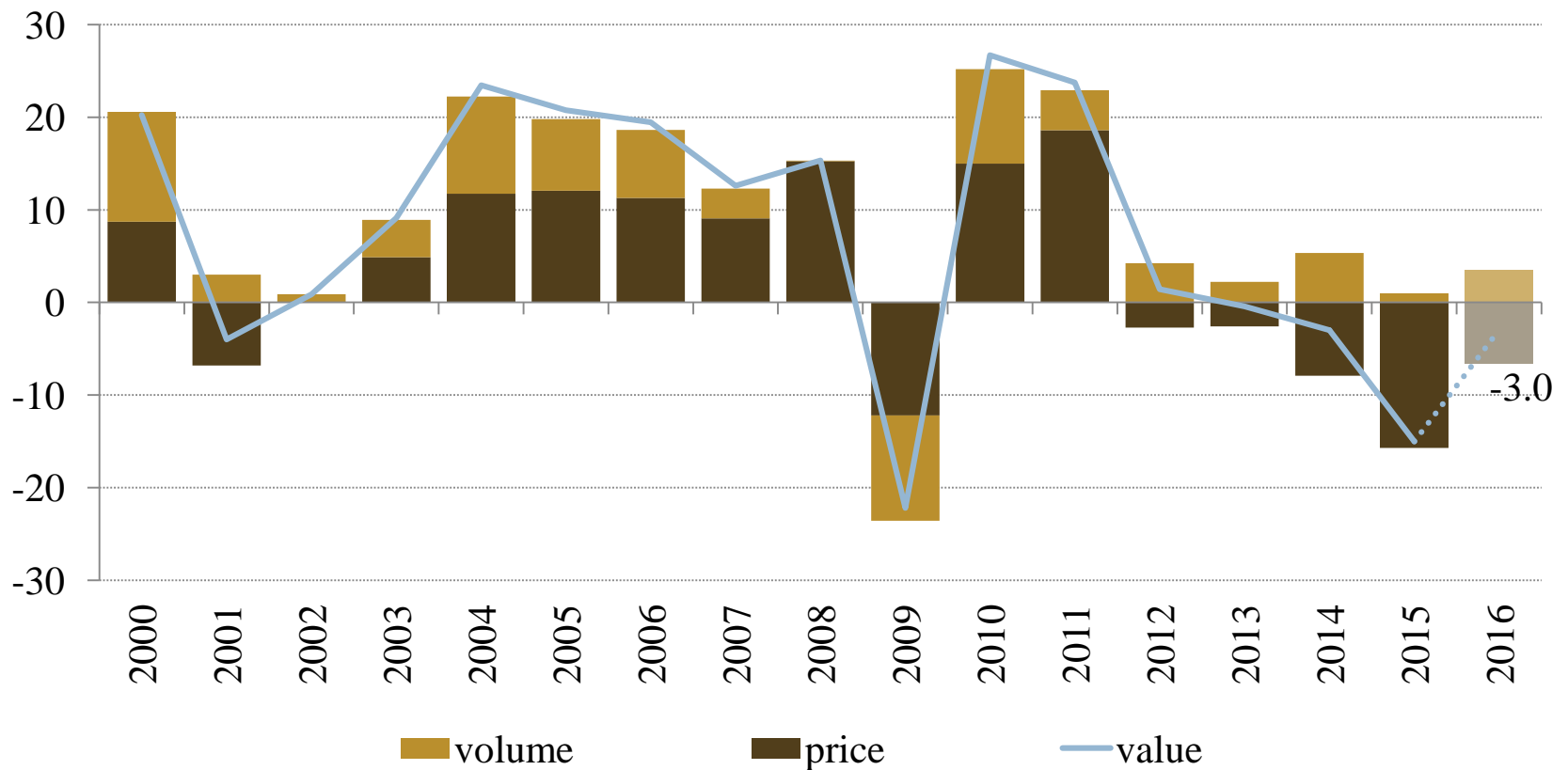
Source: ECLAC based on WTO data

■ Exports


■ GDP

LAC exports have stagnated over the last five years

Latin America and the Caribbean: annual variation in goods exports 2000-2016^P
(Percentages)

