

# Regional integration

## Towards an inclusive value chain strategy

Lima, 7 May 2014



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# Introduction: time for production integration

- Integration is a multidimensional process encompassing economic, political, social, cultural and environmental issues.
- The document focuses specifically on the production dimension, identifying it as a strategic element of regional integration for the coming years.
- Central thesis: in order to move towards structural changes for equality, the region must forge closer regional production ties.
- Tackling inequality as well as social policies calls for a change in the production and export structure and the creation of good quality and progressively more sophisticated activities.
- The regional space is the most conducive to this transformation



# The dynamics and emphasis of regional integration have changed greatly in the past decade

Several Governments had a new vision of the type of integration that prevailed in the 1990s, especially the emphasis on commercial issues.



The political and social dimensions are reaffirmed as being of the utmost importance along with concern for achieving greater production integration



New entities have emerged (CELAC, UNASUR, ALBA-TCP, the Pacific Alliance) in response to traditional integration schemes; multiple memberships add to the complexity of the institutional integration architecture



Traditional deficiencies persist (sluggish intraregional trade and production integration), which coexist with growing de facto integration (investments, migration, tourism, etc.)



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# Special challenges to integration in the Caribbean

## The Caribbean is different:

- The small size of the subregional market
- Heavy external debt burden. Fiscal and external disequilibria
- Lack of complementarity between the various economies
- High dependency on : (i) external markets and (ii) a limited range of commodities and services
- Island status, major challenges with connectivity
- Heightened vulnerability to natural disasters and environmental damage

## In this context, the recommendations are as follows:

- **Closer integration between CARICOM and Central America, Cuba, Dominican Republic and Panama** given their strong complementarity
- **Strengthened and coordinated cooperation towards the Caribbean from the rest of the region**, defined within the framework of CELAC



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# A COMPLEX GLOBAL ECONOMIC ENVIRONMENT



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# As a group, the developing economies continue to grow the fastest and the gap with the developed countries has narrowed

**WORLD AND SELECTED ECONOMIES: GDP VARIATION**  
(Percentages)

	2010	2011	2012	2013	2014	2015
<b>World</b>	<b>5.1</b>	<b>3.9</b>	<b>3.2</b>	<b>3.0</b>	<b>3.6</b>	<b>3.9</b>
<b>Developed countries</b>	<b>3.0</b>	<b>1.6</b>	<b>1.4</b>	<b>1.3</b>	<b>2.2</b>	<b>2.3</b>
United States	2.4	1.8	2.8	1.9	2.8	3.0
Eurozone	2.0	1.4	-0.7	-0.5	1.2	1.5
Japan	4.5	-0.6	1.4	1.5	1.4	1.0
<b>Developing and emerging economies</b>	<b>7.4</b>	<b>6.3</b>	<b>5.0</b>	<b>4.7</b>	<b>4.9</b>	<b>5.3</b>
China	10.4	9.3	7.7	7.7	7.5	7.3
India	10.1	7.9	4.7	4.4	5.4	6.4
<b>Latin America and the Caribbean</b>	<b>5.9</b>	<b>4.3</b>	<b>3.1</b>	<b>2.5</b>	<b>2.7</b>	<b>3.0</b>

Source: FMI, World Economic Outlook, abril de 2014, excepto CEPAL para América Latina y el Caribe (2010-2014). Los datos para 2014 y 2015 son proyecciones.



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# Higher but modest growth rates in the developed countries

**United States:** Will grow by 2.8% in 2014  
(versus 1.9% in 2013)

*Concern at the timing of the gradual withdrawal  
of quantitative easing, high public debt*

**Eurozone:** At the end of 2013 these countries emerged from  
a six-quarter-long recession, but are expected to grow by  
just 1.2% in 2014, with high levels of unemployment

*Concern at deflationary pressures and the complexities  
of the banking union*

**Japan:** Is experiencing growth of about 1.5% thanks to  
macro-heterodox policies and the devaluation of the yen

*The high public debt and scant advances with structural  
reforms remain a cause for concern*



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# Slowdown in the emerging economies

**The growth gap is narrowing:** In 2014-2019, the difference between the average growth rate of the developed and developing countries (2.3% versus 5.3%) is expected to be the lowest since 2002

**Phasing out of quantitative easing in the United States**

**Slowdown in China as from 2012**, due to lacklustre demand in the developed countries and the rebalancing of the growth model

**The external context is more challenging for the developing countries:**

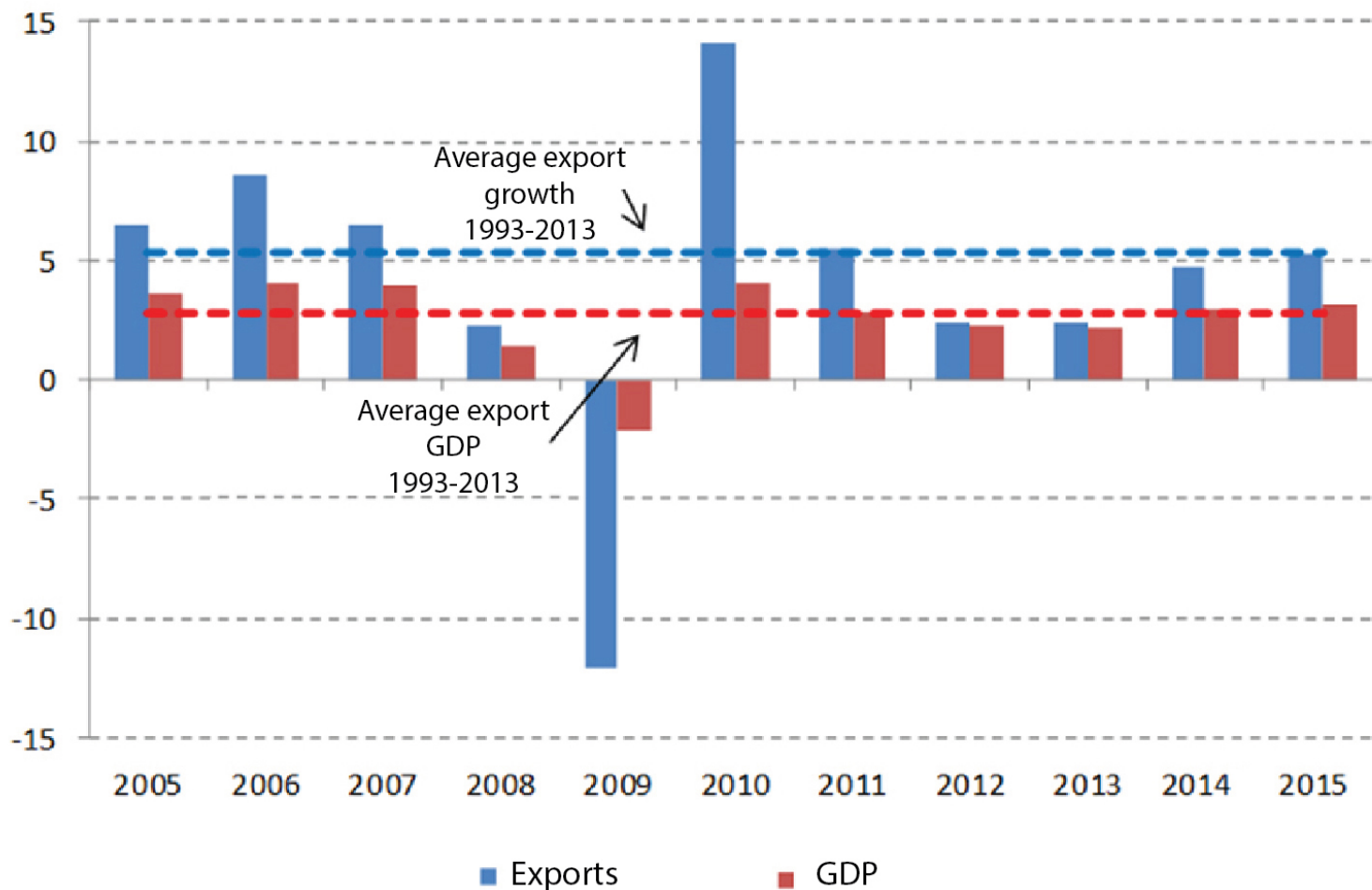
- Less liquidity (due to withdrawal of quantitative easing in the United States)
- Lower commodity prices (due to lower demand in China)





# World trade has been sluggish although it is starting to recover

**GROWTH IN THE VOLUME OF GOODS EXPORTS AND WORLD GDP, 2005-2015<sup>a</sup>**  
(Annual percentage variation)



Source: Secretariat of the World Trade Organization.

<sup>a</sup> The figures for 2014 and 2015 are projections.



