

Economic Integration and Value Chain. Case study from Central America Dairy.

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Objectives

- To determine conditions to enhance economic integration through RVC amongst developing small economic countries.
- To determine the impact of vertical integration in economic integration.
- To analyze the impact of trade and FDI in the development of different types of economic integration within the Central American Countries.



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Central American Integration Process

- 95.7% of total goods have an harmonized external tariff
- There are relevant differences among countries:
 - Incentives, institutions, regulations, market structures, etc.
- Combination of trade integration and institutional differences determines how productive chains interact in this region.



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Economic Integration and Value Chains

- Foreign Direct Investments and Economic Integration
 - Opportunities with market failures
 - Export defensive strategy
 - Customs and the increase of external tariffs
 - Coexistence of two types of FDI: those focused on RVC and those focused on GVC.



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Economic Integration and Value Chains

- Value Chain and Governance
 - Institutions matter (rules, market structures, agents power, etc.) determines how a production chain is established
 - Active agents promote chain integration and alignment of incentives
 - Countries of similar size and level of development, RVC tend to maximize efficiency among firms of a relative common size and power by trading inputs or using resources from neighboring countries promoting horizontal and vertical coordination



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The dairy sector in Central America. An overview

Average yearly Export and Import of dairy products in Central America in tons. 1994 - 2011
(thousands of metric tons.)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Imports
Costa Rica		0.06	-	0.33	1.11	7.39	8.89
El Salvador	8.33		1.72	7.78	22.22	1.17	41.22
Guatemala	13	6.56		2.56	7.39	2.78	32.28
Honduras	4.17	4.61	1.11		5.22	0.72	15.83
Nicaragua	4	1.4	0.24	0.12		2.11	7.86
Panama	9.93	3.17	8.5	0.67	1.94		24.21
Exports	39.43	15.8	11.57	11.46	37.88	14.17	

Fuente: SIECA, 2012



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Main Characteristics of the Dairy Industry in Central America.

	Animals(Head)			Yield (Hg/An)			Production (tonnes)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Costa Rica	643,000.00	689,074.00	702,100.00	13,841.00	13,231.00	13,541.00	889,958.00	911,743.00	950,726.00
El Salvador	373,068.00	391,602.00	255,675.00	13,243.00	13,831.00	21,770.00	494,071.00	541,615.00	556,594.00
Guatemala	434,957.00	435,900.00	442,700.00	7,771.00	7,800.00	8,010.00	338,000.00	340,000.00	354,600.00
Honduras	513,393.00	538,131.00	558,877.00	15,515.00	13,081.00	13,229.00	796,506.00	703,902.00	739,351.00
Nicaragua	985,000.00	1,024,000.00	1,039,900.00	7,298.00	7,303.00	7,244.00	718,882.00	747,809.00	753,281.00
Panamá	148,900.00	159,569.00	162,600.00	12,669.00	12,100.00	12,386.00	188,635.00	193,077.00	201,400.00

Fuente: FAO, 2012



Position in the Dairy World.

