



INTEGRATING FEALAC COUNTRIES

from value chain analysis to policy recommendations



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Topics to be covered

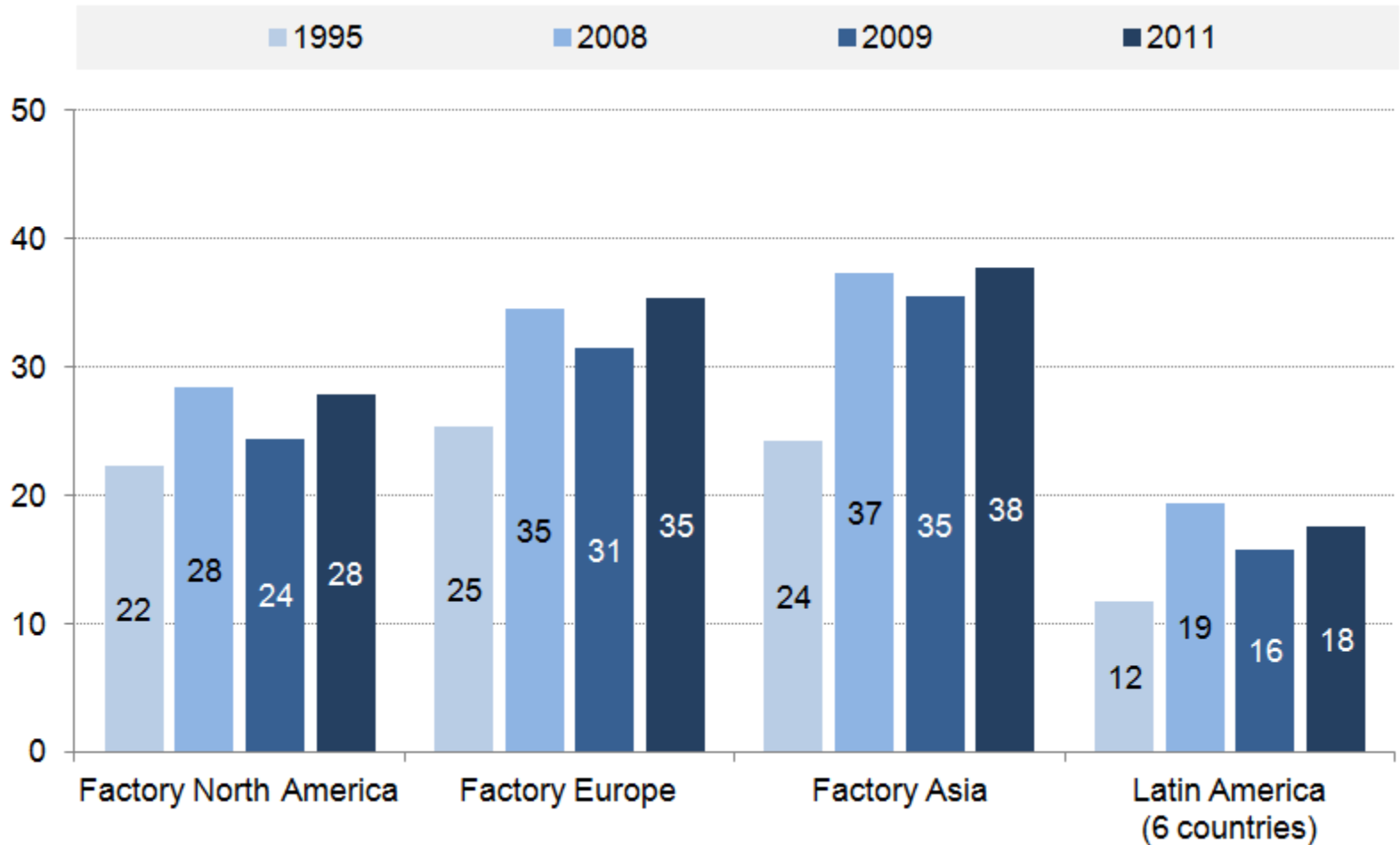
- **State of the art in bi-regional GVC integration**
 - Vertical specialization analysis
 - Origin of intermediate products that are incorporated into other countries' exports
 - Sectors of intermediate products
- **Policy advice for deepening GVC**
 - Removing trade barriers
 - Harmonization of standards (NTMs)
 - Improving the quality of logistics infrastructure
 - Enhancing the legal and institutional framework
 - Connecting and improving electronic trade single windows



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Imported intermediates embodied in gross manufacturing exports, 1995-2011

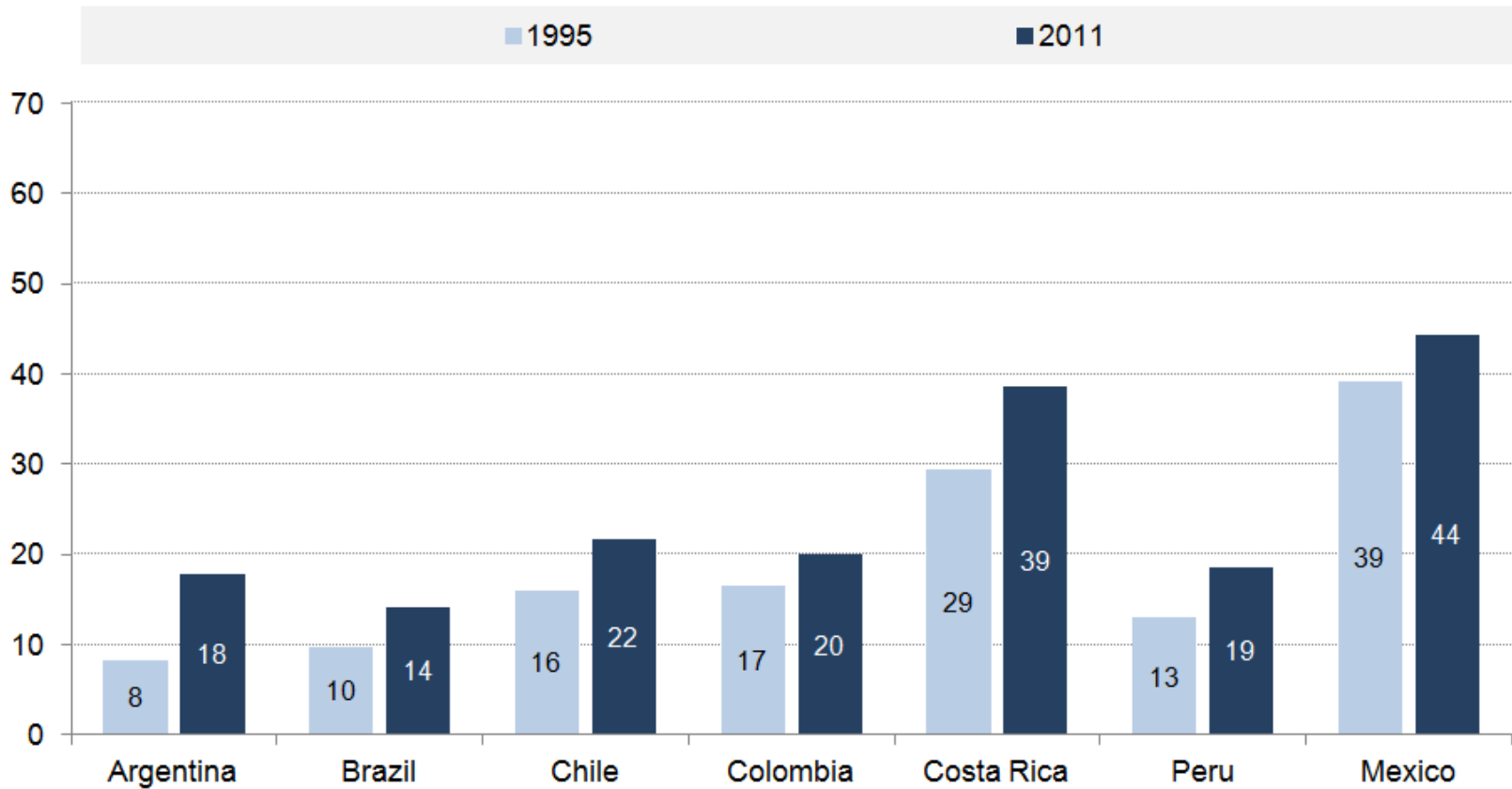




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Imported intermediates embodied in gross manufacturing LAC exports, 1995-2011