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# Impact of the global situation on Latin America and the Caribbean

**Growth has been slowing since 2011 (2.5% in 2013)**

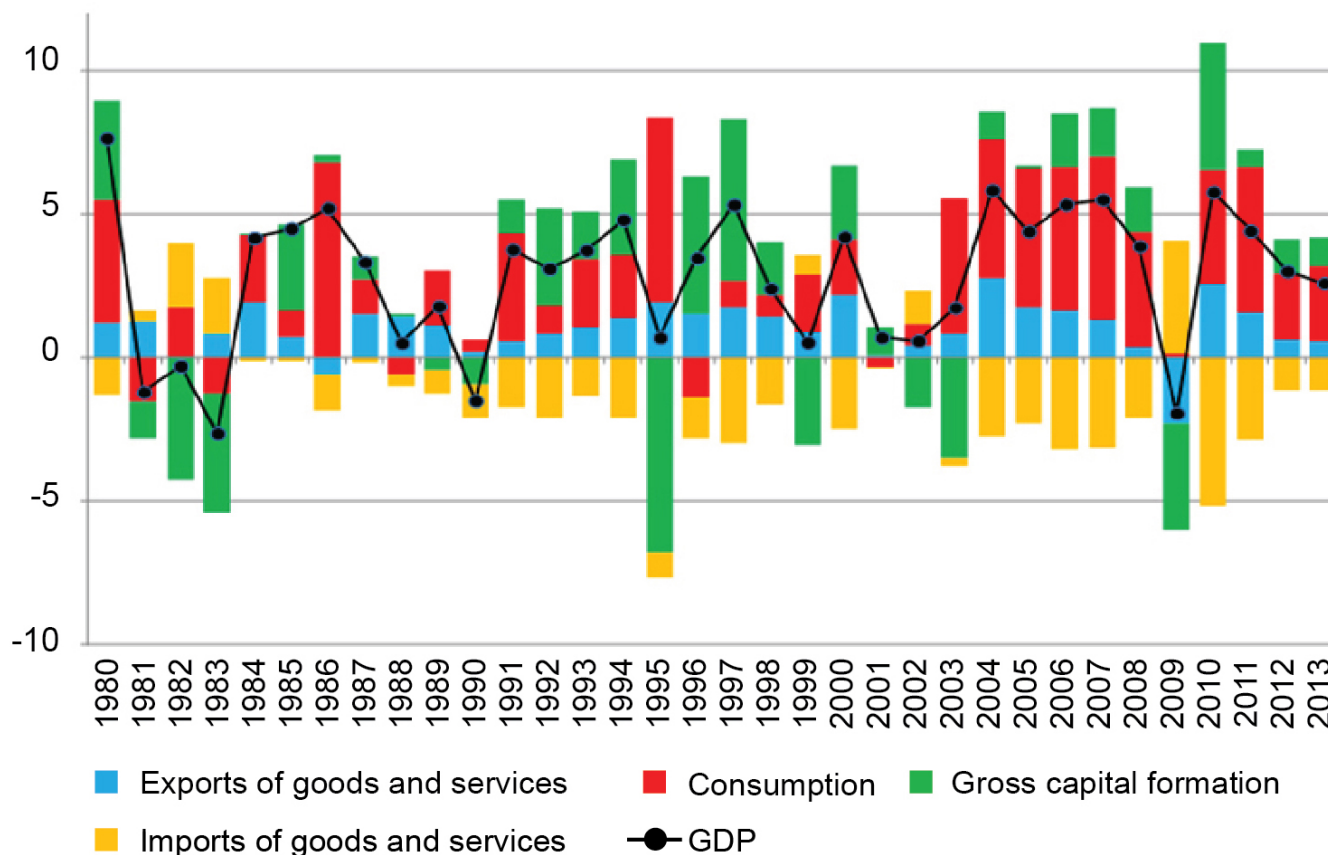
- The slowdown has been marked: the region grew on average by 4.8% in 2003-2007 and 4.1% in 2010-2013
- Latin America and the Caribbean is expected to continue to be the developing region with the least dynamic performance in the period 2014-2019
- Exports slowed sharply in 2012 and 2013
- Increasing external vulnerability, reflected in a deterioration in the balance-of-payments current account position
- This brings to a close an international cycle that had been very favourable for the region, in particular for South America.
- In the coming years, greater emphasis will have to be placed on the regional market



# With investment and net exports contributing little, GDP growth has depended to a great extent on growth in consumption

## LATIN AMERICA: GROSS DOMESTIC PRODUCT AND CONTRIBUTION TO GROWTH OF THE COMPONENTS OF AGGREGATE DEMAND, 1980-2013

(Percentages of GDP)



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

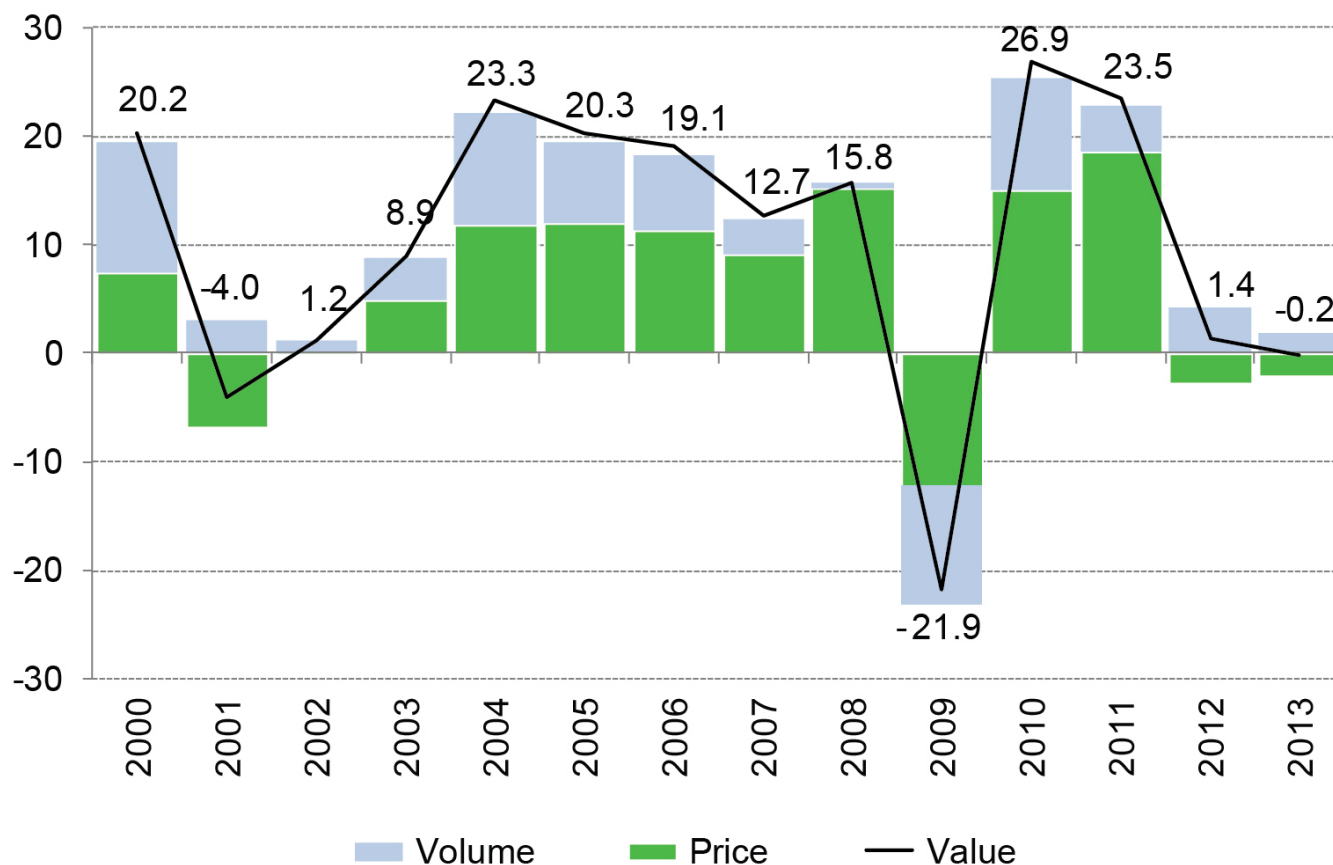


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# Regional exports slowed sharply in 2012 and 2013

**LATIN AMERICA: ANNUAL GROWTH OF THE VALUE OF EXPORTS, 2000-2013**  
(Percentages)



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



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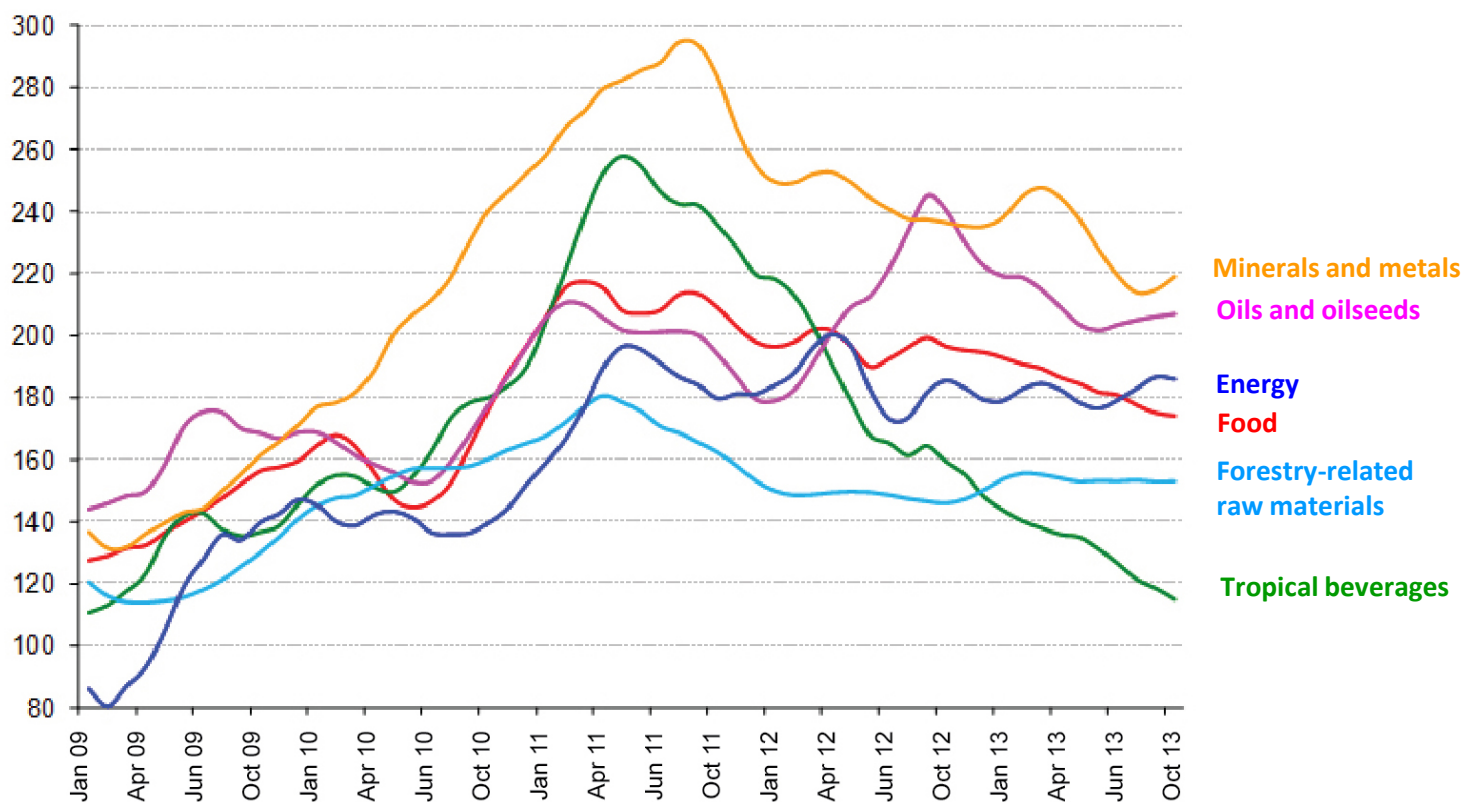