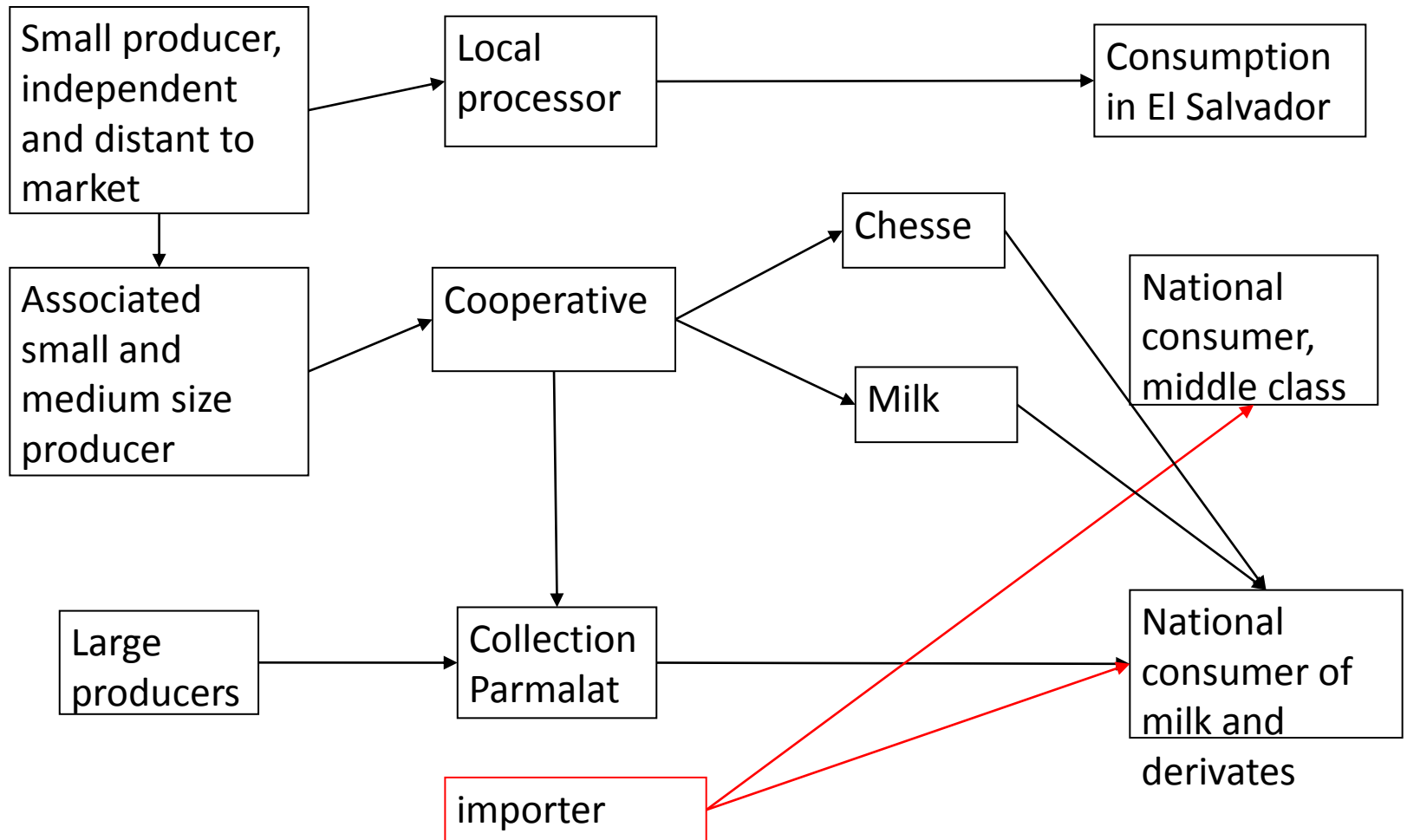
	Yield	Herd	Production
Costa Rica	70	87	73
Nicaragua	104	75	79
Honduras	72	94	80
El Salvador	50	123	90
Guatemala	98	102	99
Panamá	75	131	113



