

2014



Latin America and the Caribbean
in the World Economy



UNITED NATIONS

ECLAC

**Regional integration and value chains
in a challenging external environment**



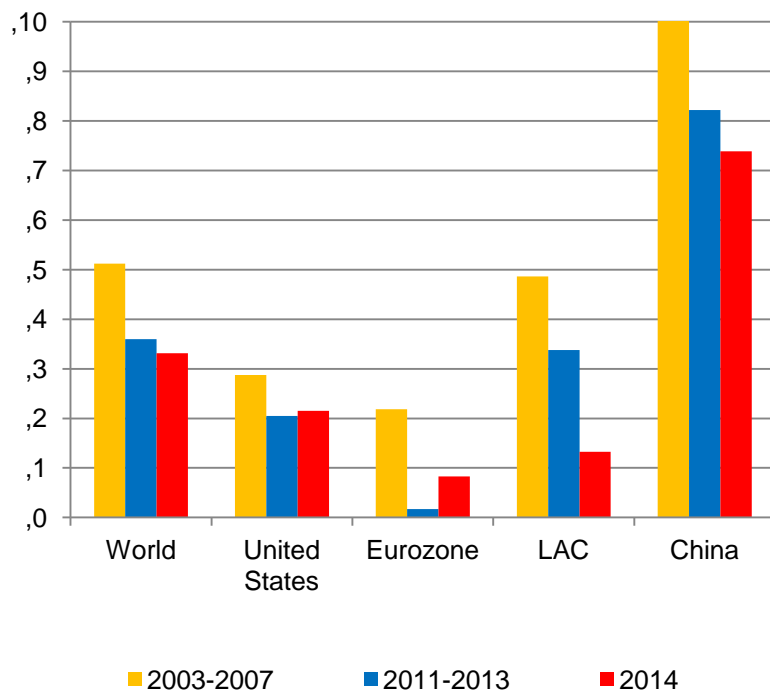
International context

- 1. International conditions are slowing regional trade**

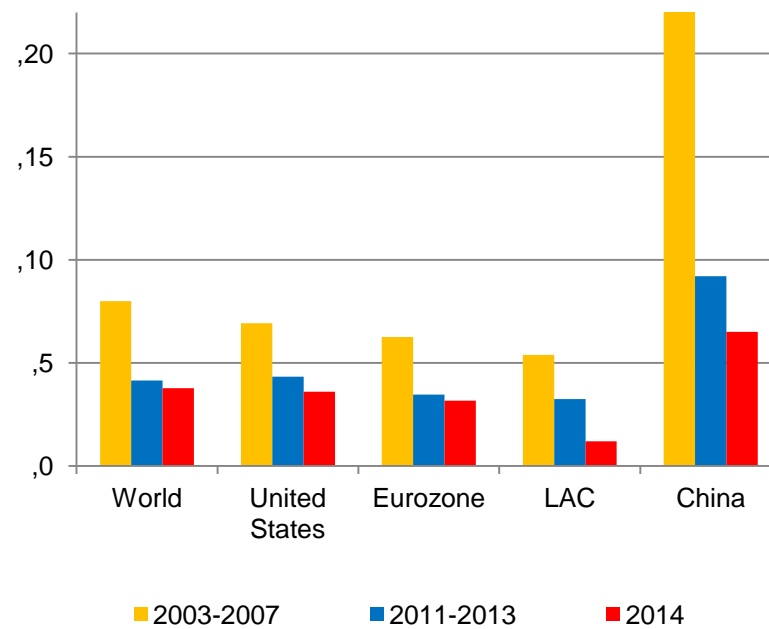
Global output and trade are growing have grown more slowly since the 2008-2009 crisis