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# Commodity prices continue to trend downwards

**EXPORT COMMODITY PRICE INDEX, WEIGHTED BY THE VALUE OF EXPORTS**  
(Index 2005=100)

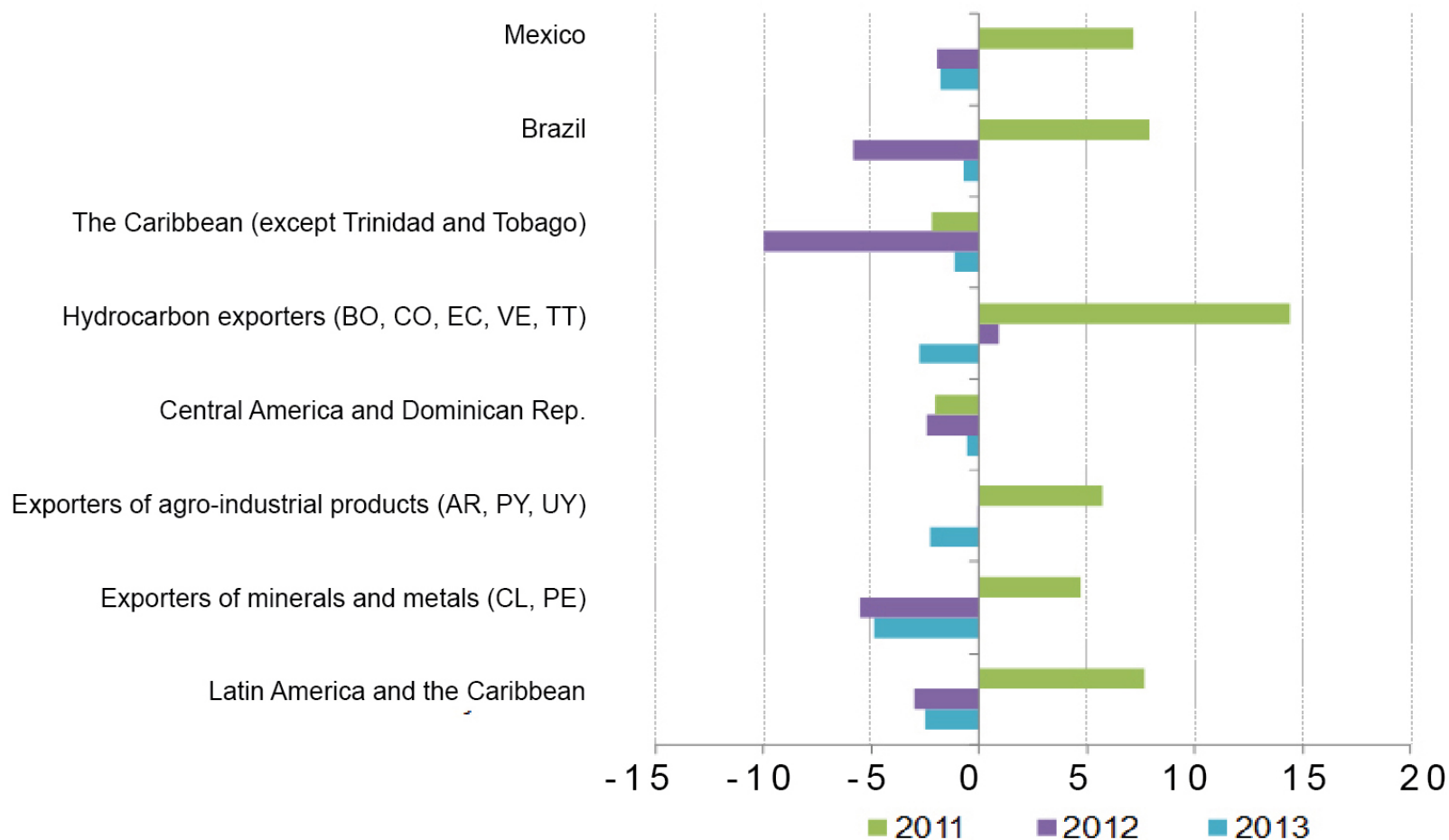


Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of figures provided by the United Nations Conference on Trade and Development (UNCTAD) and the Netherlands Bureau of Economic Policy Analysis (CBP).



# The region's terms of trade are declining

**LATIN AMERICA: ESTIMATED RATE OF VARIATION IN THE TERMS OF TRADE, 2011-2013<sup>a</sup>**  
(Percentages)



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

<sup>a</sup> The figures relating to 2013 are projections.

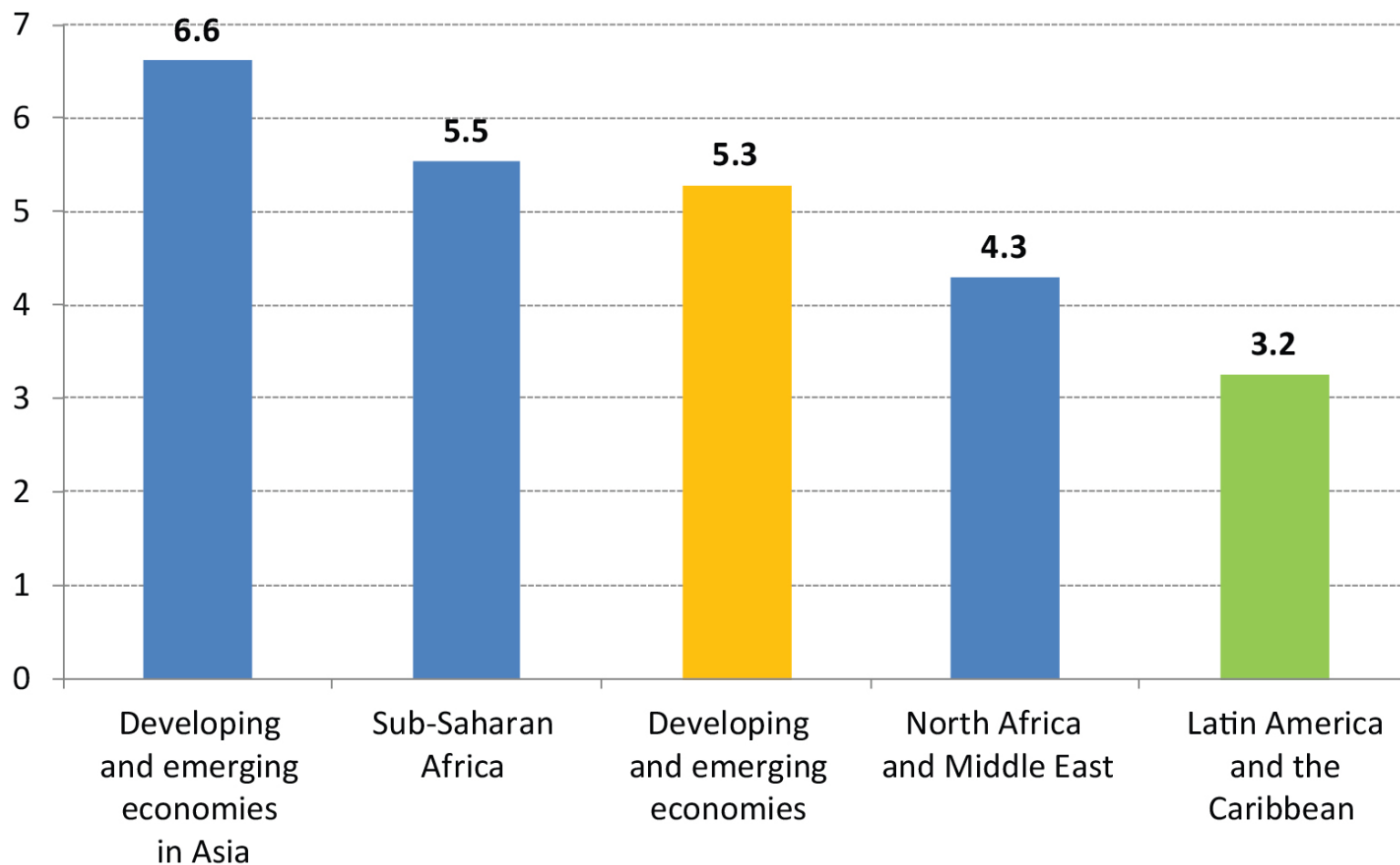


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# Very modest growth is predicted for the region for the remainder of the decade

**DEVELOPING REGIONS: PROJECTED ANNUAL GDP VARIATION, 2014-2019**  
(Percentages)



Source: International Monetary Fund, World Economic Outlook database, April 2014.