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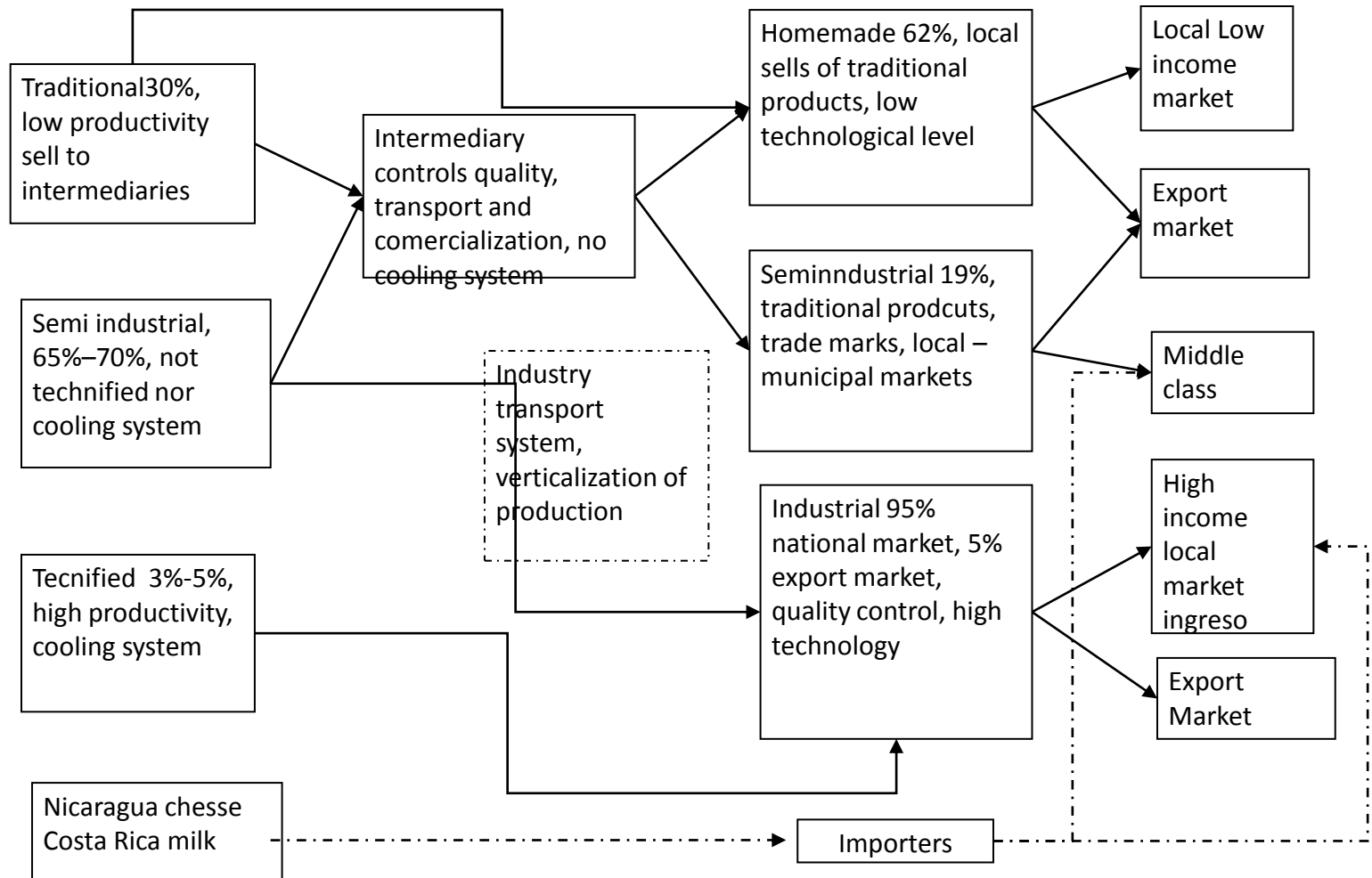
Diary Value Chain Nicaragua