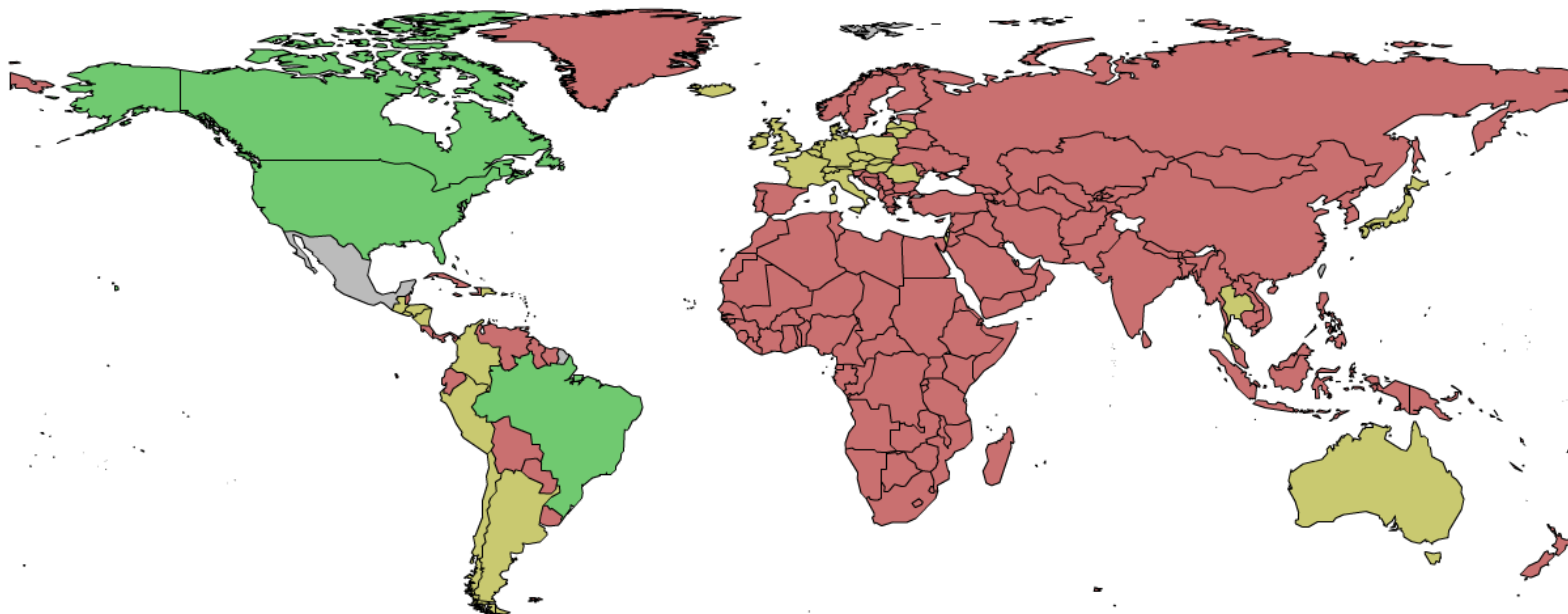


Source: ECLAC based on official national data; p figures for 2016 are preliminary forecasts



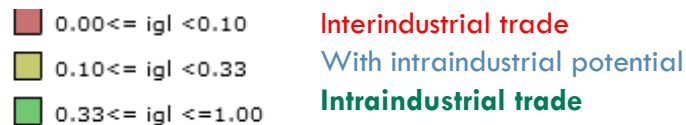
What is the status of Regional Value Chains in LAC?

The main industries in Mexico are tied to value chains in the North American Factory and include electric and electronics, automotive, and steel



Mexico: Presence of main industries in value chains in North American Factory
% of exports of intermediate goods

Industries	Mexico
Electric and electronics	25
Automotive (and auto parts)	21
Aerospace	1
Steel and metal industry	18
Machinery and equipment	13
Chemical and petrochemical	11
Medical Equipment	7
7 main industries	95



Generally, it involves industries that produce medium- and high-technology products, such as parts and pieces for motor vehicles and telecommunication equipment and parts, among others
95% of this trade is intra-industrial

At the regional level, the main productive chains are between countries that are geographically close

Brazil with Argentina



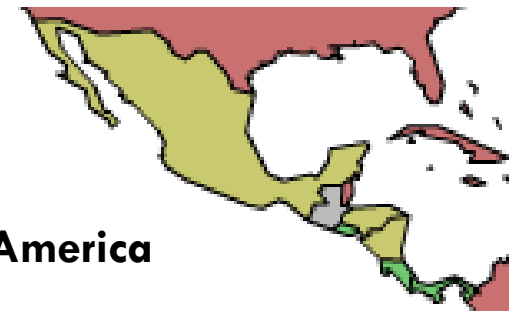
Colombia with Ecuador and Peru



Central America



Mexico with Central America



There are only a few sectors with regional value chains and in few countries

SELECTED CASES: MAIN INDUSTRIES IN INTRA-REGIONAL BILATERAL TRADE IN INTERMEDIATE GOODS

Industries	MERCOSUR	CACM	CAN
	Argentina – Brazil	Guatemala – Rest	Colombia - Rest
Agroindustry	3%	10%	3%
Paper and cardboard	5%	3%	8%
Textile and clothing	2%	9%	9%
Pharmaceutical	3%	12%	7%
Chemical and Petrochemical	33%	33%	37%
Steel and Metal Industry	16%	22%	23%
Automotive (and auto parts)	24%	0%	2%
Electric and electronics	3%	4%	3%
Machinery and equipment	8%	1%	1%