# **SUMMARY OF THE MAIN TRANSFORMATIONS TAKING PLACE IN THE GLOBAL ECONOMY**



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# Main trends in the global context

## Rapid technological change

- Information technology, ICTs, cloud computing, cyber-services, “smart cities”
- 3-D printing, robotics, remote-controlled vehicles
- Biology, nanosciences and information sciences interface
- Energy, water and natural resources complex

## Emergence of the developing countries

- In growth, trade, FDI, rise of the middle class, patents, new technologies
- A process that is highly concentrated in China/Asia

## Value chains

- Three major factories:
  - North America
  - Europe
  - East Asia

## Mega-trade agreements

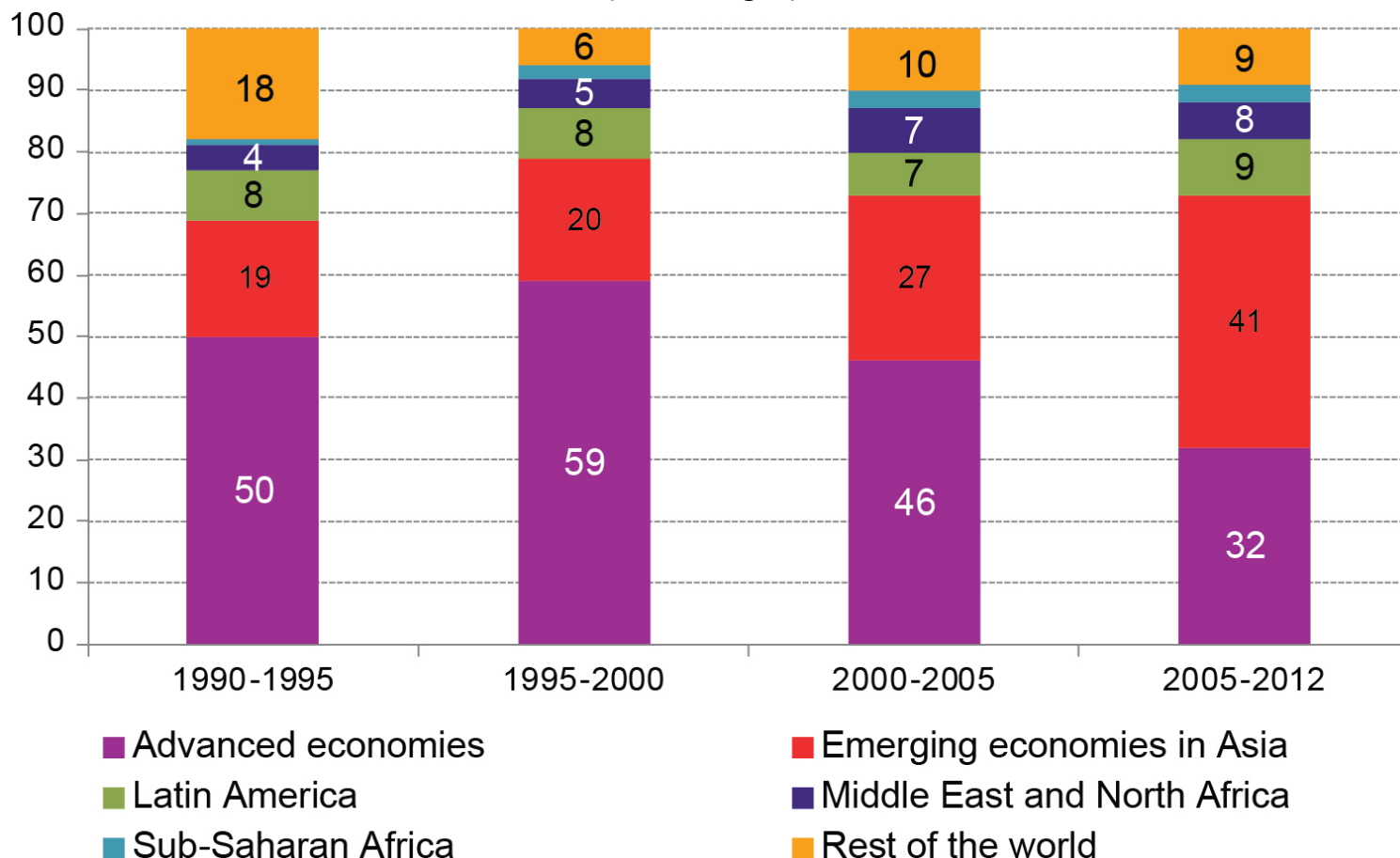
- TPP
- TTIP
- EU-Japan
- ASEAN+6 (Regional Comprehensive Economic Partnership)

Need to address climate change  
and ensure that growth is compatible with greater environmental sustainability  
Drastic increase in inequality



# The contribution to global growth has been on the decline in the industrialized countries , on the rise in Asia and stable in Latin America

**SELECTED GROUPINGS: CONTRIBUTION TO WORLD GDP GROWTH, 1990-2012**  
(Percentages)



Source: CAF/ECLAC/OECD, *World Economic Outlook 2014*.

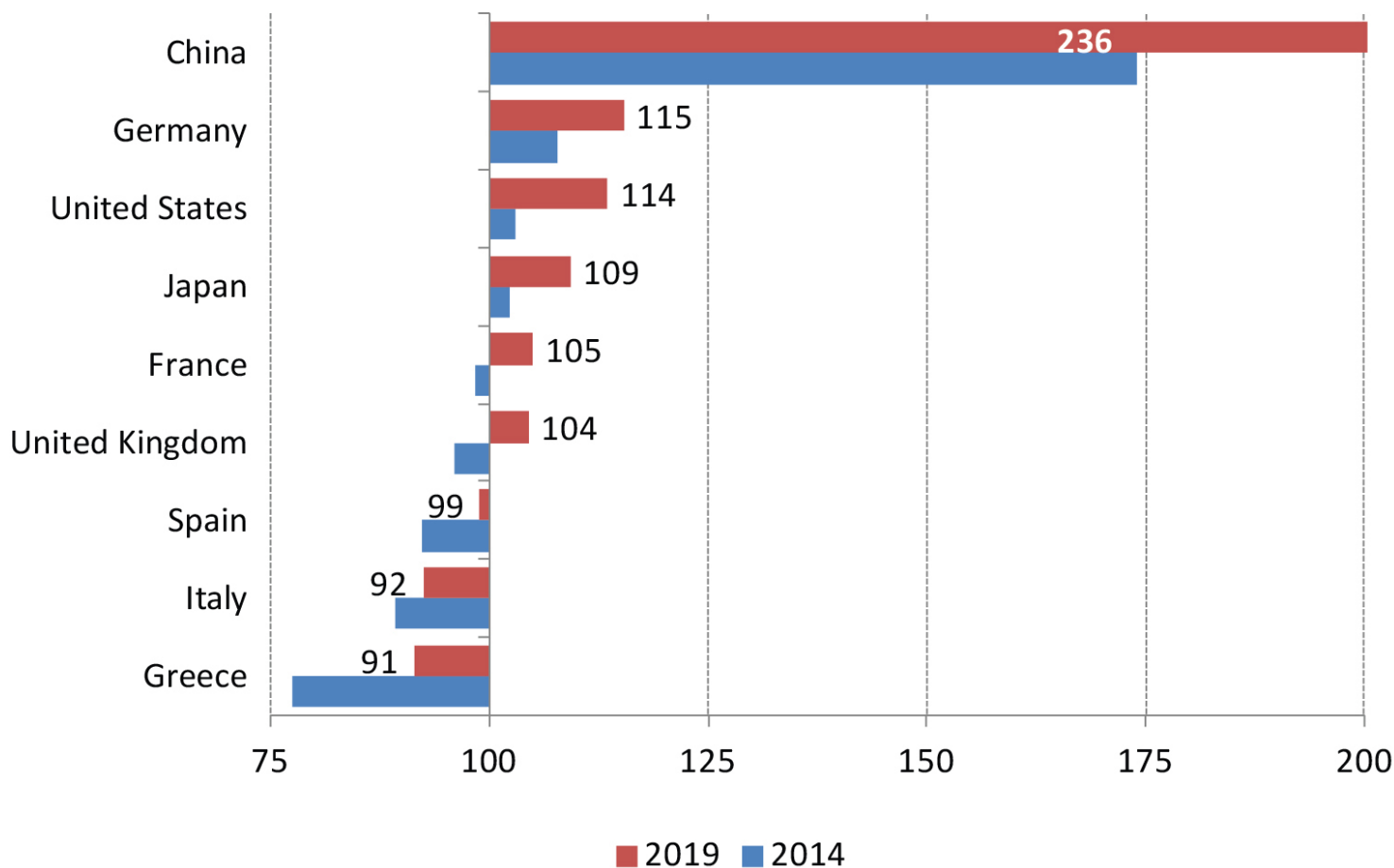




# The crisis has accelerated convergence between the per capita income of China and that of the developed countries

**SELECTED COUNTRIES: PER CAPITA GDP GROWTH, 2014 Y 2019**

*(Percentages in relation to the 2007 level)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund, World Economic Outlook, April 2014. The data for both years are projections.