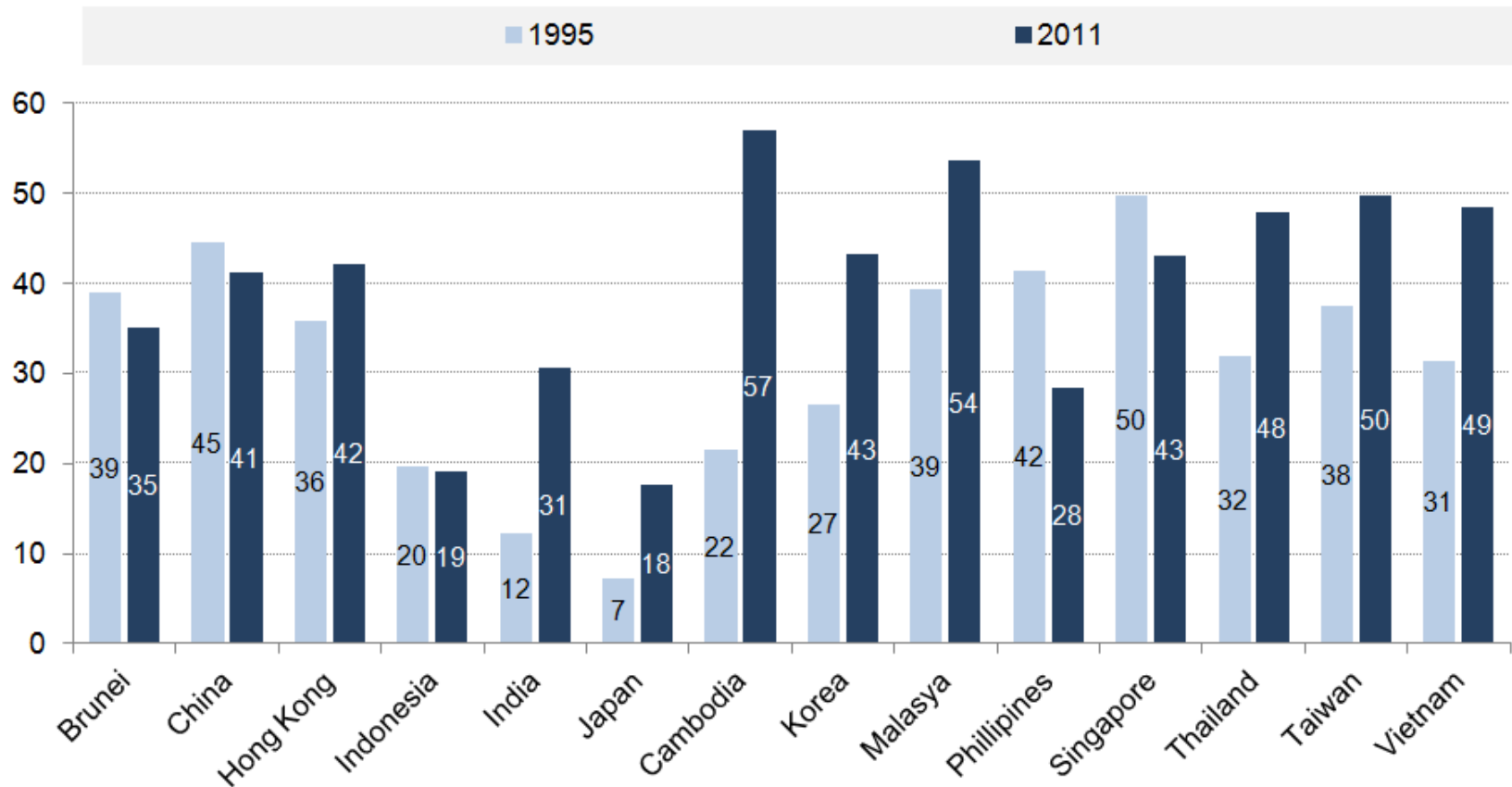
Source: Zaclicever (2017)



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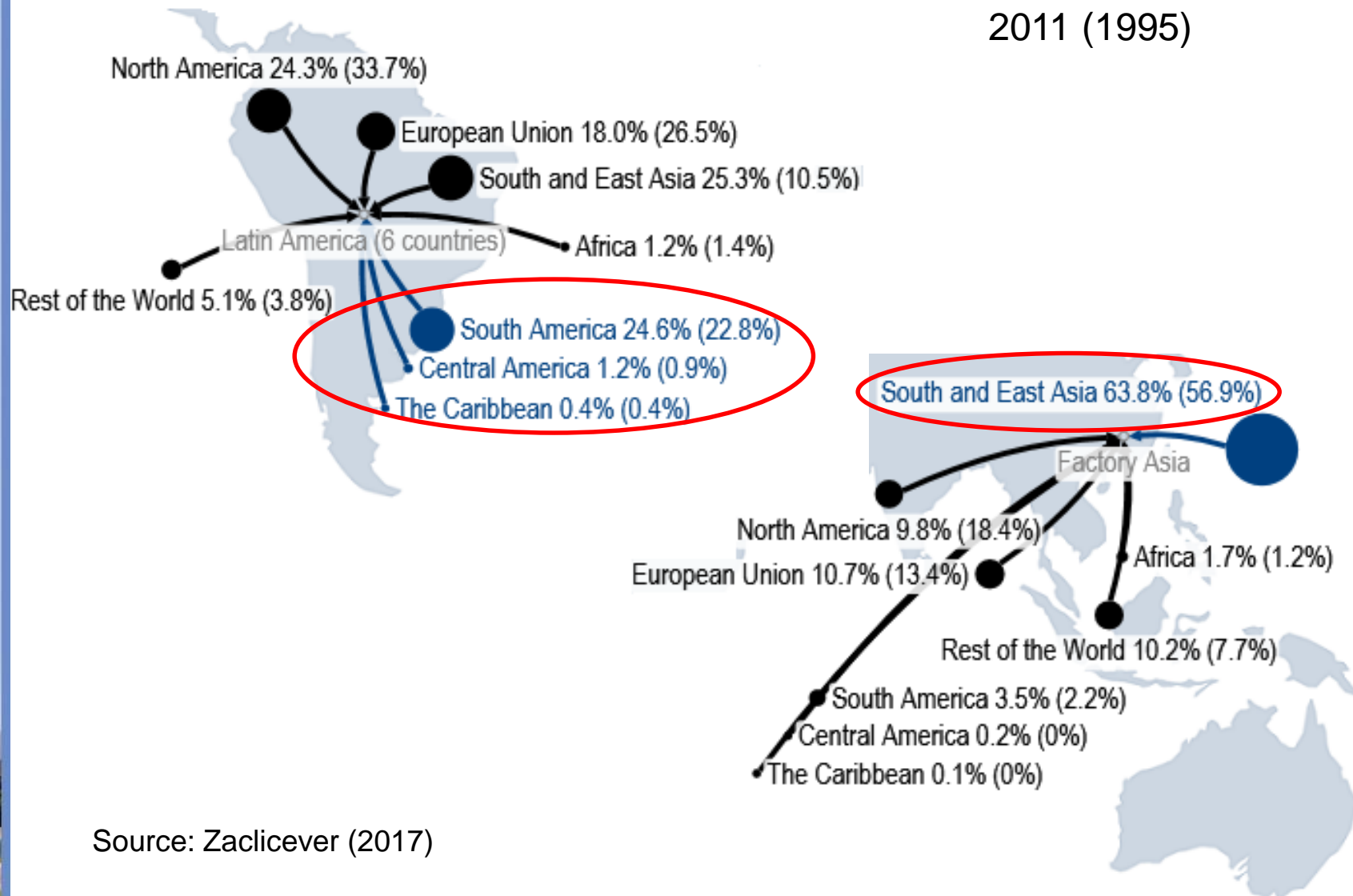
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Imported intermediates embodied in gross manufacturing Asian exports, 1995-2011