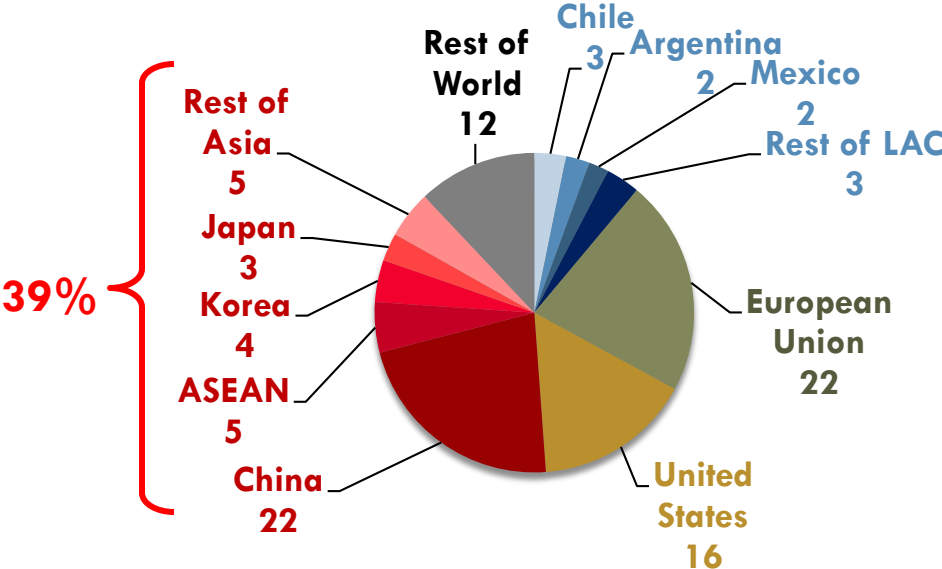
Source: ECLAC based on UN Comtrade.

With a greater presence

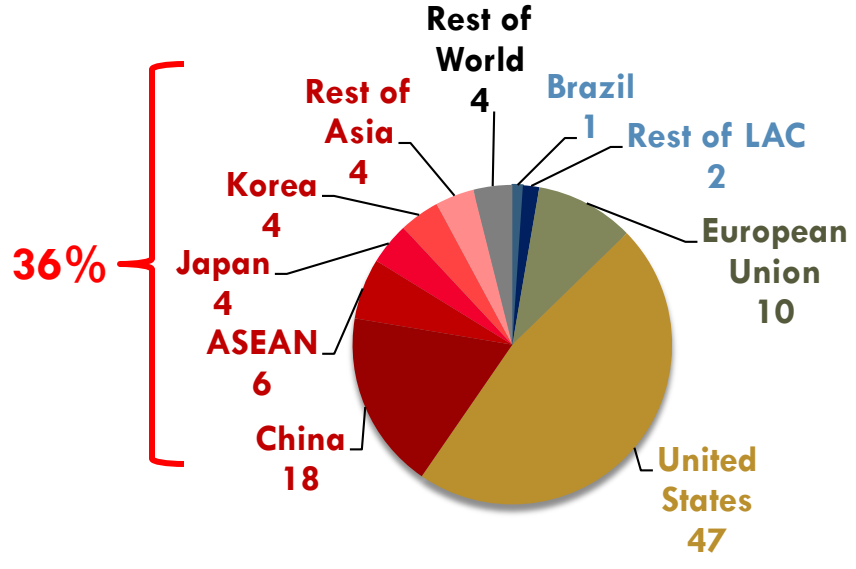
Brazil and Mexico import more industrial intermediate goods from Asia and from the rest of the world than from LAC partners

BRAZIL AND MEXICO: DISTRIBUTION OF IMPORTS OF INDUSTRIAL INTERMEDIATE GOODS BY ORIGIN, 2015
(Percentages)

BRASIL



MEXICO



Source: ECLAC based on UN Comtrade.



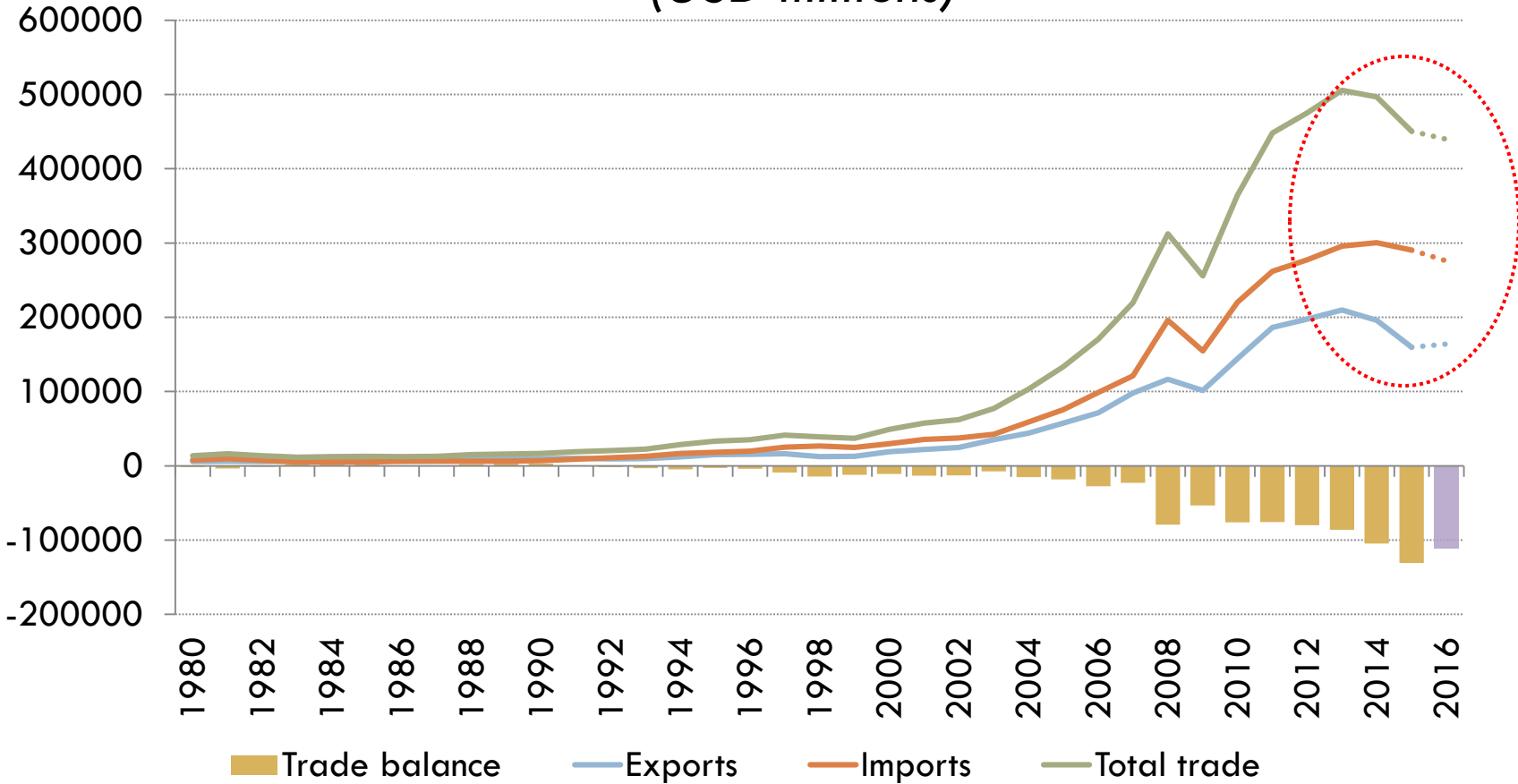
Are there trade linkages
between Asia and LAC?