Annual GDP growth and exports by volume (Percentages)

a) GDP



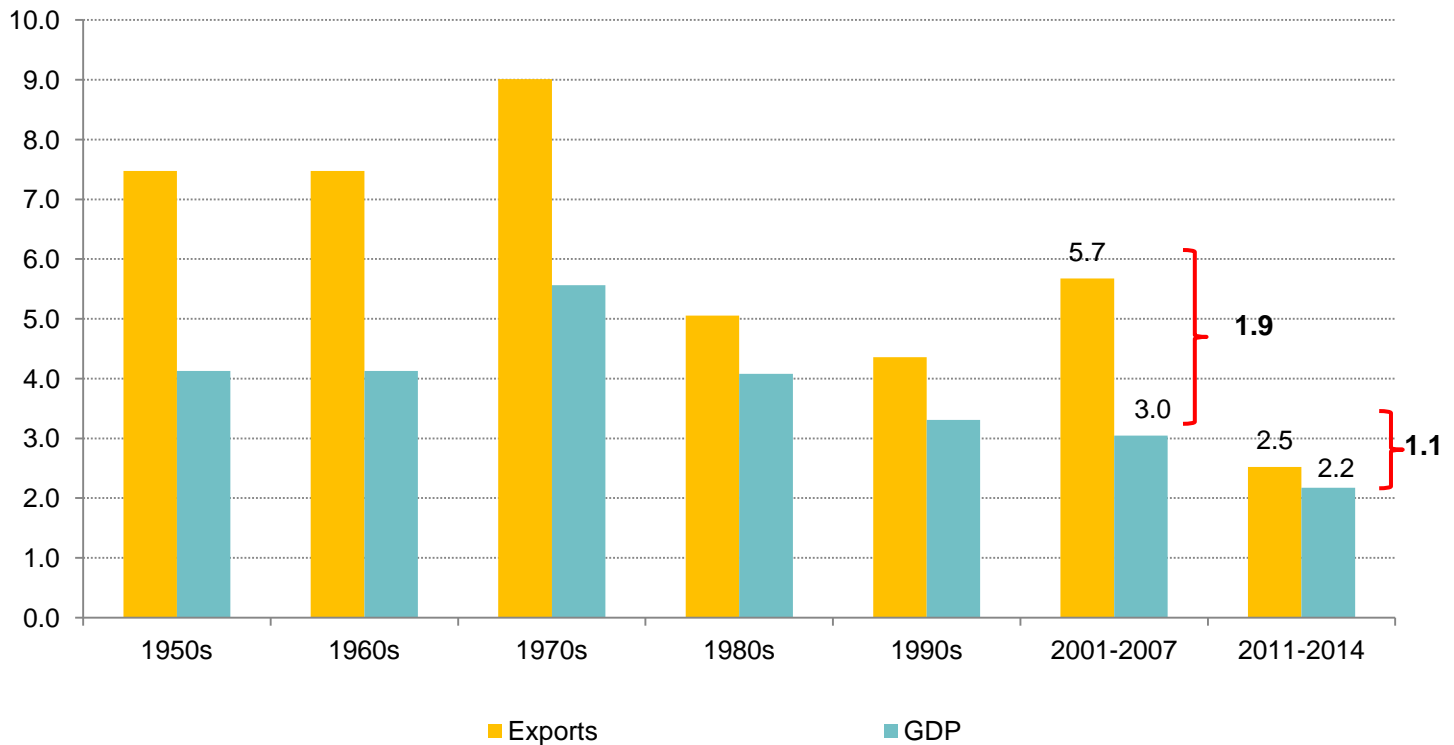
b) Goods exports



Fuente: ECLAC, on the basis of data from ECLAC and International Monetary Fund, *World Economic Outlook*, October 2014. Data for Latin America are ECLAC estimates.

Post-crisis, the difference between the growth rates of global exports and output has narrowed considerably

World: average variation in exports and GDP, selected periods
(Percentages)