Source: Zaclicever (2017)

Imported intermediates embodied in gross manufacturing exports by origin

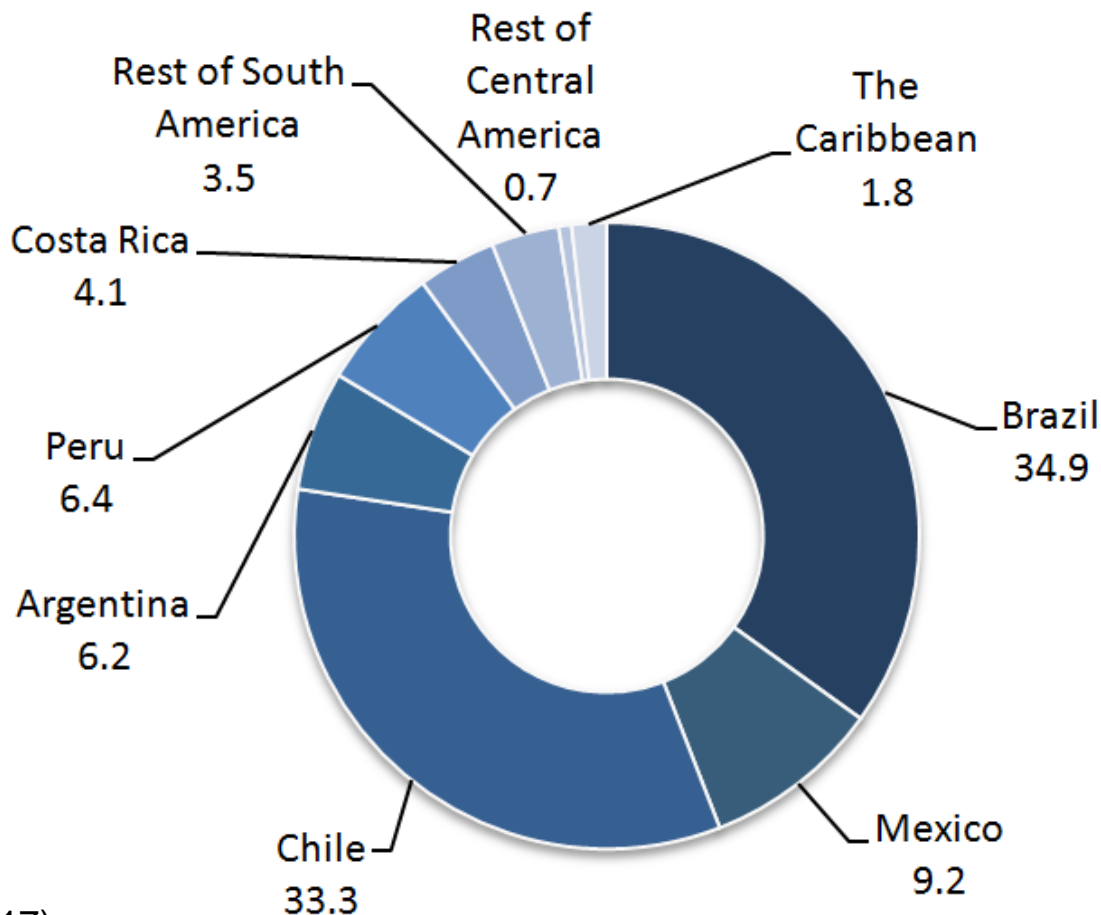


Source: Zaclicever (2017)

LAC intermediate exports embodied in gross manufacturing Asian exports

- LAC share in the foreign intermediate goods used in the production of Asian manufacturing exports was 4.2% in 2011

Origin from imports (in percentage of total LAC imports)



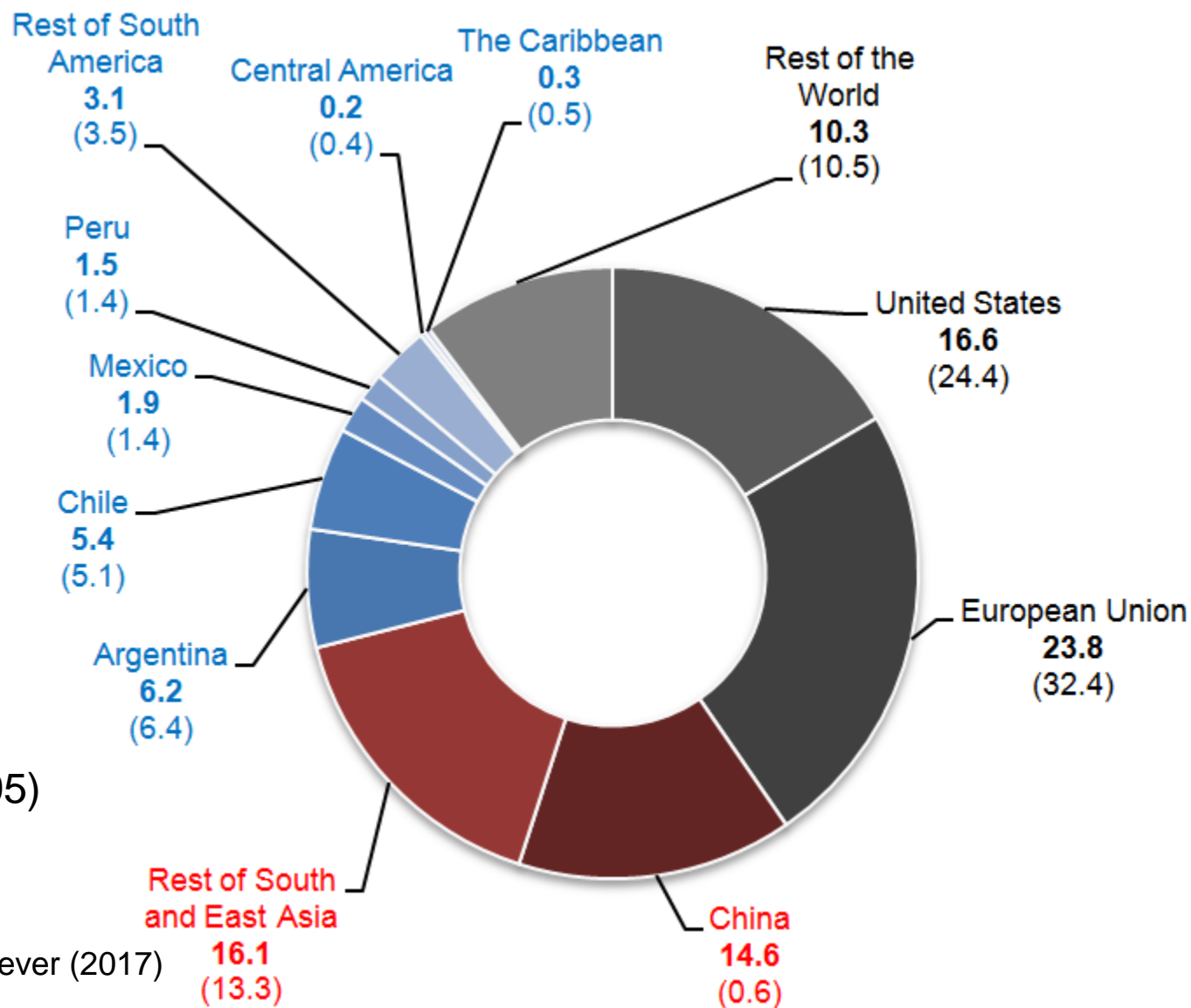
Source: Zaclicever (2017)



