

# RISING CONCENTRATION IN ASIA- LATIN AMERICAN VALUE CHAINS CAN SMALL FIRMS TURN THE TIDE?

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# Rising concentration in Asia-Latin American value chains

Can small firms turn the tide?

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Economic Development



UNITED NATIONS

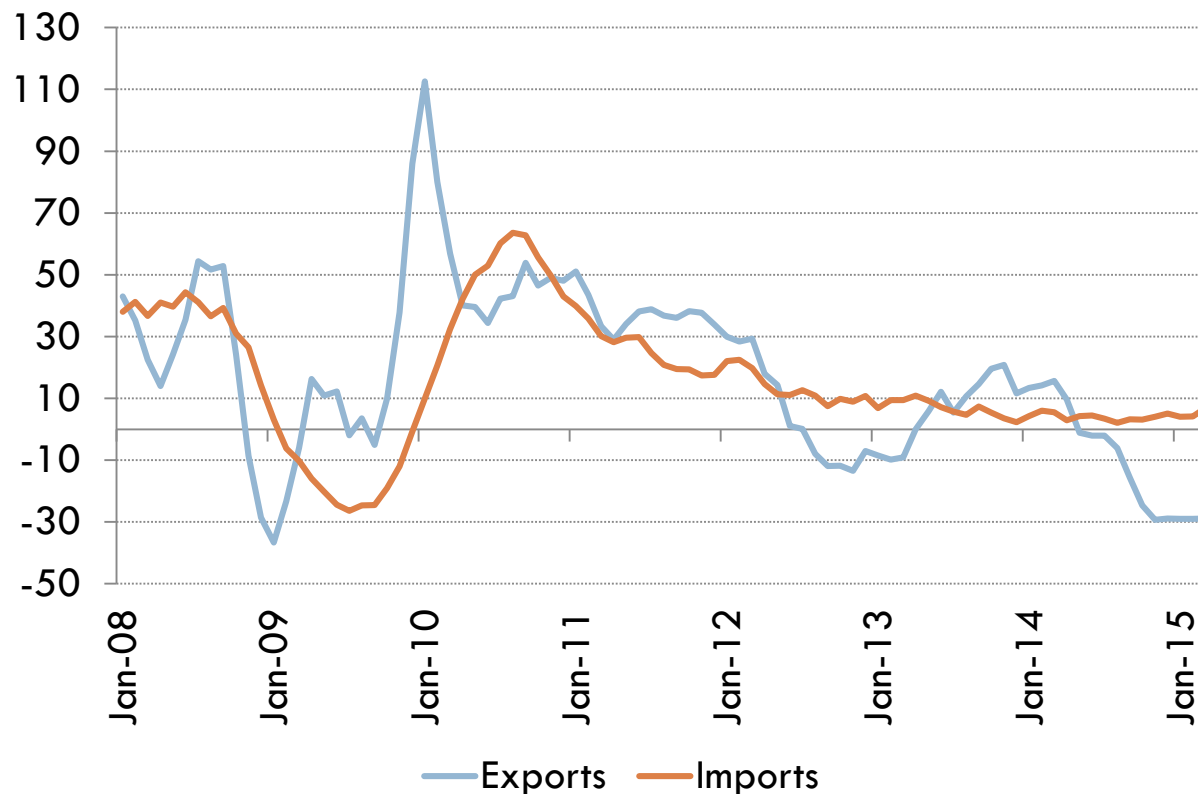
ECLAC



# Bilateral trade between China and Latin America has lost momentum

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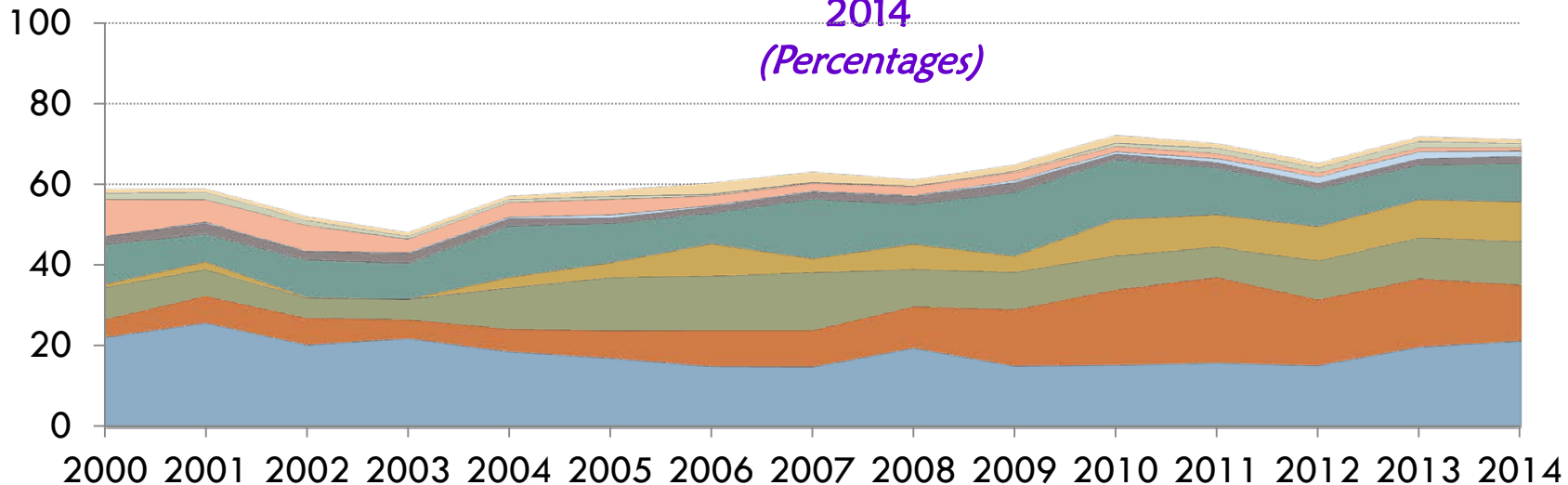
Latin America and the Caribbean : Annual variation in value of trade with China, 2008 a 2015  
(Percentages)



# The region's exports to China are concentrated increasingly in few products ...

Latin America and the Caribbean: Share of ten main export products in total, 2000-2014

(Percentages)



- Soja
- Mineral de hierro y sus concentrados
- Minerales de cobre y sus concentrados
- Aceites de petróleo
- Cobre refinado
- Pasta química de madera de especies no coníferas
- Cobre sin refinar
- Harinas y gránulos de pescado, crustáceos u otros invertebrados acuáticos, no aptos para consumo humano
- Azúcar de caña, sin refinar
- Desperdicios y desechos de cobre

Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de Naciones Unidas, Base de Datos Estadísticos sobre el Comercio de Mercaderías (COMTRADE).