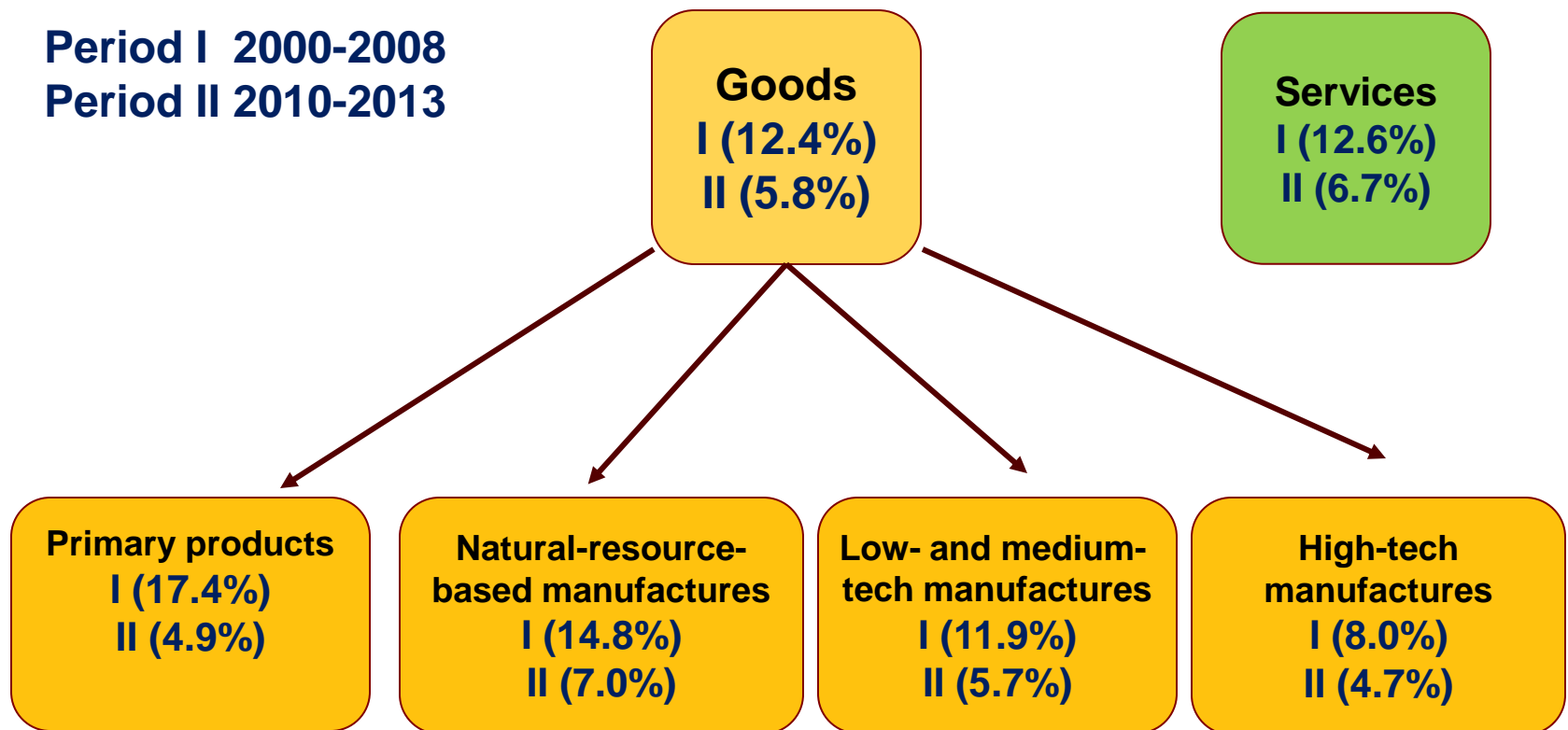


Source: ECLAC, on the basis of data from WTO, and United Nations projections for 2014.

The slower global trade growth is evident in exports of both goods and services

Annual variations in the value of global exports of goods and services, 2000-2008 and 2010-2013