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Origin form intermediate imports embodied in gross manufacturing Brazilian exports



Source: Zaclicever (2017)

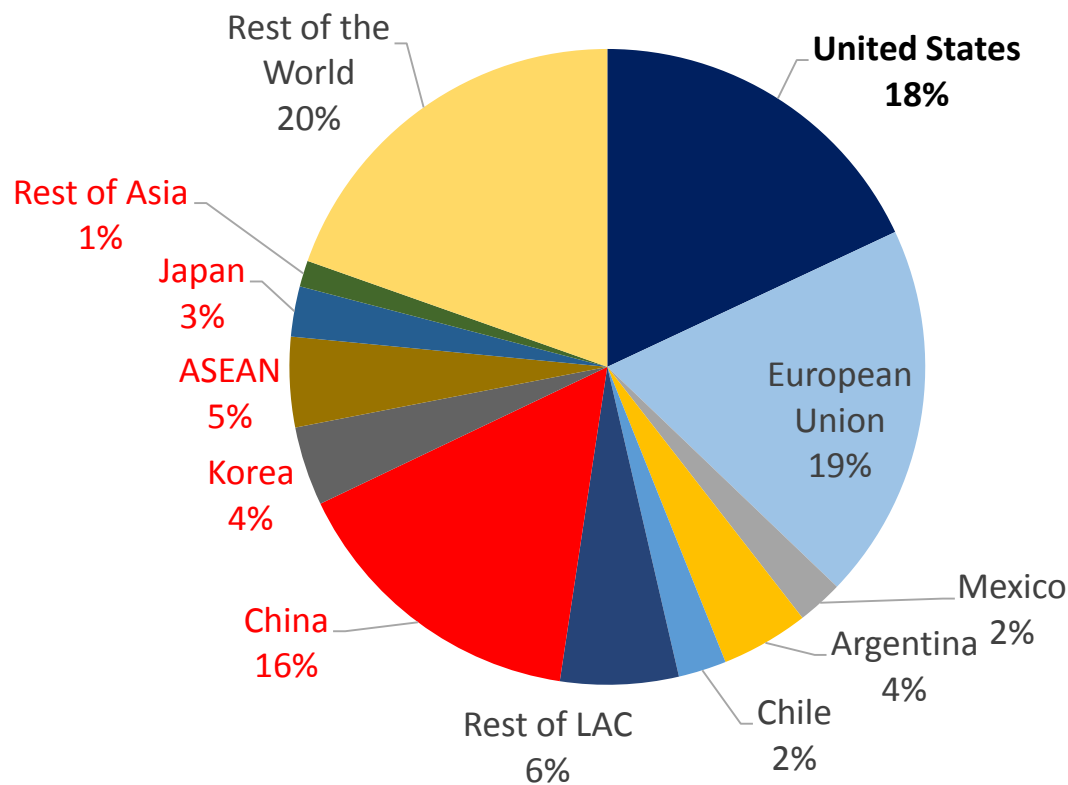


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In 2017-2018 share of China in intermediate inputs imported by Brazil grew

Brazil: Intermediate import embodied in gross total exports, 2017-2018



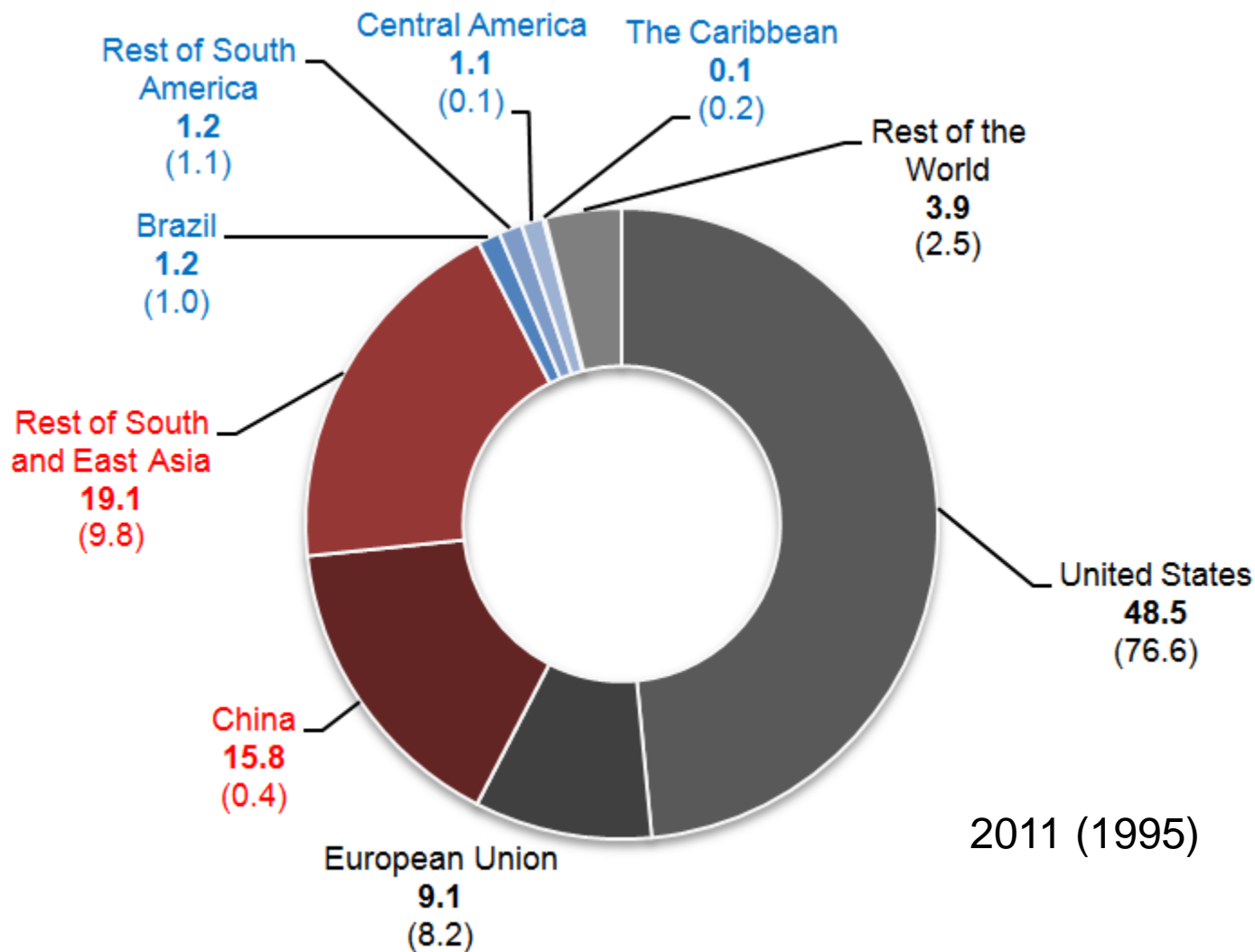
Source: ECLAC, based on COMTRADE database