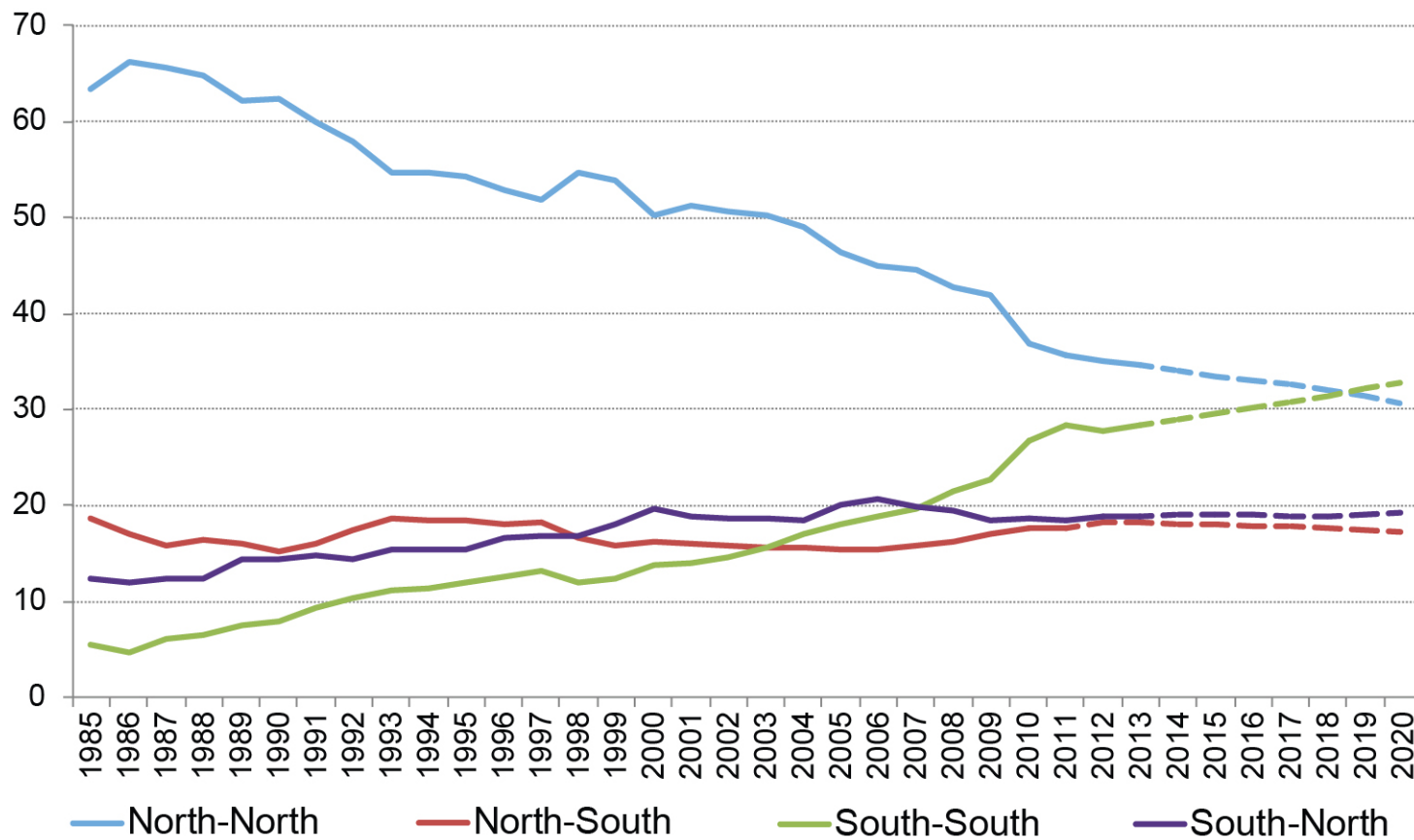


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# By the end of this decade, South-South trade will surpass North-North trade

**DISTRIBUTION OF WORLD GOODS EXPORTS BY GROUP OF ORIGIN AND DESTINATION, 1985-2020 <sup>a</sup>**  
(Percentages)



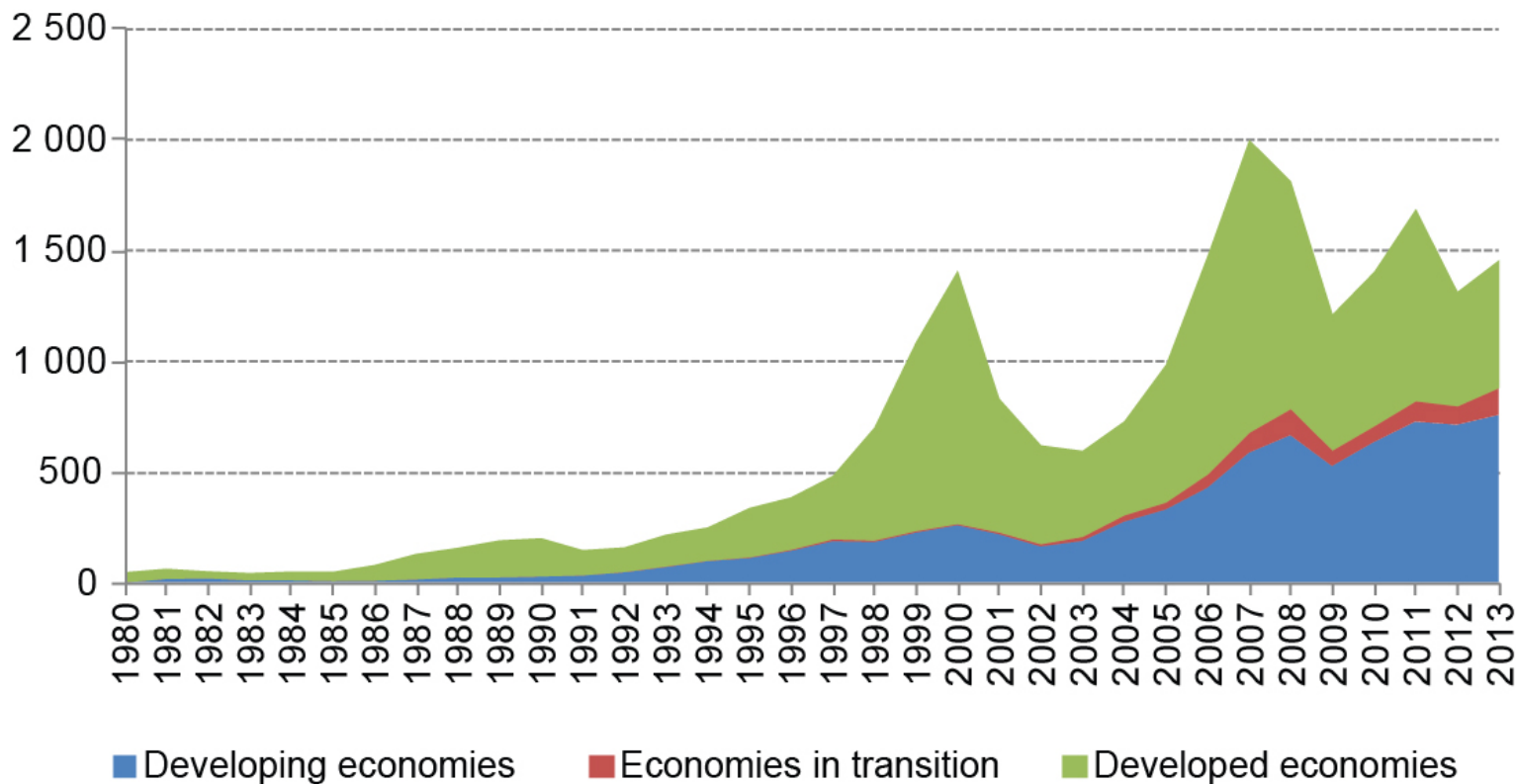
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

<sup>a</sup> The figures from 2013 onwards are projections.

# Developing countries already absorb more than half of all FDI worldwide

**WORLDWIDE FDI FLOWS, 1980-2013**

*(Billions of dollars)*



Source: ECLAC, Division of International Trade and Integration, on the basis of figures from UNCTAD.



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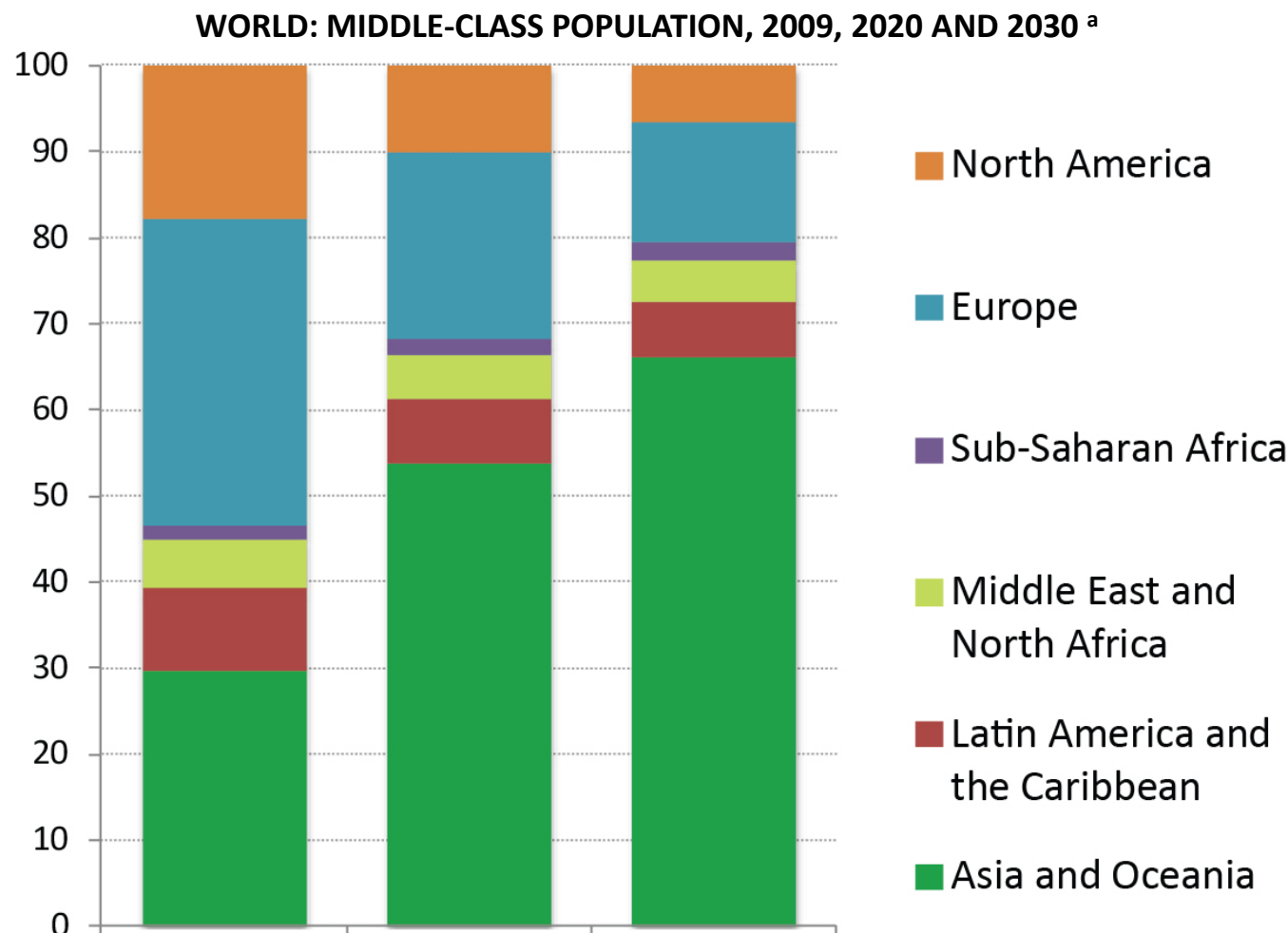
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# In 2030, 80% of the world's middle-class population will be living in countries currently defined as developing and Asia will be home to two thirds of them