Period I 2000-2008
Period II 2010-2013

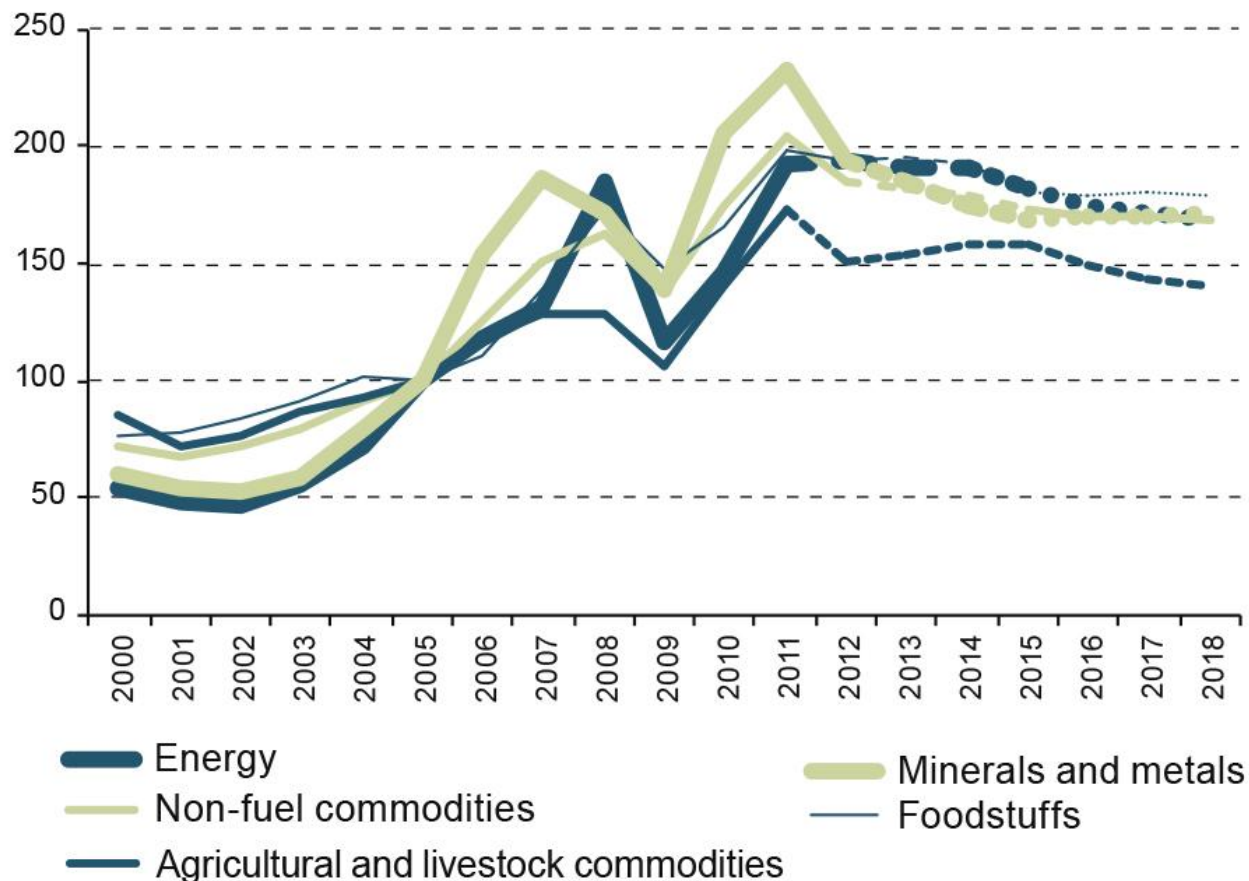


Source: ECLAC, on the basis of data from WTO and COMTRADE.