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Origin form intermediate imports embodied in gross manufacturing Mexican exports



Source: Zaclicever (2017)

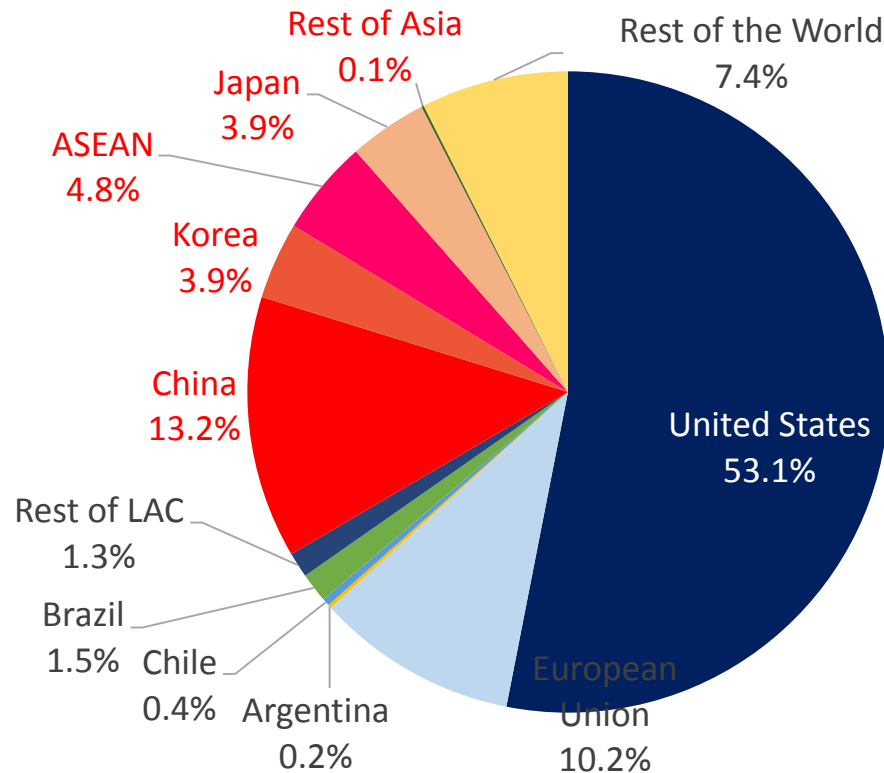


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In 2017-2018 share of US in intermediate inputs imported by Mexico recovered

Mexico: Intermediate import embodied in gross total exports, 2017-2018



Source: ECLAC, based on COMTRADE database



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Participation of LAC imported inputs embodied in gross Asian manufacturing exports

Sectors	1995	2011
A. Computer, electronic and optical equipment	0.1%	0.9%
B. Basic metals	7.6%	8.7%
C. Mining and quarrying	18.3%	26.9%
D. Chemicals and chemical products	1.1%	0.8%
E. Machinery and equipment	0.4%	0.4%
F. Electrical machinery and apparatus	0.3%	0.7%
G. Rubber and plastics products	0.3%	0.3%
H. Textiles, textile products, leather and footwear	2.2%	3.7%
I. Motor vehicles	1.2%	1.2%

Source: data from Zaclicever (2017). Note: Mexico included.

State of art of GVCs in FEALAC

- Latin America and the Caribbean:
 - lower GVC participation than Asian countries and other developing regions
 - weaker intra-regional links than Asian countries
 - Increased concentration in terms of destination market of intermediates exports (particularly, China)
- Increasing participation in VCs at different rates:
 - Asian inputs in LAC exports: 10.5% (1995) → 29.8% (2014)
 - LAC inputs in Asian exports: 2.2% (1995) → 4.0% (2014)
- Heterogeneity in countries:
 - Brazil and Chile are more connected to Factory Asia and Europe (particularly, in primary sectors)
 - Mexico and Costa Rica more connected to Factory North America (more diverse sectoral composition)
- LAC trade agreements:
 - did not seem to have contributed much to promote the region's insertion into GVCs

Getting from GVCs analysis to policy advice

- Several Latin American countries have liberalized their trade more with extra-regional partners than with the region itself.
- There has been significant progress in eliminating tariffs
 - exception: Mexico-MERCOSUR
- But much less progress has been made on **regulatory barriers** to trade and investment, for example:
 - Sanitary and phytosanitary standards (SPS)
 - Technical barriers to trade (TBT) (e.g. safety regulations, emission of pollutants, energy efficiency, consumer protection, etc.)
 - Restrictions on foreign investment
 - Discrimination against foreign suppliers in government procurement
 - Cumbersome processes for cross-border movement of goods

Streamlining NTMs

- NTMs have an important role in correcting market failure
- Eliminating NTMs is therefore not an optimum solution because it also eliminates potential beneficial impacts on society.
 - Whenever NTMs correct market failures and address negative externalities issues, they might have a demand increasing effect with a positive impact on trade quantities.
- Therefore, AVEs of NTMs should not be interpreted as distortions, which must be reduced/eliminated (Cadot et al., 2018)
 - For example: an import prohibition ban on an engine which generates toxic smoke is likely to have a high AVE.
- However, there are still countries that make use of NTMs in order to prevent the increase of imports

Streamlining NTMs

- Streamlining and harmonizing NTMs with important markets is likely to push down compliance costs of NTMs and allow SME to reach international markets.
- This might also have effects on the market structure of some products, allowing the entrance of more firms and reducing rent from oligopolies
- Therefore, It is important to flag differences in NTMs regulations. Once the differences are spotted, analysis should be undertaken at disaggregated level in order to assess the restrictiveness and potential benefits of an NTM harmonization.