# ... and also few firms and low participation of SMEs

## Latin America(8 countries): Indicators of export firms, 2011 (Percentages)

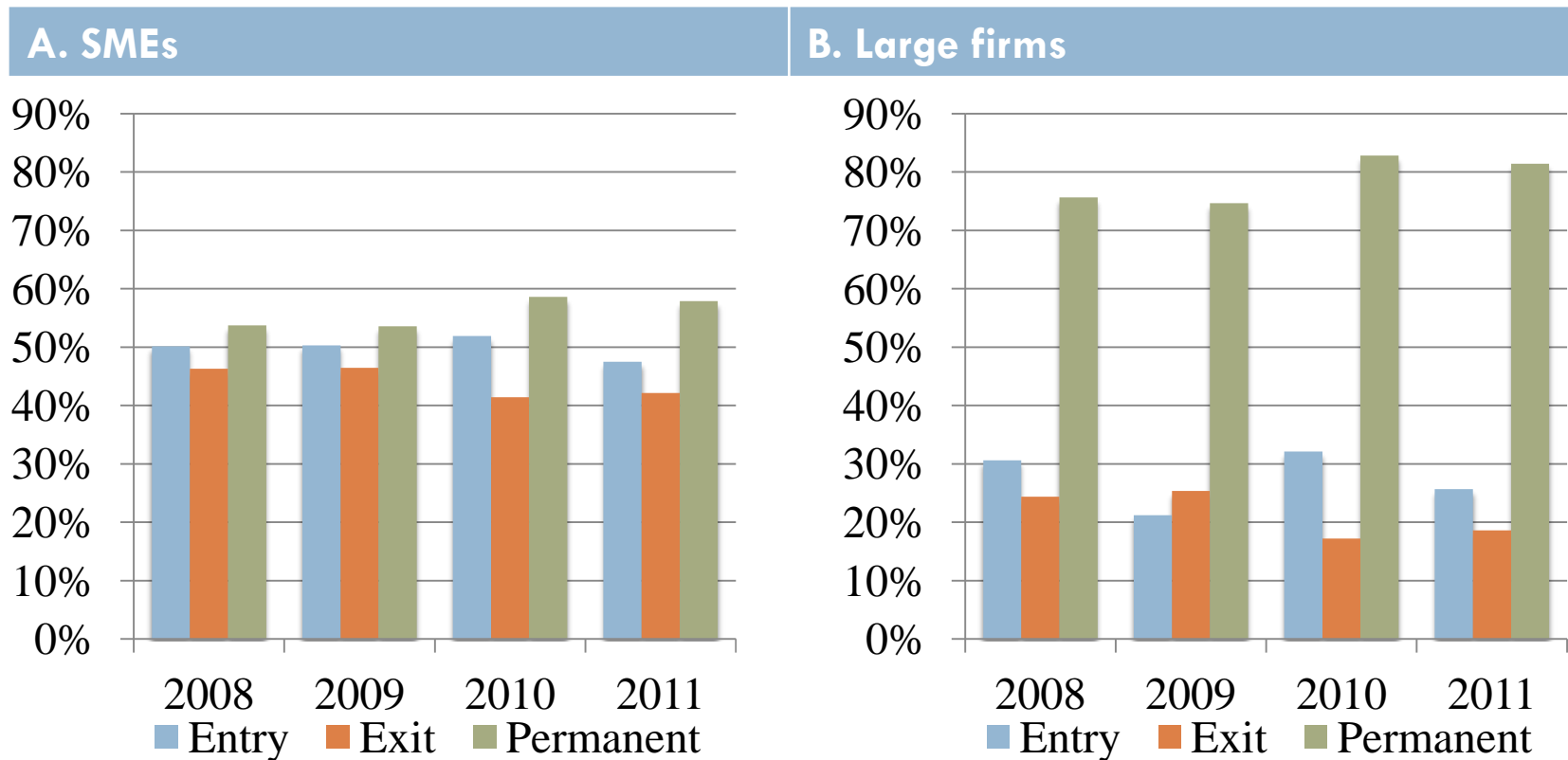
		<b>To the world</b>	<b>To China</b>
<b>Concentration of export value</b>	5 largest firms	33,4	57,4
	Ten main firms	41,3	62,8
<b>Participation of SMEs<sup>a</sup></b>	As a share of total number of exporters	89,4	79,9
	As a share of the value of exports	8,8	5,6

Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de datos de las oficinas nacionales de aduanas de ocho países (Bolivia (Estado plurinacional de), Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Perú y Uruguay).