Main features of Asia-LAC trade

- **Inter-industry trade:** Commodities for manufactures
- **LAC** and almost all LAC countries **have a trade deficit** with Asia
- **Strongly concentrated:**
 - ▣ **By country:** Argentina, Brazil, Chile, Mexico and Peru account for 80% of LAC exports; China accounts for more than 50% of Asian exports
 - ▣ **By product:** soybeans, iron and copper ore and petroleum account for more than half of LAC total exports
 - ▣ **By number of companies**
- **Asian exports are much more diversified:**
 - ▣ Telecommunication, vehicles, computers, steel, electronics, transport equipment, footwear, toys, kitchenware, tires, etc.

LAC trade with Asia-Pacific boomed in the last decade but is now falling (at least, in value)

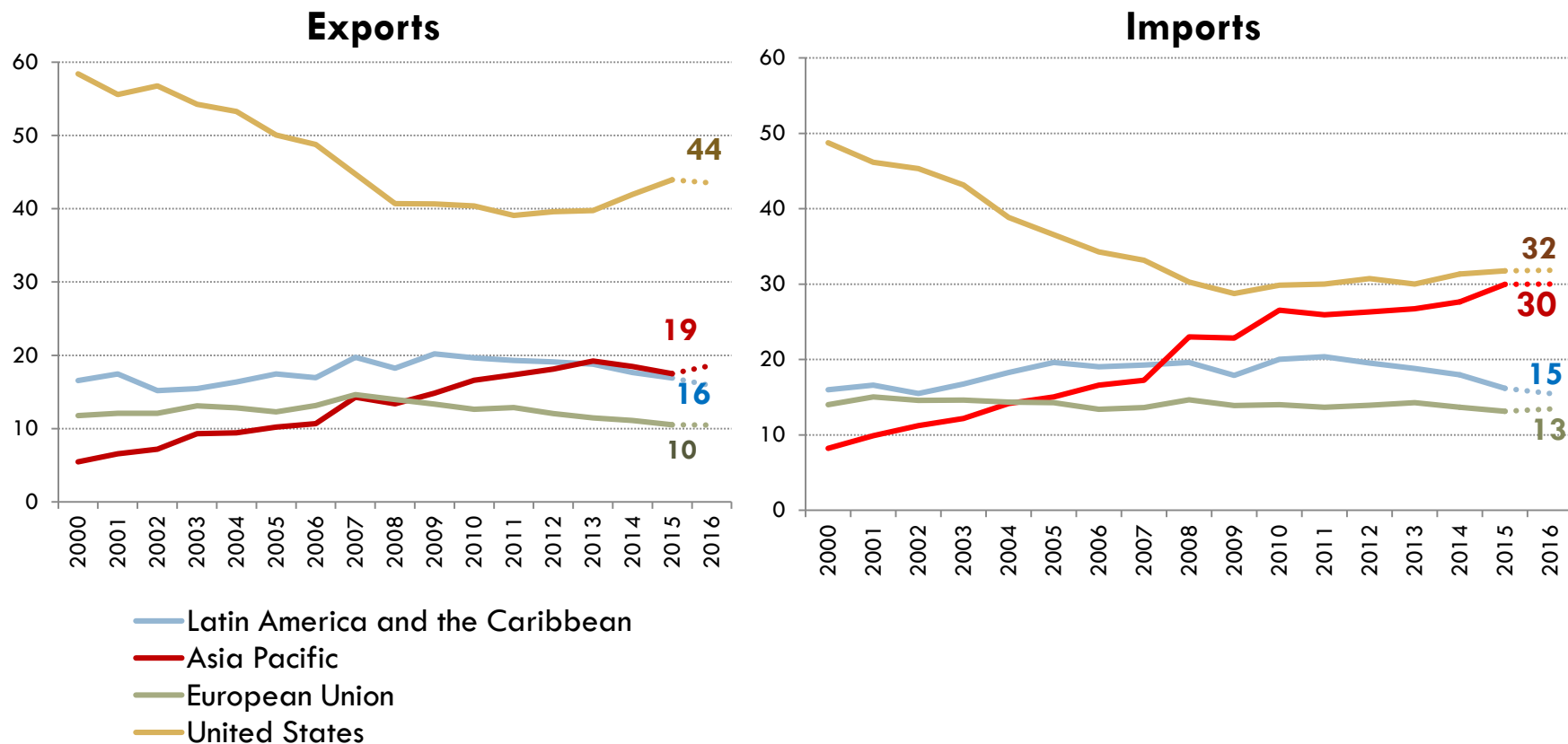
LAC merchandise trade with Asia-Pacific, 1980-2016^P
(USD millions)