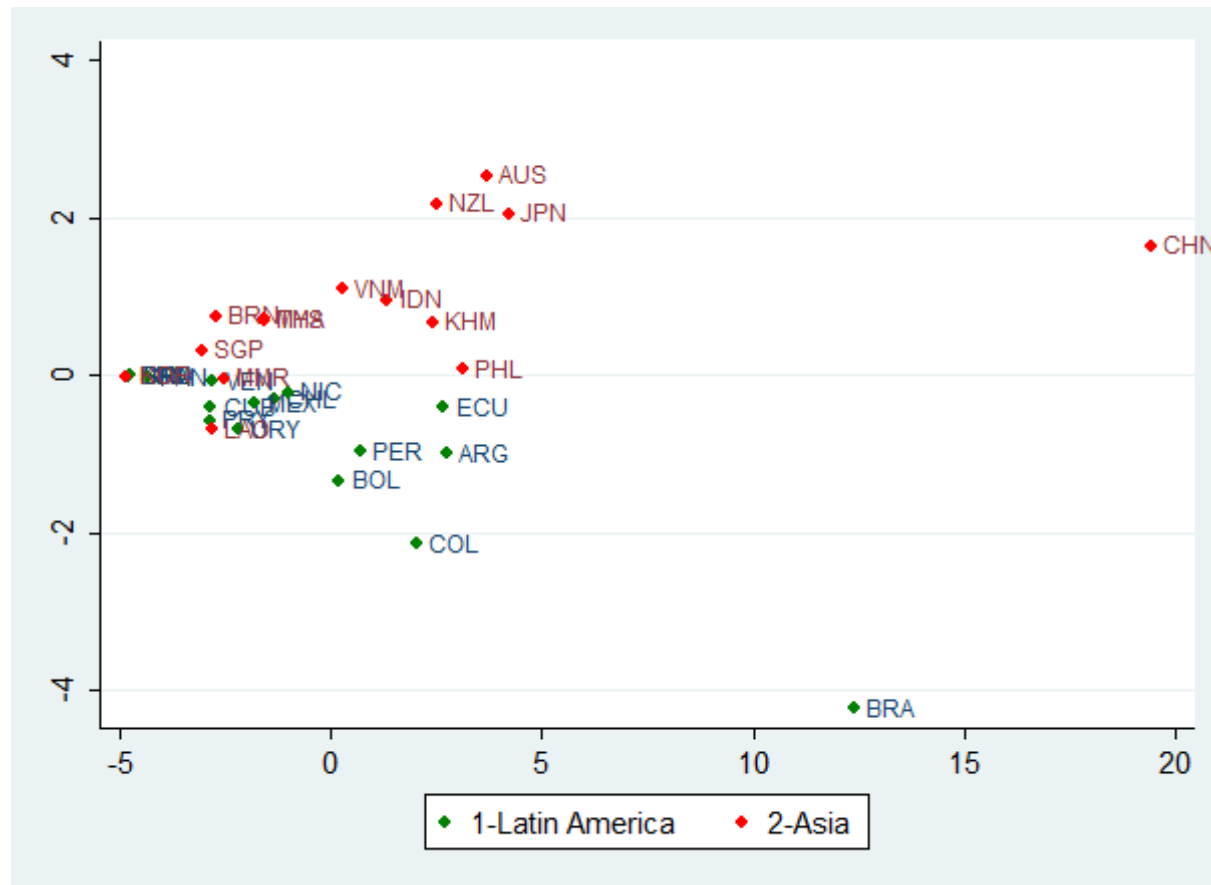


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Regulatory convergence within each region except for Brazil and China

PCA analysis: Regulatory distance of Technical NTMs (**SPS, TBT, PSI**) for FEALAC members



Source: ECLAC based on TRAINS/UNCTAD. *SUR, MMR and DOM not included



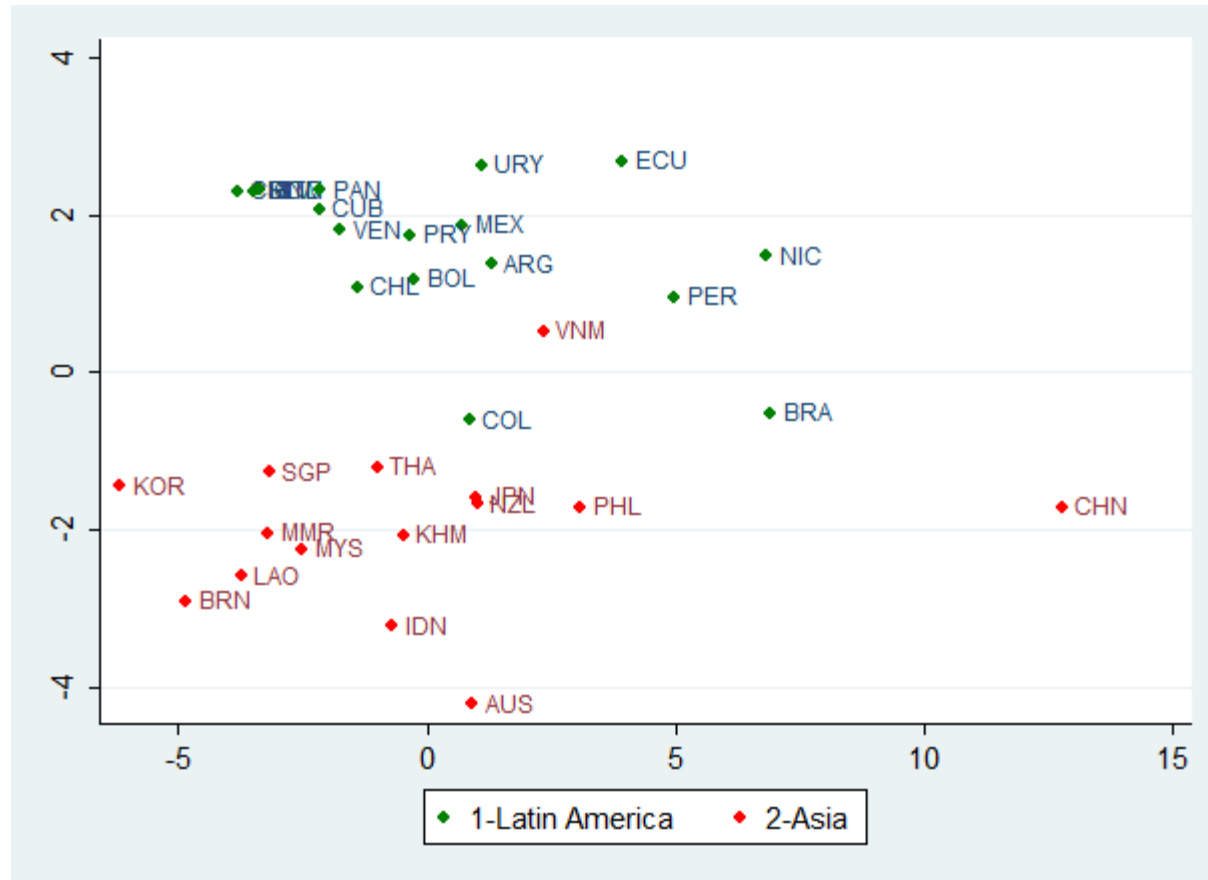
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Regulatory distance of SPS regulations in agri-food products for FEALAC countries*

PCA analysis:

Regulatory distance of **SPS** in agri-food products (HS sections 1-4)



Source: ECLAC based on TRAINS/UNCTAD. *SUR, MMR and DOM not included



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Regulatory distance of TBT regulation in manufactures for FEALAC countries*

PCA analysis:

Regulatory distance of **TBT** in manufactured products (HS sections 6-20)



Source: ECLAC based on TRAINS/UNCTAD. *SUR, MMR and DOM not included



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Improving the quality of logistics infrastructure as well as legal and institutional strenght

- Logistics infrastructure, including ports, airports and information technologies is vital for minimizing uncertainty and delays in delivery of products for other industries in the VC.
- Legal and Institutional framework also play an important role in the fragmentation of production. The decision of firms to invest abroad (FDI) or local independent suppliers depends on a stable environment for business.