Commodity prices are falling, but remain above historic levels

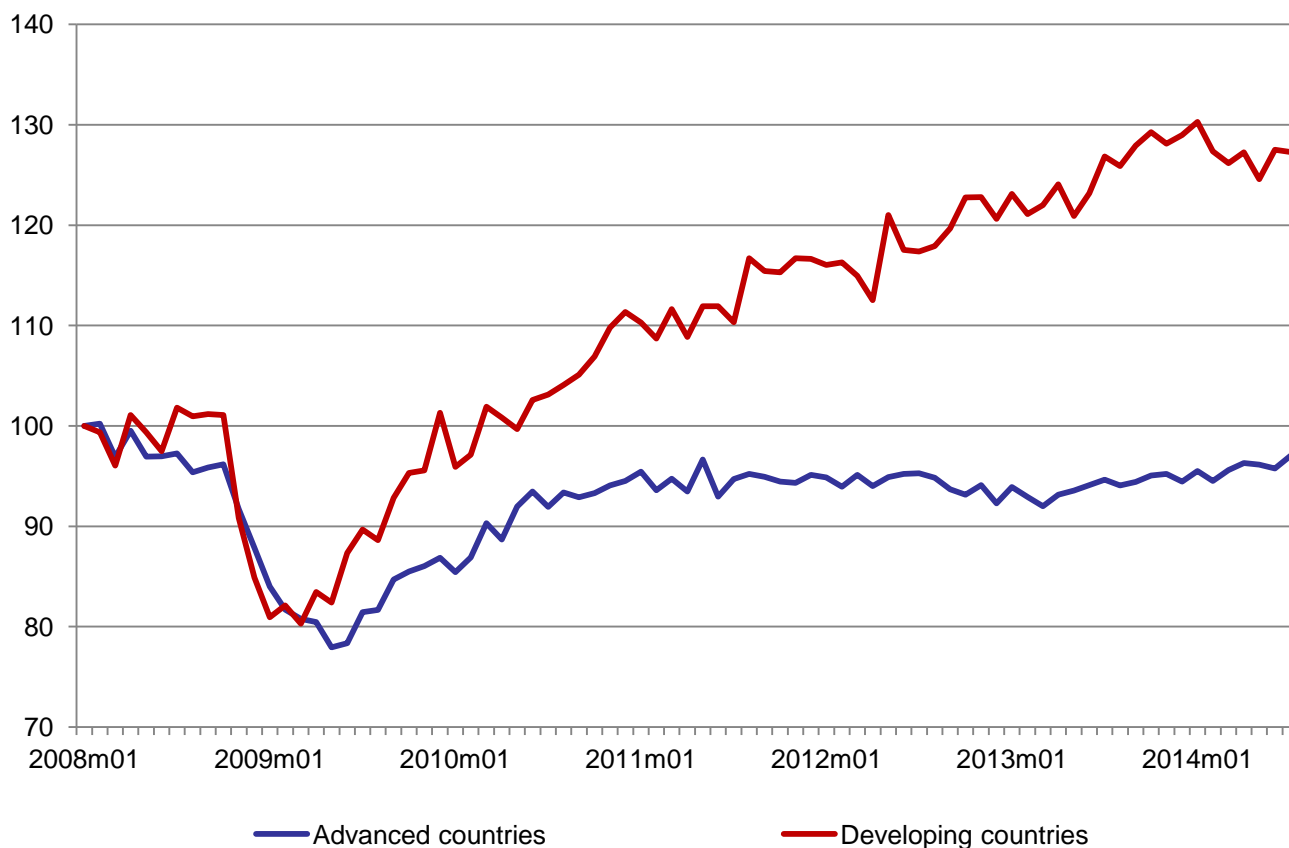
Latin America and the Caribbean: prices of main export products, 2000-2018

(Index: January 2008=100)



Exports by developed countries have failed to gain momentum since the crisis

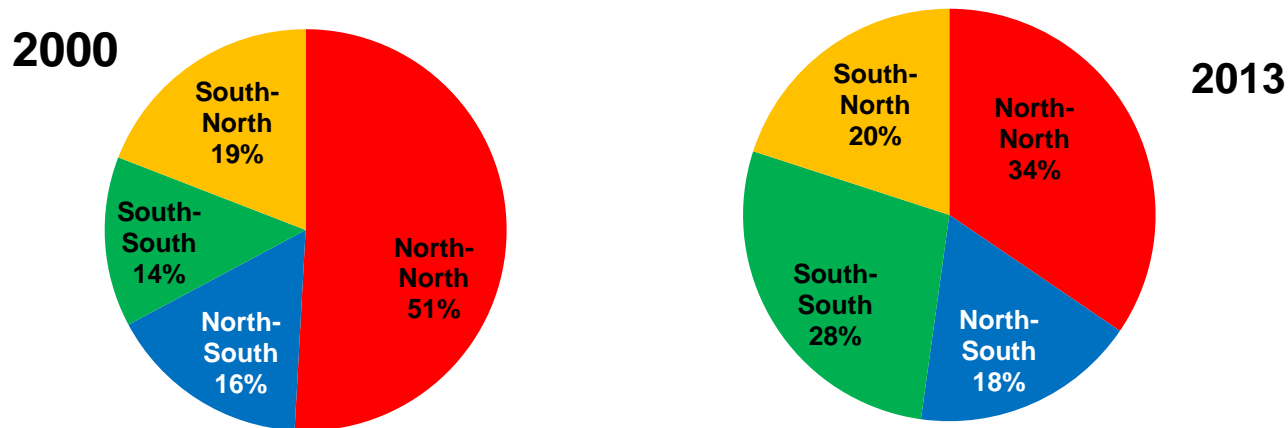
Advanced and developing countries: index of goods exports by volume (Index: January 2008=100)



Source: ECLAC, on the basis of World Trade Monitor of the CPB Netherlands Bureau of Economic Policy Analysis.