Source: ECLAC based on official national data; ^P figures for 2016 are preliminary forecasts

Asia is now LAC's second largest trade partner after the United States

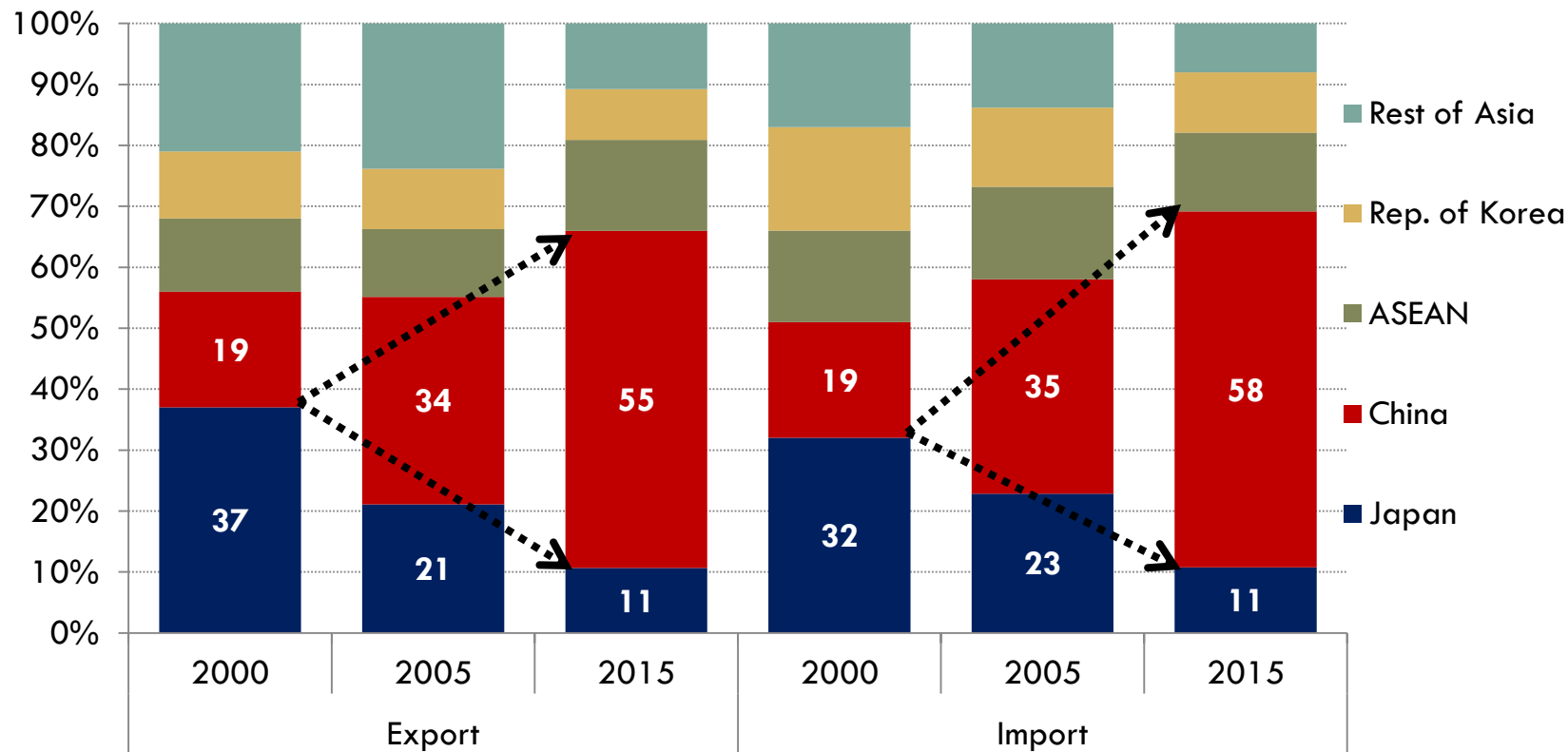
LAC total merchandise trade, 2000-2016^P
(share of selected partners in %)



Source: ECLAC based on official national data; ^P figures for 2016 are preliminary forecasts

China accounts for half of LAC trade with Asia while Japan's share has fallen

LAC merchandise trade with Asia-Pacific, 2000-2015
(share of selected partners in perctanges)



LAC exports to Asia are less diversified than to other regions...