Source: ECLAC, on the basis of Homi Kharas, "The Emerging Middle Class in Developing Countries", OECD Development Centre Working Paper 285, January 2010.

<sup>a</sup> The figures for 2020 and 2030 are projections.

# The developing countries in Asia, unlike our region, hold an ever larger stake in global knowledge generation

**WORLD PATENT APPLICATIONS**  
(Percentages)

	1990	2000	2012
Developed countries <sup>a</sup>	87.3	75.2	52.4
Rest of the world	12.7	24.8	47.8
China	1.0	3.8	27.8
Republic of Korea	2.6	7.4	8.0
Latin America and the Caribbean	1.9	3.5	2.5

Source: World Intellectual Property Organization (WIPO).

<sup>a</sup> Includes Europe, United States and Japan.



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# **GLOBAL TRANSFORMATIONS ACCENTUATE THE NEED FOR REGIONAL INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN**



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# The region's strengths and weaknesses as an international economic actor

## Strengths

- Attractive and growing consumer market; expansion of the middle class
- Abundance of renewable and non-renewable natural resources

## Weaknesses

- Limited involvement in the knowledge economy
- Strong emphasis on exports: (i) raw materials and assembly manufactures; (ii) a small number of large companies
- Limited internacionalization of SMEs



# In this context, the regional market plays a key role

For the large majority of Latin American and Caribbean countries, intraregional trade is **qualitatively** superior to exporting to other markets:

It is the most conducive to export diversification as it absorbs the greatest **number of export products**

It is the main outlet for **manufacturing exports**

It is the main market for most **export companies**, especially SMEs

The region is the natural platform for growth of the trans-Latins and for the creation of plurinational production linkages

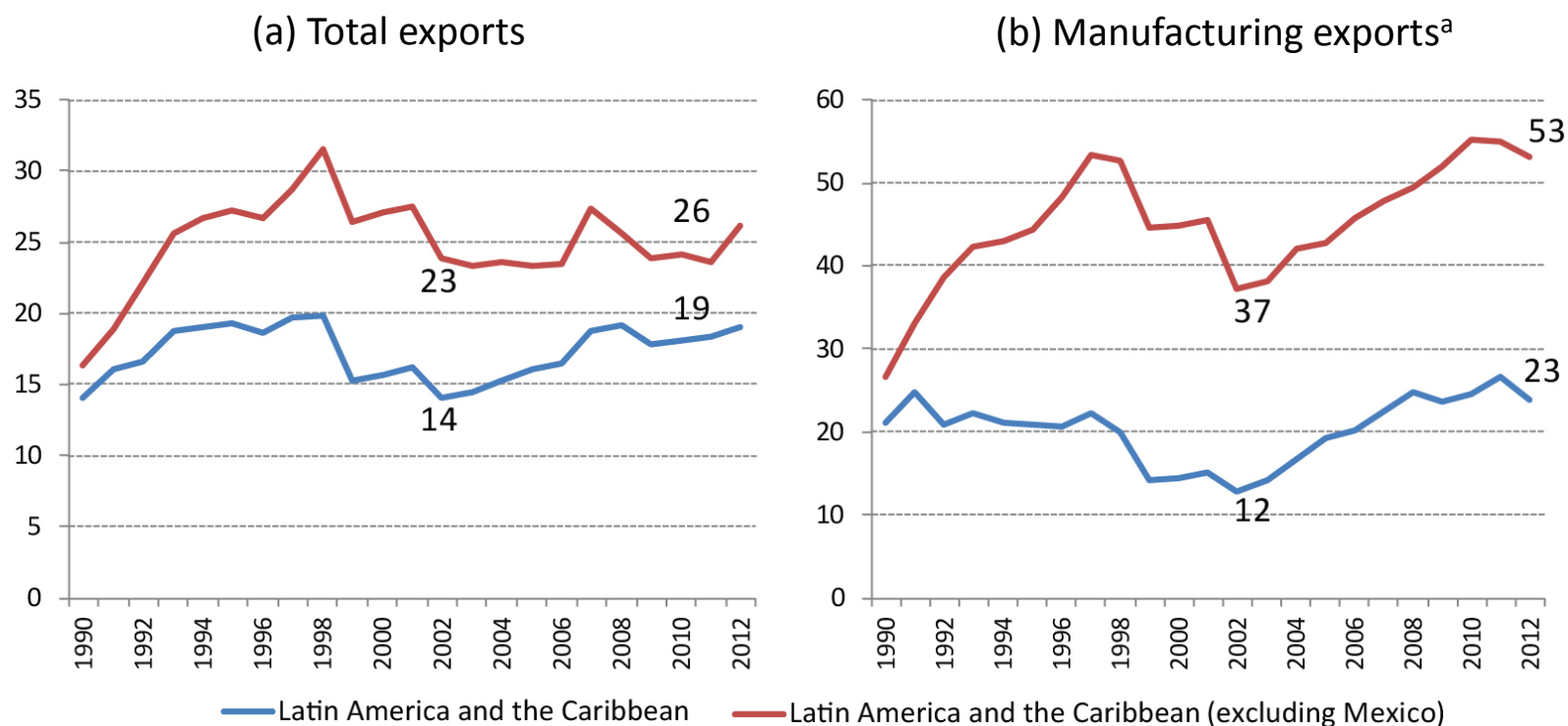


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# Intraregional trade has made scant progress since its peak at the end of the 1990s

## LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL EXPORTS AS A SHARE OF WORLDWIDE EXPORTS, 1990-2012 (Percentages)



Source: ECLAC, on the basis of COMTRADE.

<sup>a</sup> Includes high-, medium- and low-technology manufactures. Excludes natural resource-based manufactures.



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# The regional market is more conducive to export diversification

**NUMBER OF PRODUCTS EXPORTED BY LATIN AMERICAN COUNTRIES TO SELECTED MARKETS, 2012**

	Latin America and the Caribbean	United States	European Union	China	Japan
Argentina	3 591	1 465	1 712	407	388
Brazil	3 929	2 762	2 991	1 389	1 247
Chile	3 014	1 275	1 296	362	313
Colombia	3 239	1 708	1 250	253	201
Costa Rica	2 821	1 792	1 095	260	188
El Salvador	2 522	1 004	396	45	35
Guatemala	3 274	1 321	721	142	155
Jamaica	607	888	467	73	44
Mexico	3 857	4 164	2 803	1 367	1 272
Peru	3 037	1 796	1 602	266	575

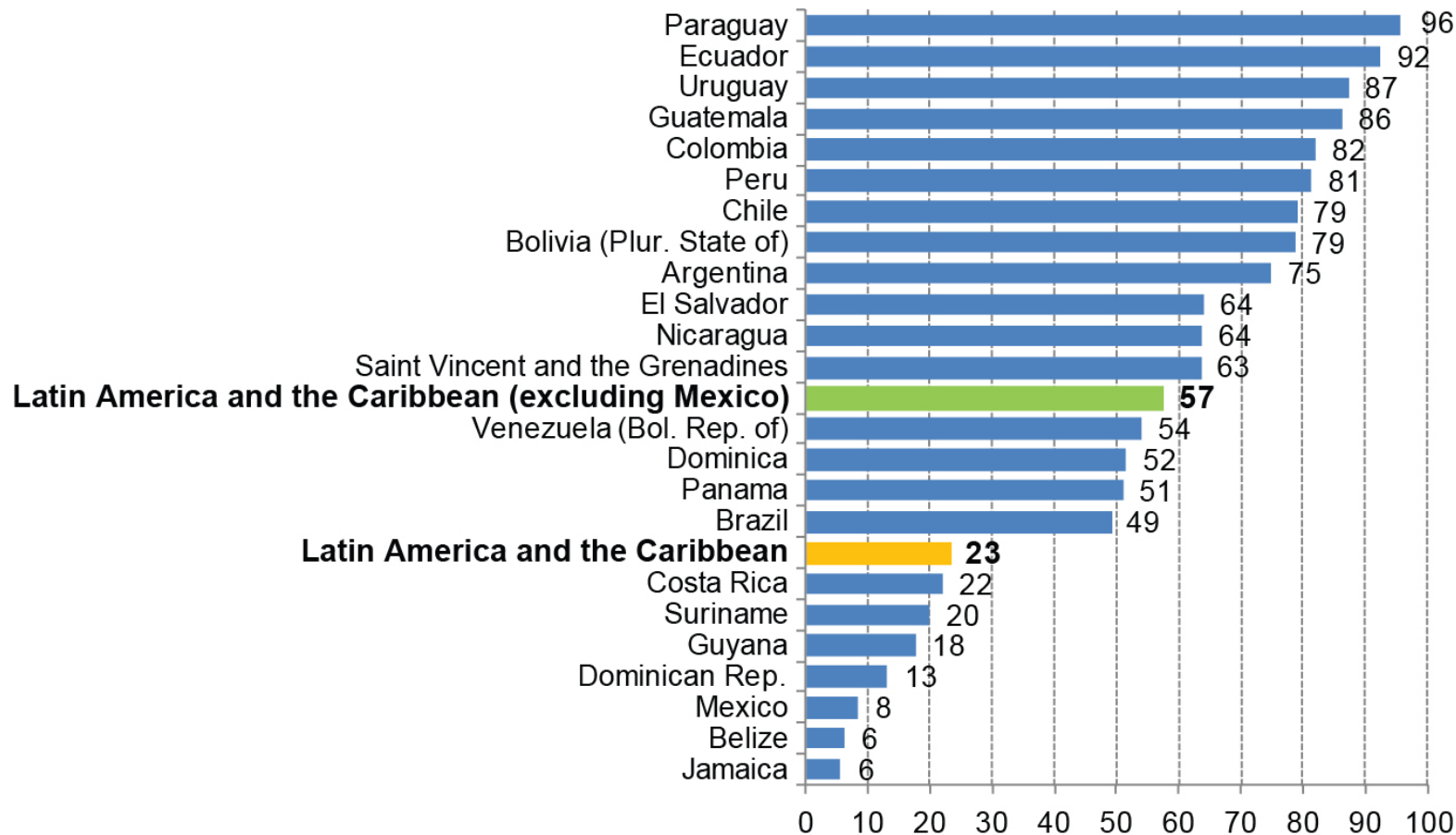
Source: ECLAC, on the basis of COMTRADE.