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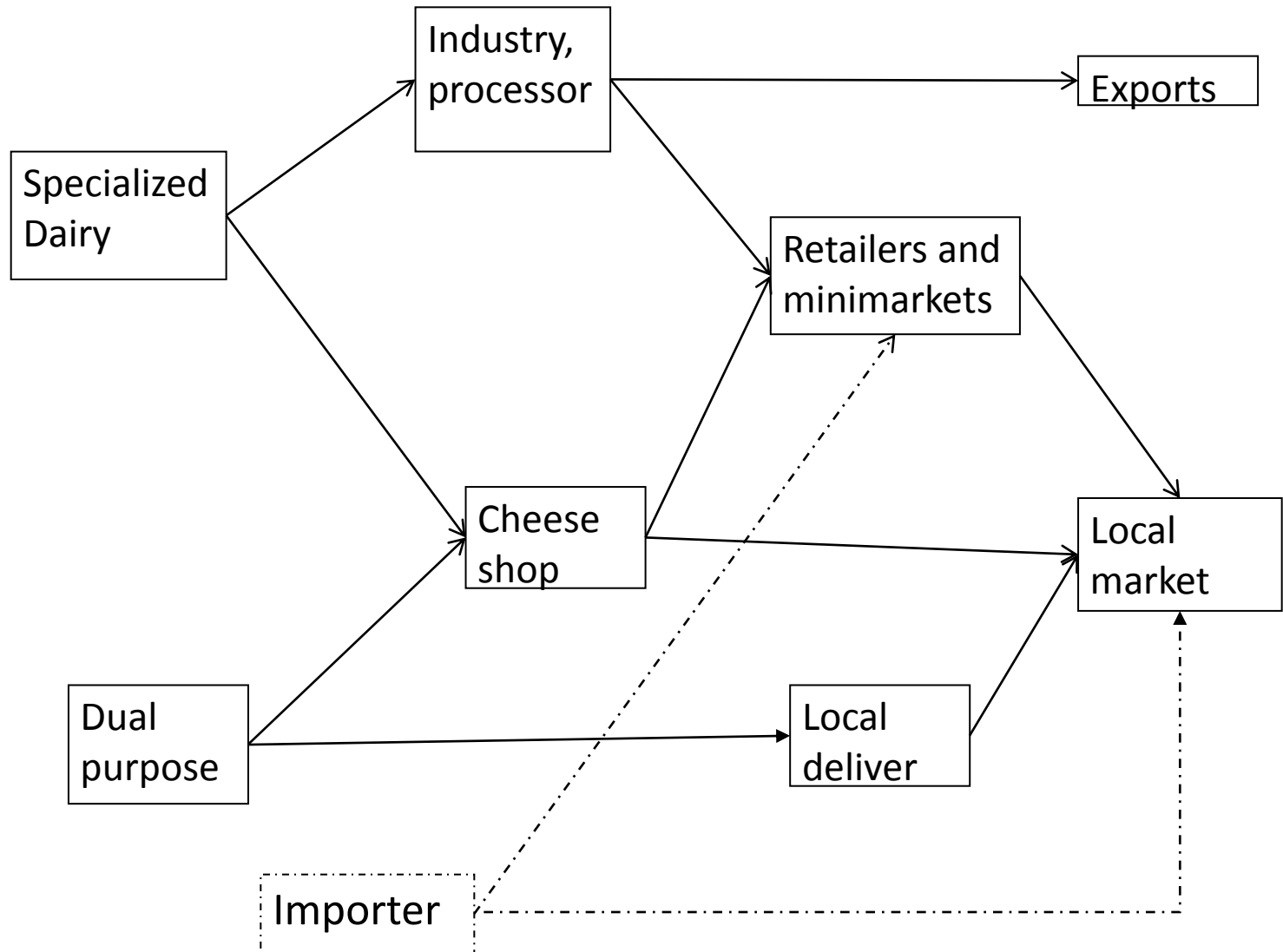
Diary Value Chain El Salvador



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Diary Value Chain Costa Rica



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Final Remarks

1. Central America dairy regional chain underline the importance of an integration process that has created conditions for trading dairy raw materials and so creates a RVC. Local companies benefited from these regional conditions and have extended, trough Trade and FDI, its actions to neighboring countries.
2. There is are few studies on the analysis of economic integration among small developing countries, and the formation of regional value chains.
3. Institutions and governance differences among countries have an impact on RVC and in countries' specialization



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