LAC countries' exports to selected markets, 2015
(number of products)^a

	World	LAC	USA	European Union	China	Japan
Argentina	3,620	3,394	1,346	1,445	384	316
Brazil	4,336	3,925	2,966	3,061	1,433	1,246
Chile	4,133	3,779	1,412	1,602	389	309
Costa Rica	3,160	2,801	1,886	1,005	161	104
Ecuador	2,525	1,888	1,185	904	134	100
Guatemala	3,439	3,281	1,404	741	137	163
Mexico	4,624	3,885	4,295	2,892	1,386	1,421
Paraguay	1,443	1,142	330	395	67	24
Peru	3,493	3,044	1,904	1,649	239	477

Source: ECLAC, based on UN Comtrade.

^a Products are defined at the 6-digit level of the Harmonized System (HS6) 2012.

... and are concentrated in an even smaller number of these goods

Rank	SITC Code	Description of main export products	2005 (Share %)	2015 (Share %)
1	222	Seeds and oleaginous fruit for 'soft' fixed oil	7.5	14.2
2	287	Ores and concentrates of base metals	15.8	13.0
3	333	Crude petroleum	6.3	12.5
4	682	Copper	8.6	8.0
5	281	Iron ore and concentrates	7.1	6.9
6	011	Meat and edible meat offal	7.1	4.8
7	081	Feeding stuff for animals	4.7	4.3
8	334	Petroleum products, refined	0.6	4.0
9	251	Pulp and waste paper	2.1	2.5
10	044	Maize, unmilled	0.5	2.4
		Top 10	60.4	72.7
		Rest	39.6	27.3

Source: ECLAC based on UN Comtrade.

LAC imports from Asia are much more diversified, but...

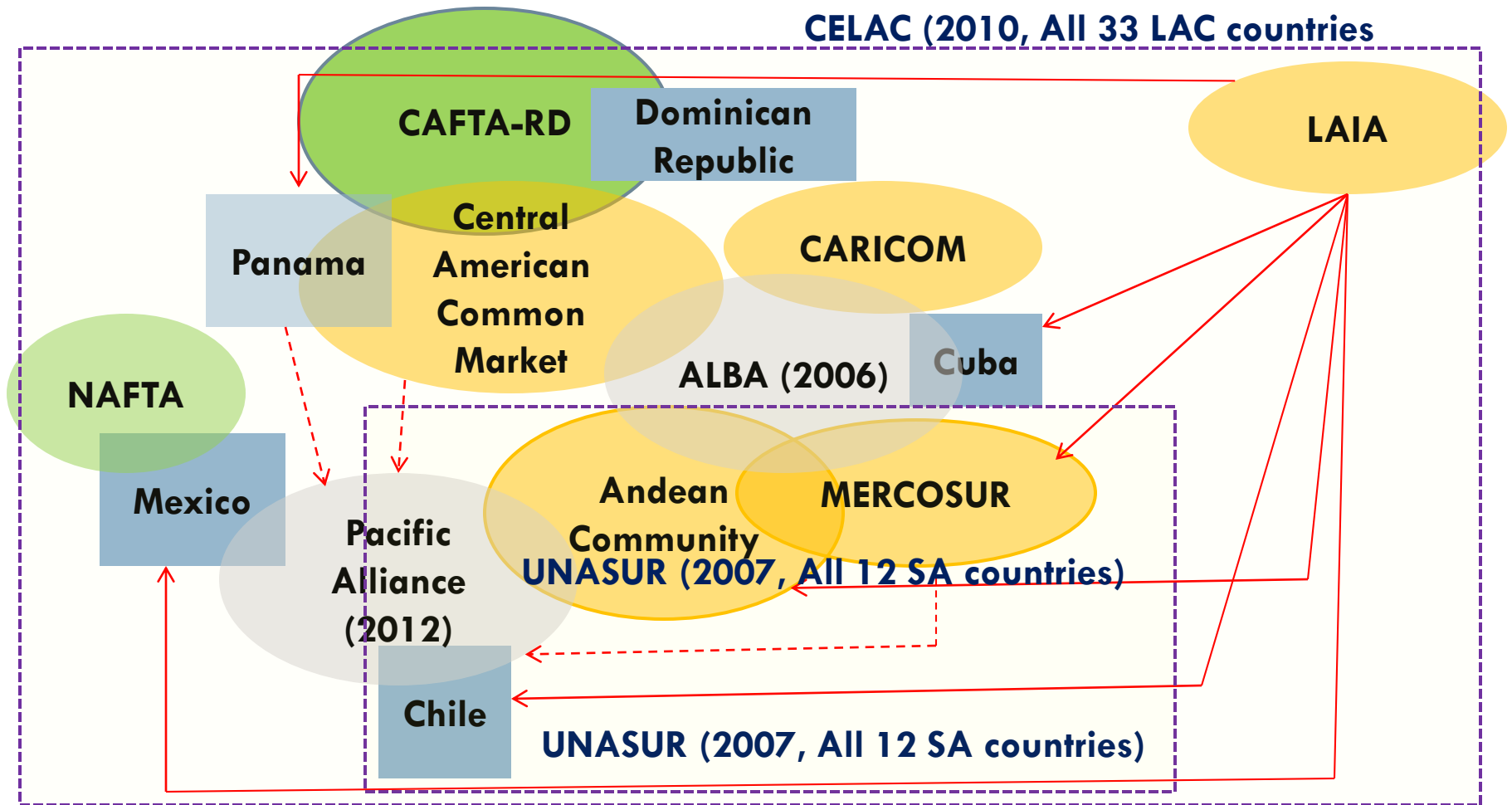
Rank	SITC Code	Description of main imported products	2005 Share (%)	2015 Share (%)
1	764	Telecommunication equipment	10.0	12.2
2	776	Thermionic, microcircuits, transistors, valves	10.2	6.5
3	752	Automatic data processing machines and units	5.7	4.5
4	781	Passenger motor vehicles (excluding buses)	4.7	3.4
5	759	Parts and accessories for computers	4.5	3.1
6	784	Motor vehicle parts and accessories	1.9	3.0
7	778	Electrical machinery and apparatus	3.4	2.7
8	772	Electrical apparatus for handling electrical circuits	3.5	2.6
9	674	Universals, plates, and sheets, of iron or steel	1.0	2.0
10	749	Non-electric parts and accessories of machinery	1.5	1.8
		Top 10	46.3	41.9
		Rest	53.7	58.1