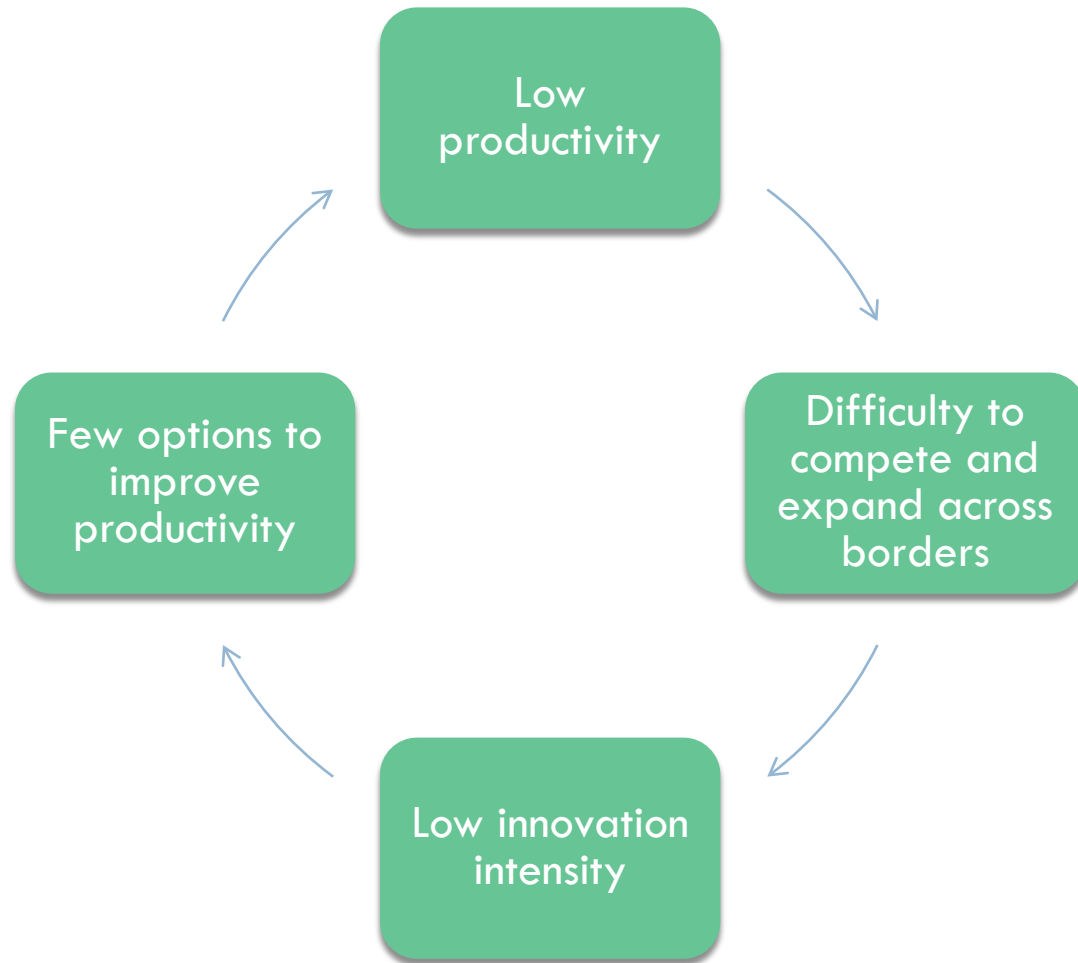
<sup>a</sup> Se definen las pymes exportadoras como las empresas que han realizado envíos al exterior inferiores al PIB per cápita del país respectivo, expresado en paridad de poder adquisitivo, multiplicado por 1.000.

# Export SMEs to Asia show high rotation rates

Firm rotation to Asia, 2008 to 2011  
(Percentages)



# Catch 22: Productivity, innovation and internationalization



# The potential benefit of TNC-SME linkages

- **TNCs can be a powerful sources of demand for the output of local suppliers and subcontractors.**
- **They can raise the capabilities and quality to international level more effectively than links among domestic firms.**





# Common challenges

## SMEs

- Little knowledge of TNCs' procurement procedures and requirements
- Unable to meet corporate requirements or international standards (price, quality, delivery, etc.)
- Lack of market information, international exposure and networks
- Limited human and financial resources to handle large volumes
- Weak managerial skills and entrepreneurial behaviour



## TNCs

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- **Lack of communication with local suppliers (ICT tools, procurement procedures, culture)**
  - **Financial transaction requirements (bank accounts, bookkeeping)**
  - **Complex payment procedures and requirements for local sourcing (time, volumes, standards)**
  - **Limited flexibility with short-noticed orders/changes**

# Examples of Supplier Development Programs

País	Nombre del programa	Agencia Responsable
Argentina	Programa de Desarrollo de Proveedores	EMPRETEC
Brazil	Projeto Vínculos	SEBREA
Chile	Programa de Desarrollo de Proveedores	CORFO
El Salvador	Programa de Desarrollo de Proveedores	MINEC
Costa Rica	Proyecto de Desarrollo de Proveedores para ETNs de alta tecnología	CICR
Mexico	Mexico Emprende	Ministry of Economy

# Some lessons of SPDs

- Assist local firms in compliance of international standards
- Increase likelihood MNCs will stay within country
- Raise local purchases of MNCs and substitute imports in a competitive way
- Other goals:
  - Advise government to create favorable environment for business linkages
  - Share international best practices

# Conclusions and recommendations

- Trade between Latin America – China boomed, but:
  - Concentrated in few commodities and firms; Reprimarization of X
  - Accelerated pace of deindustrialization of Latin America
  - Growing trade deficit in manufactures
- Possible strategies to diversify trade:
  - Attract Chinese FDI to manufacturing and services
  - Deepen regional integration to attract more Chinese FDI
  - Reap low hanging fruits: processed food and tourism
  - Supplier development to include more SMEs in China linked VCs
  - Create Latin America center for promote LA exports in China

**Muchas gracias!**

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**Santiago, 5 November 2015**