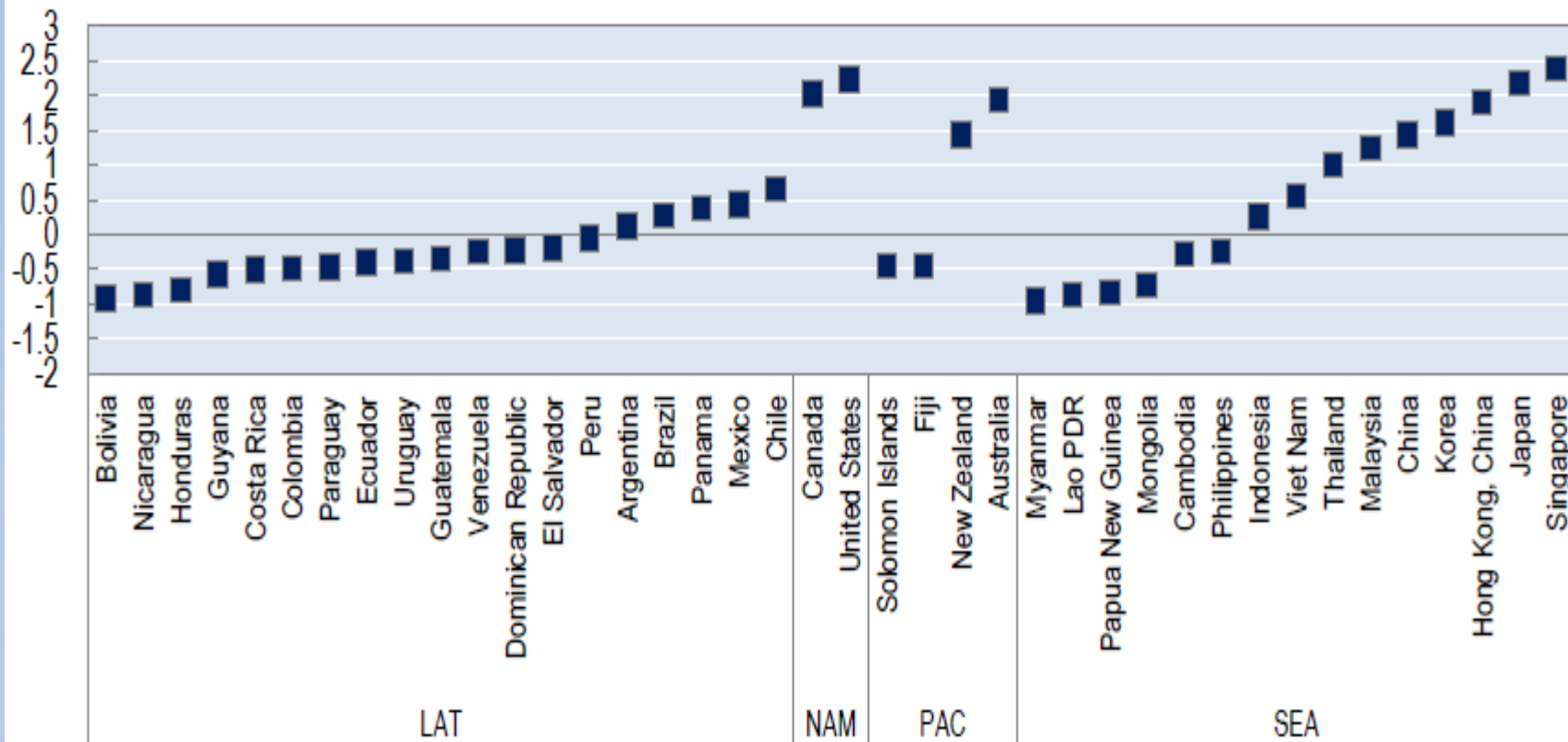
Source: Blyde (2014)

Quality of trade and transport related Infrastructure



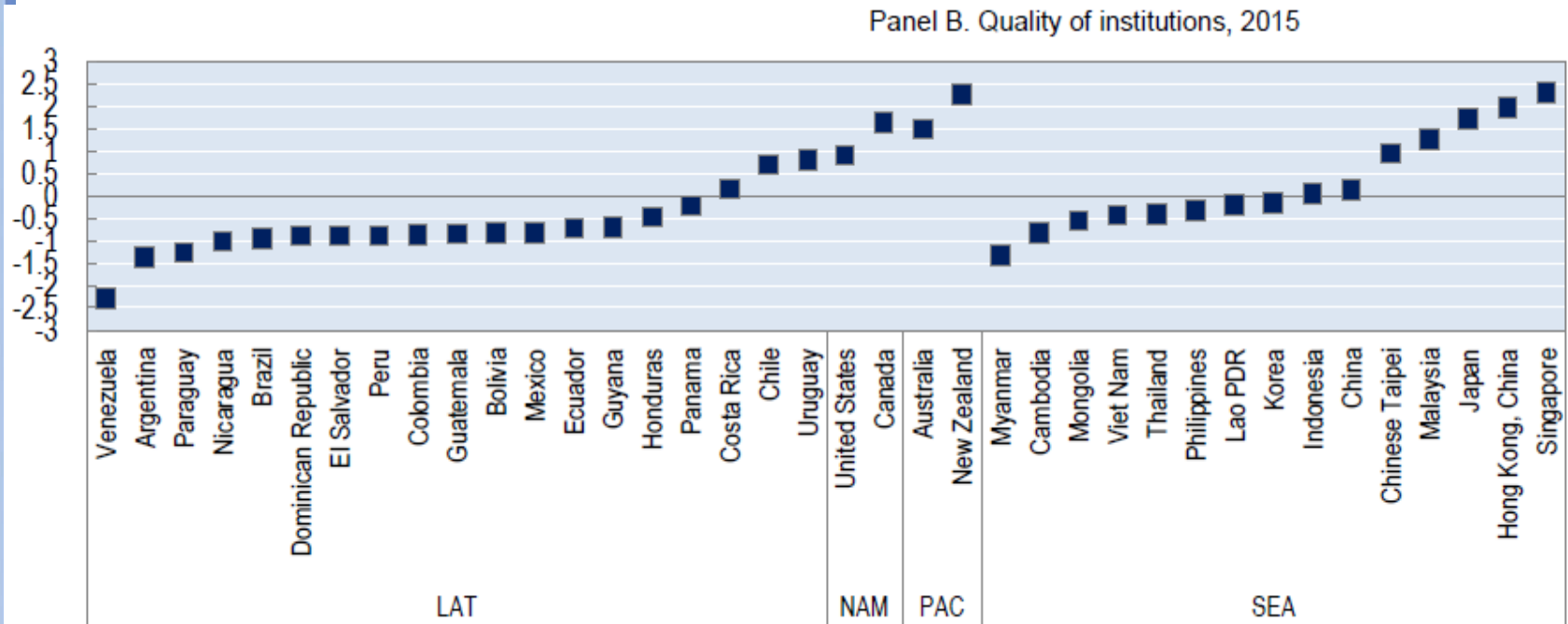
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Source: Cadestin et al. (2016) based on data from WEF and World Bank