Source: ECLAC based on UN Comtrade.



LAC trade policy: Regional integration and FTAs

The landscape of LAC economic integration in 2016 is more complex than in the past.



It is the “spaghetti bowl” effect

...but modest progress in Non tariff Measures (NTMs)

Roberto Bouzas, 2009



Simultaneously, a large part of LAC countries have entered into FTAs with extra-regional partners

Trade Agreements between countries and blocs with extra-regional trading (as of August 2016)

	United States	European Union	Canada	EFTA	Japan	China	Rep. of Korea
Chile	X	X	X	X	X	X	X
Colombia	X	X	X	X	X	EST	X
Costa Rica	X	X	X	X			
Central America	X	X	X	X			
Mexico	X	X	X	X	X		
Peru	X	X	X	X	X	X	X
MERCOSUR		NEG					

Source: OAS Foreign Trade Information System (FTIS). X: In force; NEG: Under negotiation; EST: In study

Summary of LAC-Asian Trade Agreements

	Australia	Brunei Darussalam	China	Republic of Korea	Hong Kong, China	India	Japan	Malaysia	New Zealand	Singapore	Thailand	Taiwan Province of China	Viet Nam
Argentina						PSA (2004)							
Brazil						PSA (2004)							
Chile	FTA (2009)	FTA (2006)	FTA (2006)	FTA (2004)	FTA (2014)	PSA (2007)	AA (2007)	FTA (2012)	FTA (2006)	FTA (2006)	FTA (2013)*		FTA (2014)
Colombia			FS	FTA (2014)			TN						
Costa Rica			FTA (2011)	FS						TLC (2013)			
El Salvador				FS								FTA (2008)	
Guatemala				FS								FTA (2006)	
Honduras				FS								FTA (2008)	
Mexico	TPP	TPP					AA (2005)	TPP	TPP	TPP			TPP
Nicaragua												FTA (2008)	
Panama				FS						FTA (2006)		FTA (2004)	
Paraguay						PSA (2004)							
Peru	TPP	TPP	FTA (2010)	FTA (2011)			AA (2012)	TPP	TPP	FTA (2009)	FTA (2011)		TPP
Uruguay						PSA (2004)							

Pacific Alliance members have been very active in negotiating trade agreements with Asia Pacific

Pacific Alliance members: FTA network with Asia Pacific (as of August 2016)

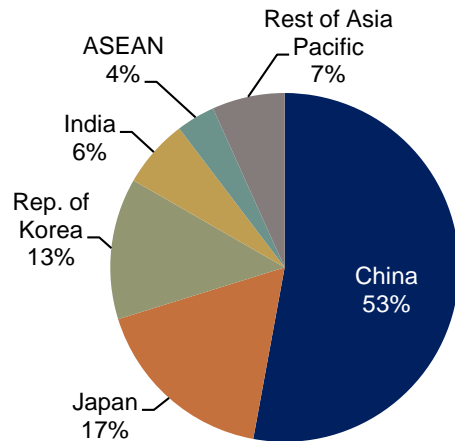
	China	Japan	Republic of Korea	Others (in force)	TPP
Chile	Yes	Yes	Yes	Australia, Hong Kong (SAR China), India, Malaysia, P4 ^a , Thailand, Vietnam	Yes
Colombia	No	Under negotiation	Yes	No	No
Mexico	No	Yes	No	No	Yes
Peru	Yes	Yes	Yes	Singapore, Thailand	Yes

Source: Organization of American States, Foreign Trade Information System, www.sice.oas.org.