# Excluding Mexico, the regional market is the main outlet for manufactures exported from Latin America and the Caribbean

## LATIN AMERICA AND THE CARIBBEAN: SHARE OF MEDIUM- AND HIGH-TECHNOLOGY MANUFACTURES EXPORTED WITHIN THE REGION, 2012 <sup>a</sup>

(Percentages)



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

<sup>a</sup> The figures for the Bolivarian Republic of Venezuela, Panama and Suriname are from 2011.

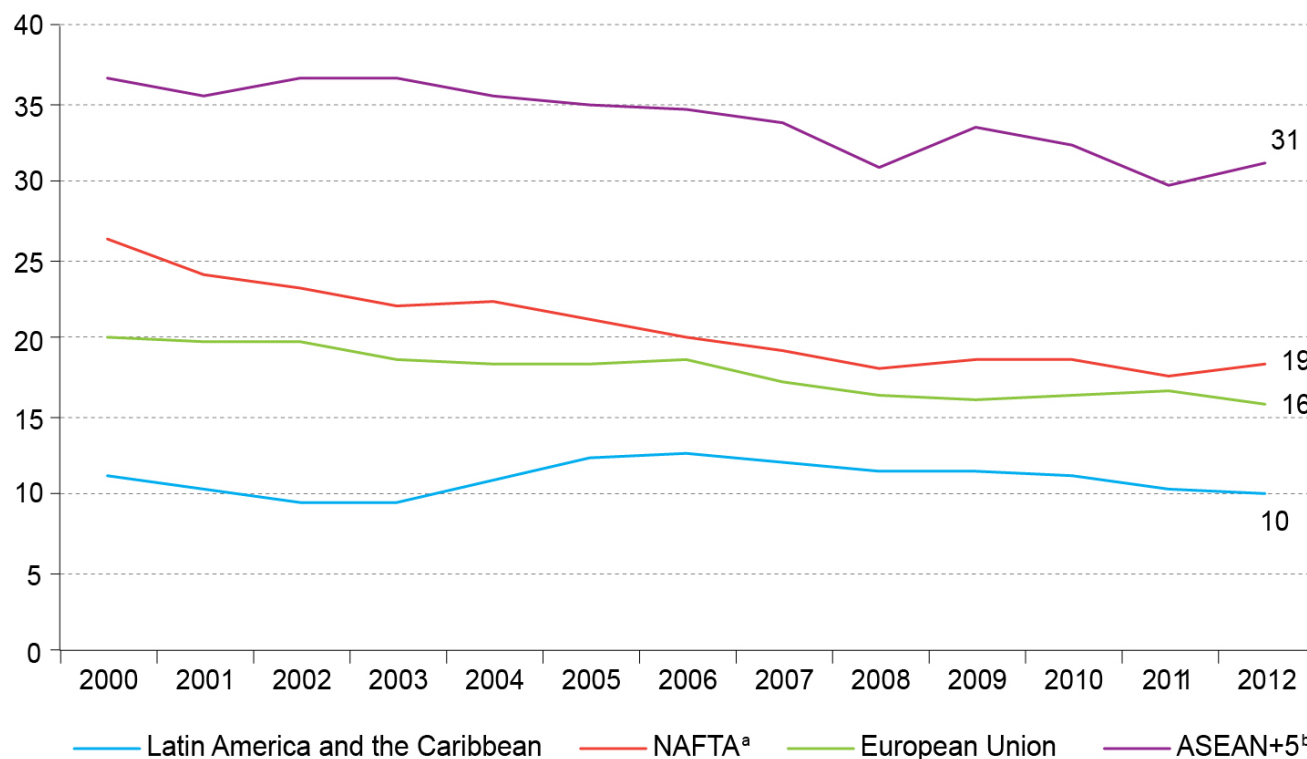


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# However, intermediate goods account for a small share of intraregional trade in the region

**SELECTED GROUPINGS: PARTS AND COMPONENTS AS A SHARE OF INTRA-GROUP EXPORTS, 2000-2012**  
(Percentages)



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

<sup>a</sup> North American Free Trade Agreement.

<sup>b</sup> Includes China, Japan, the Republic of Korea, the 10 member countries of the Association of Southeast Asian Nations (ASEAN), Hong Kong Special Administrative Region of China and Taiwan Province of China.

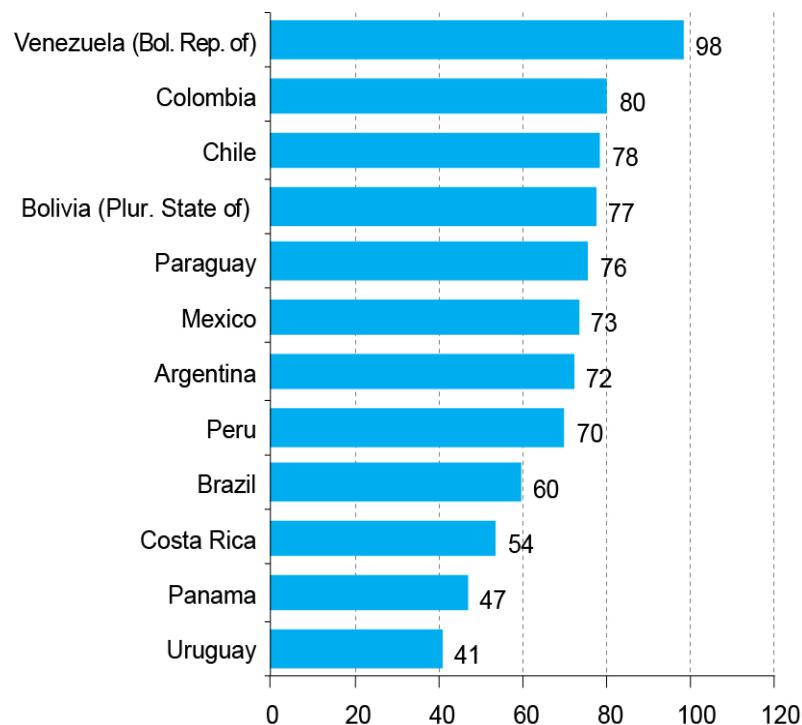


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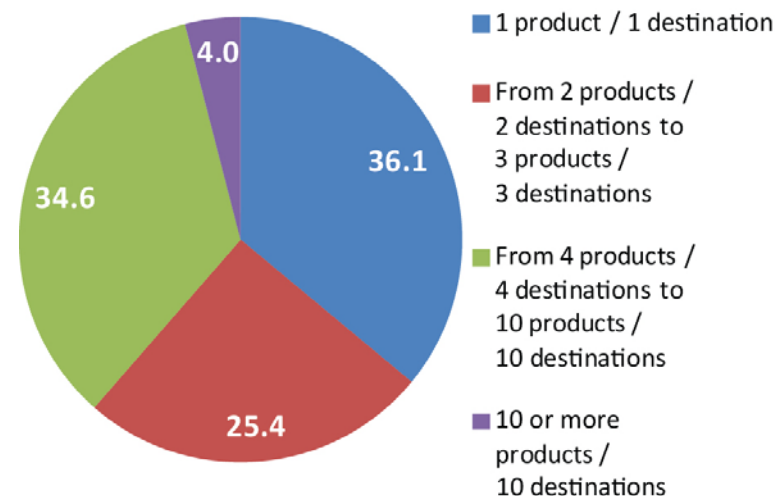
# Some gaps in the region's export performance

**EXPORT SHARE OF THE TOP PERCENTILE OF  
EXPORTING FIRMS, AROUND 2010**  
(Percentages)



Source: ECLAC, on the basis of official information from the customs services of the respective countries, OECD, World Bank and specialized studies.

**LATIN AMERICA (10 COUNTRIES): DISTRIBUTION OF  
EXPORTING FIRMS BY NUMBER OF MARKETS AND  
PRODUCTS, AROUND 2010**  
(Percentages)



Source: ECLAC, on the basis of official information from the customs services of the respective countries.