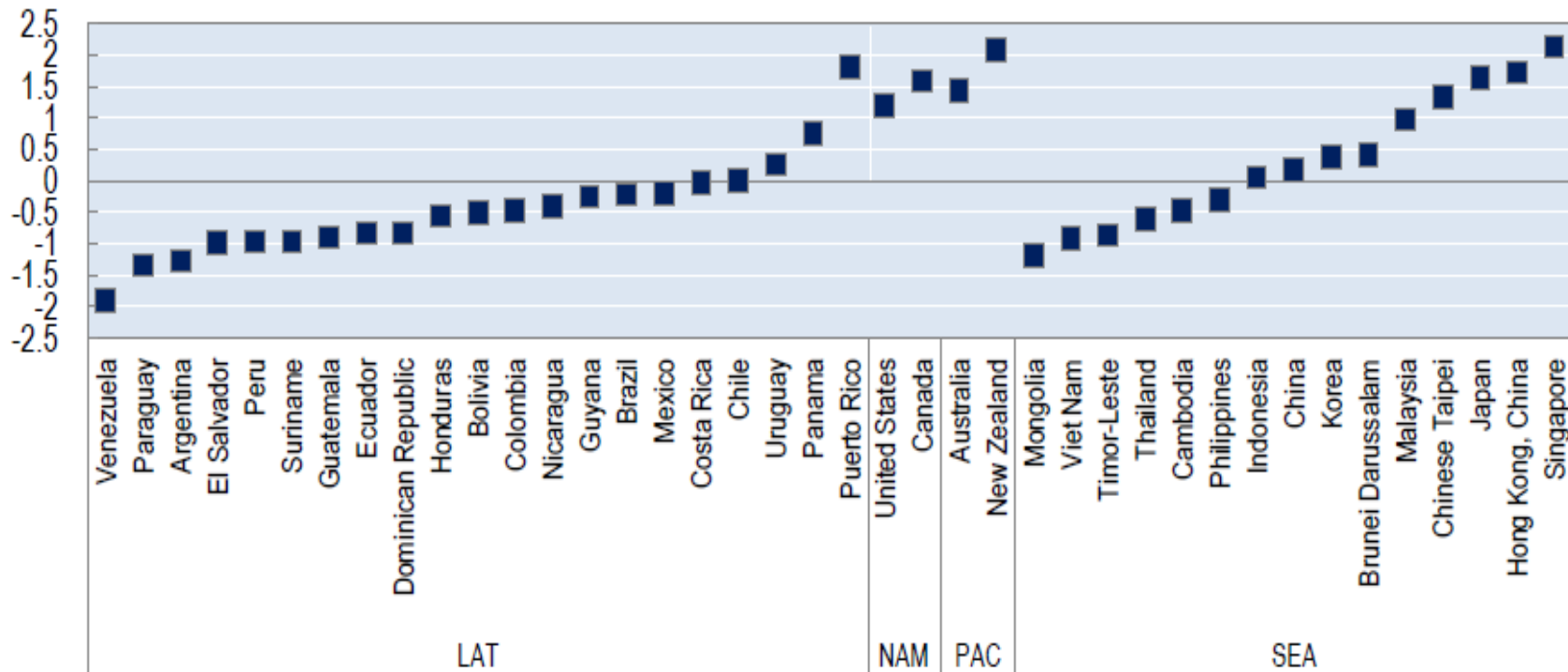
Quality of Institutions, LAC and Asia 2015



Source: Cadestin et al. (2016) based on data from WEF and World Bank

Intellectual Property Protection

Panel A. Intellectual property protection, 2012



Source: Cadestin et al. (2016) based on data from WEF and World Bank



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Connecting and improving electronic trade single windows

- Trade single windows have had beneficial impacts in reducing trade costs since they have been first implemented.
- However, there is still much room for improvement
 - Single windows are not well interconnected
 - Persistence of paper
 - Inefficient manual processes
 - Limited traceability of shipments
 - Limited trustworthiness and portability of identities and data
- New technologies such as blockchain can help in solving the current problems with single windows
 - Examples being implemented : CADENA (Peru, Costa Rica, Chile and Mexico), Blockchain Cross border project (South Korea and Vietnam)
- Signatories of the Trade Facilitation Agreement (FTA) are encouraged to adopt electronic single windows

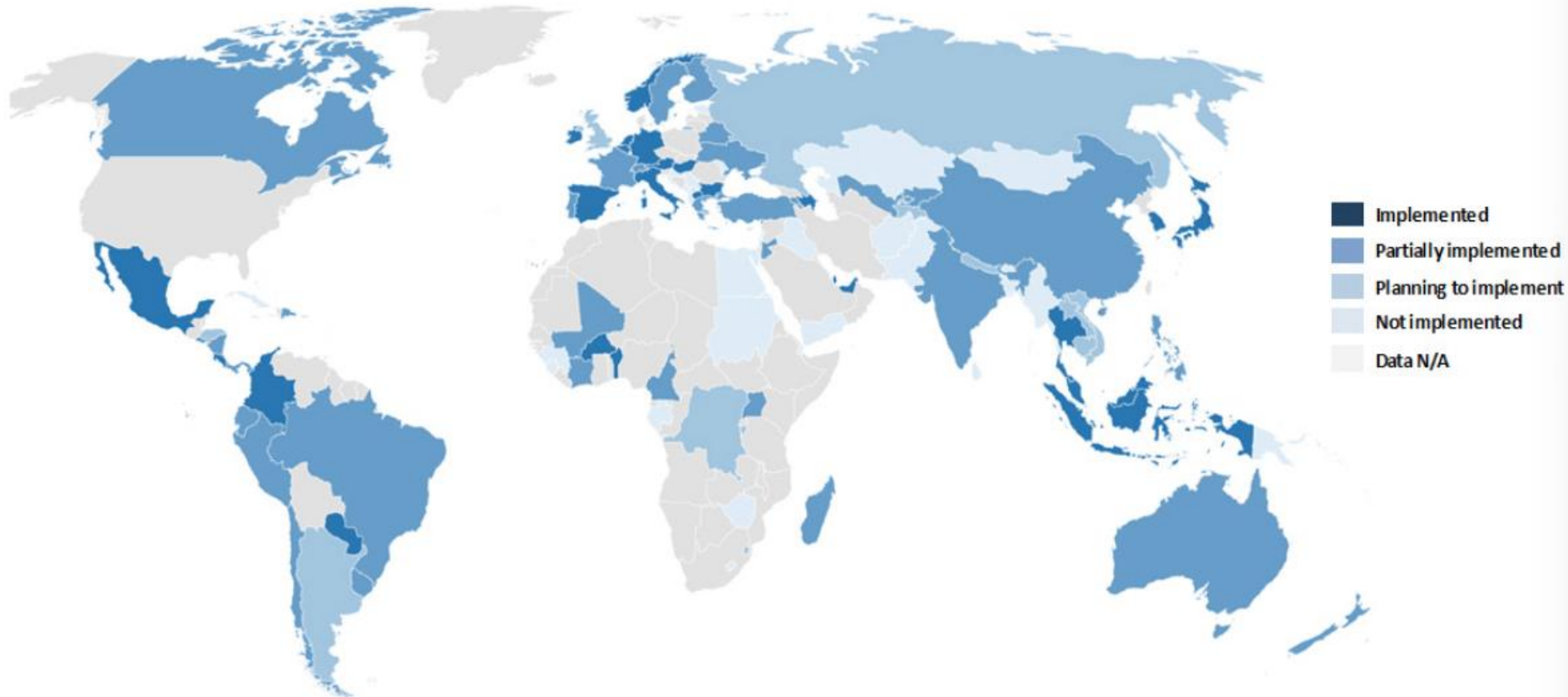
Source: IDB/WEF (2019)

Trade single windows adoption, 2017



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Source: IDB/WEF (2019) based on UN Paperless Trade Database





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Actions are required on several fronts in order to support productive integration

1. Address the Trade Facilitation issues of the 21st century
2. Move towards a strong legal and institutional framework.
3. Address the regional infrastructure deficit (transport, telecommunications, energy)
4. Overcome regulatory barriers to the formation of bi-regional production networks: identification of bad designed NTMs and NTMs where there could be gains from harmonization

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