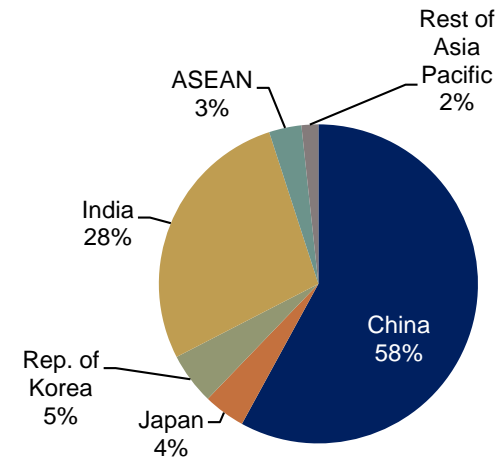
^a Trans-Pacific Strategic Economic Partnership Agreement. Its members are Brunei Darussalam, Chile, New Zealand and Singapore.

The Main partners in Asia Pacific for the Pacific Alliance are: China, India, Japan, Korea and ASEAN

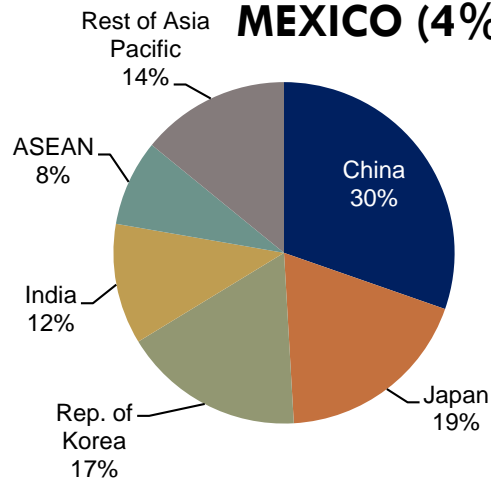
CHILE 50%



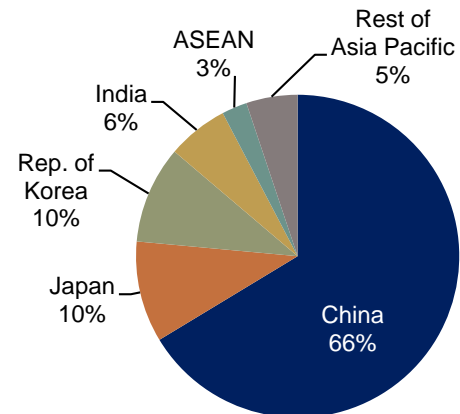
COLOMBIA 18%



MEXICO (4%)



PERU (33%)



Sectors with potential productive integration: agro industry, vehicles, copper products, chemicals, among others

Pacific Alliance: Main group of products with potential, 2014-2015

Export intensity	Agriculture and agro industry	Petroleum and derivatives	Copper products	Woods and furniture	Textiles and apparel	Paper and paperboard	Chemicals & pharmaceuticals	Rubber and plastics	Vehicles & parts	Other manufactures	Share of intermediate goods
	X > 10%	X > 5%	2% < X < 5%								
Chile	X		X	X		X		X			53%
Colombia	X	X			X		X		X		58%
Mexico	X						X	X	X	X	82%
Peru	X	X	X		X		X	X			44%

Source: ECLAC based on UN Comtrade and in the calculation of Grubell Lloyd intra industry Index

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Conclusions

Conclusions

- **There are few value chains in the region; rather, they are mostly centered in regional value chains:**
 - In the case of Mexico and Central America, centered around the United States (North America Factory)
 - FTAs can function around the value chains: NAFTA, DR-CAFTA, Mexico-Central America FTA, Central American Common Market, MERCOSUR
 - The Pacific Alliance commitments make the difference in rules to promote value chains
 - There are two types of insertion in the sub-region:
 - Value chains with the United States that are more competitive and have greater value added (electronics, auto parts, automotive, medical equipment, among others)
 - Insertion of Central American enterprises in subregional chains with little value, such as the early stages of textile and clothing production
- **At the regional level, there is a need for leadership to create production networks**
 - Brazil and Mexico could take the lead
 - Public policies should take into consideration productive chains

How to promote Value Chains and Productive Integration among both regions?

- **Promote public-private dialogue (such as this forum)**
- **Plurinational Industrial Policies**
 - Clusters in sectors with the most intra-industrial potential
 - Regulatory convergence
 - Joint programs to promote SMEs
 - Training
 - Quality certifications
 - Traceability and carbon footprint
- **Address deficits in infrastructure**
- **Coordinated progress in trade facilitation**
 - Single window, digitalization of documents
- **Incorporate Trans-Latins in the effort**
- **Support from the regional development banks**

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TPP will open new markets in Asia for its members but also increase competition in the US market...

LAC/ TPP Country	TPP Country	Possibly affected sectors
Peru	Vietnam	Textiles and apparel (clothing for men, women and children), crustacean and fish, coffee and sweeteners
Mexico	Malaysia	telecommunication equipment, data processing machines, electronic devices, home devices and appliances
Mexico	Japan	Passenger automobiles, auto parts, telecommunication equipment, electronic devices, motors

...and also creates new competition for the rest of countries that are not part of the TPP

LAC Country	TPP Country	Possibly affected sectors
El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic	Vietnam	Textiles and apparel (clothing for men, women and children), footwear, crustacean and fresh fish
Costa Rica	Japan/ Malaysia	Medical instruments and apparatus, lamps, electric tubes and valves, electric machines and devices
Uruguay	New Zealand	Meat and edible meat offal, malt and starches, dairy products especially cheese and curd, animal feed
Brasil	Japan	Aircraft and parts and pieces, vehicles and auto parts