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## Some examples of potential intraregional linkages

### Central America and Mexico

#### Agro-industry

- Dairy
- Meat products
- Cereals and animal feed
- Fruit and vegetables
- Unmanufactured tobacco

#### Metal products

- Wire products
- Iron and aluminium structures
- Metal manufactures

### South America

#### Chemical products

- Polymers and copolymers
- Heterocyclic components
- Cosmetics
- Wood pulp

#### Agro-industry

- Fruit and nuts
- Oilseeds
- Leather manufactures

#### Metal manufactures

- Precious metalwork
- Gold, silver and copper



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# The region's countries are already participating in a wide variety of service chains

Business process outsourcing	Health services	Creative industries	industries Information technology	Other services
Accounting and finance [ARG, BRA, CHL, CRI, MEX, URY]	Health tourism [BRA, CUB, COL, CHL, CRI, PAN]	Audiovisual industry [ARG, BRA, CHL, MEX]	Software development [ARG, BRA, CHL, COL, CRI, URY]	Education [ARG, BRA, CHL]
Process management and development [ARG, BRA, CHL, CRI, MEX, URY]	Clinical trials [ARG, BRA, CHL, COL, MEX, PER]	Advertising [ARG, BRA, CHL, MEX]	Consulting and information technology services [ARG, BRA, CHL, CRI, URY]	Research, development and innovation [BRA, MEX, CHL]
Human resources [ARG, BRA, CHL, CRI, URY]	Telemedicine [ARG, BRA, COL, MEX]	Content industries [ARG, BRA, MEX]	Management, integration and application maintenance [ARG, BRA, CHL, COL, CRI, URY]	Engineering and construction [ARG, BRA, CHL, MEX]
Call, contact and customer service centres [Central America countries, CHL, COL, DOM PER, URY]	Telediagnostics [BRA, MEX]	Architecture [ARG, BRA, CHL, MEX]	Infrastructure networks [ARG, BRA, CHL, CRI, JAM, URY]	Outsourcing of knowledge-intensive services (legal services, financial and market research [BRA, CHL, CRI, MEX]
Back office services [ARG, CHL, BRA, COL, CRI, MEX, URY]	Analysis and interpretation of medical results [BRA, URY, MEX]	Design [ARG, BRA, MEX]	Video games, animation and simulation [ARG, CHL]	Financial services [BRA, CHL, CRI, MEX]
Shared service centres [ARG, CHL, BRA, COL, CRI, MEX, URY]				



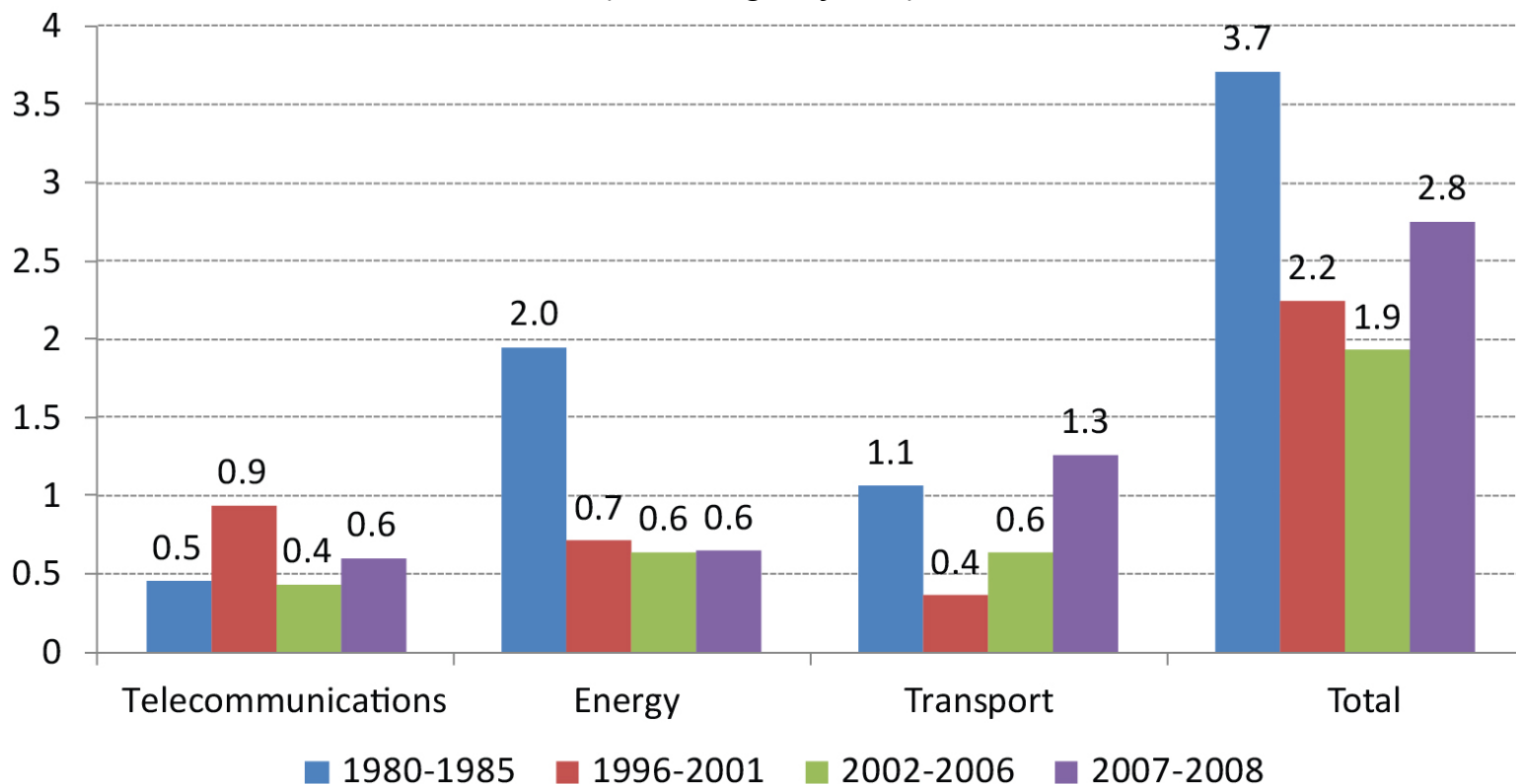
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# Bottlenecks in infrastructure constrain growth, competitiveness and equity

LATIN AMERICA (SELECTED COUNTRIES): SECTORAL INVESTMENT IN INFRASTRUCTURE  
(Percentages of GDP)



Source: ECLAC and Perrotti, Daniel, and Ricardo J. Sánchez (2011), "La brecha de infraestructura en América Latina y el Caribe", Series Recursos Naturales e Infraestructura No. 153.

The region would need to spend **7.9%** of annual GDP on infrastructure to close by **2020** the infrastructure gap measured in the region in **2005** compared with a group of growing economies in East Asia (Republic of Korea, Malaysia, Singapore and Hong Kong SAR).



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# Dimensions that complement regional production integration

## Financing

- Take steps towards a regional reserve fund (building on the success of FLAR)
- Boost credit from the subregional banking system for productive development
- Support for intraregional trade, introducing more flexible payment mechanisms
- Foster integration of capital markets

## Environment

- Management of transboundary areas and shared ecosystems
- Joint programmes on measuring and reducing the carbon footprint
- Natural disaster risk management

## Digital cooperation

- Concerted action to reduce the cost of broadband in the region
- Regulatory harmonization on the Internet
- Close the digital gap, with emphasis on remote areas and vulnerable sectors
- Mass use of ICTs in health, education and SMEs

## Social agenda

- Transboundary production programmes
- Addressing growing intraregional migration: making migrants' right and benefits in health and pensions portable; standardization of university curricula; certification of competencies
- Mainstreaming the gender dimension in all of these initiatives



# AN INDUSTRIAL POLICY FOR REGIONAL VALUE CHAINS



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# The role of an integrated regional market in fostering production linkages

1. The region has made substantial progress in reducing **tariff** barriers to intraregional trade

2. However, much less progress has been made on **regulatory** issues, which are key to modern value chains: investment, services, technical standards, trade facilitation, etc.

3. Critical issues:

- Intellectual property
- Government procurement and contracts
- Gradual convergence

5. Support from Mexico, Colombia and the Bolivarian Republic of Venezuela to the Caribbean in strategic initiatives

4. Some first steps could include:

- (i) Regional cumulation of origin;
- (ii) Harmonization and mutual recognition of technical and sanitary standards;
- (iii) Coordination of steps taken at the national level to facilitate trade (eg. single-window systems)



# The centrality of industrial policy

The region needs a modern industrial policy that fosters:

- Participation in regional and global value chains
- Moving up the chain hierarchy, transitioning to more sophisticated activities in goods and services

The promotion of regional value chains opens up scope for industrial policy with **plurinational** components

One area with great potential is support for the internationalization of SMEs through:

- Programmes to provide support in meeting the quality, safety, and sustainability requirements of their potential buyers
- Joint programmes for the development of specialized human resources







# The centrality of industrial policy

Another area that has great potential is joint research and development of technology hubs in shared areas of interest :

Renewable energy, biotechnology applied to agriculture and mining, management of water resources, etc.

None of this means setting aside natural resources, rather it means adding knowledge and value, and strengthening linkages with the rest of the economy

# MAIN MESSAGES AND RECOMMENDATIONS



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# Ten recommendations for regional integration

1. The integration process must be regional in scope
2. Significant transboundary and subregional components must also be recognized
3. The convergence between integration schemes is necessary, but it will be a gradual, non-linear process
4. There is no single or best model of integration, so plenty of flexibility is needed in designing the emerging regional space
5. The commitment and political will to converge towards an integrated regional space is indispensable



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# Ten recommendations for regional integration

6. Value chains and public policies to promote them can be a powerful instrument for regional integration
7. A common agenda for the near term is a good starting point
8. Integration must rely more on civil society
9. Equality must be the hallmark of regional integration
10. Integration must be regarded as a State policy



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