The slowdown in the North is dragging down export growth in the South

Structure of global exports by major world regions: 2009 and 2013



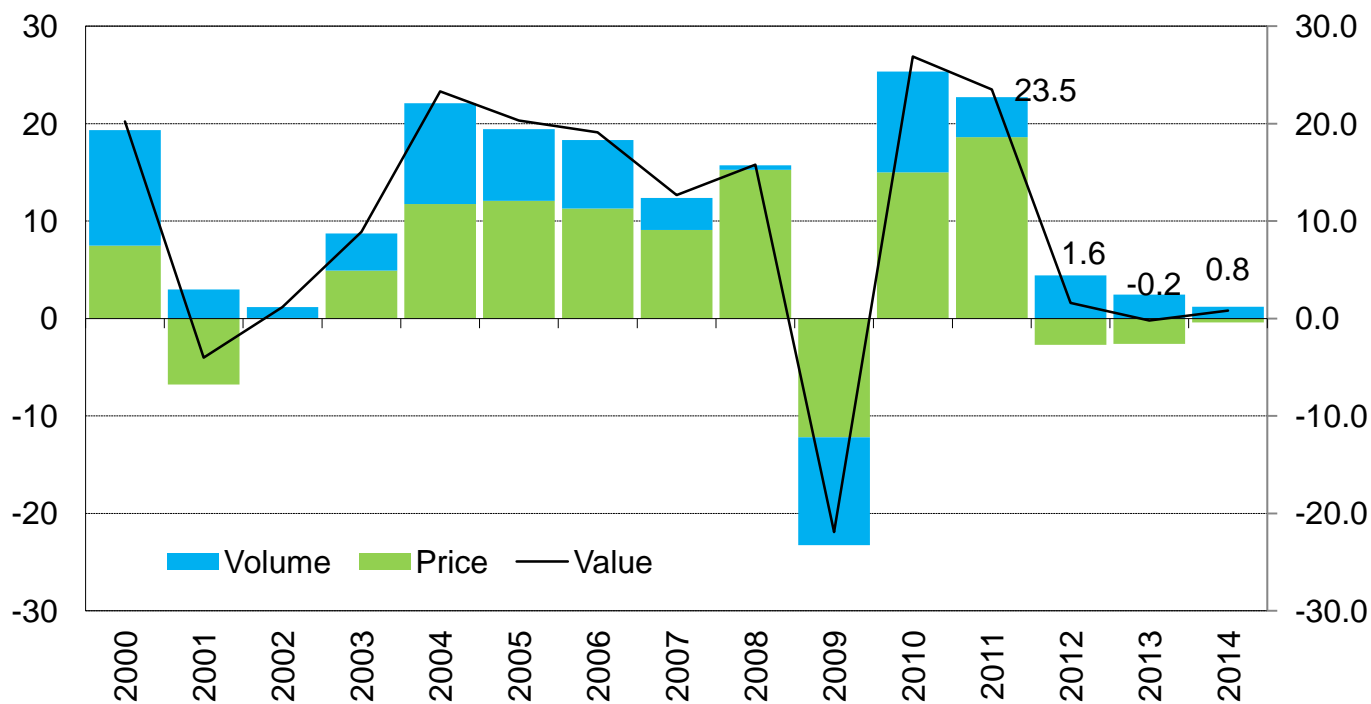
Global trade: annual variation in export values,
2000-2013
(Percentages)

	North-North	North-South	South-South	South-North	World
2000-2009	5.4	8.1	13.3	6.8	7.5
2010	12.3	25.7	36.3	28.1	22.5
2011	15.2	18.6	32.5	21.4	21.0
2012	-4.6	0.8	12.0	17.7	4.8
2013	3.0	3.1	3.9	-0.4	2.6

Source: ECLAC, on the basis of United Nations, COMTRADE.

The export stagnation in Latin America and the Caribbean has now lasted three years

Latin America and the Caribbean: growth in goods exports, 2000-2014
(Percentages)



Source: ECLAC, on the basis of official information. The figures for 2014 are ECLAC estimates.

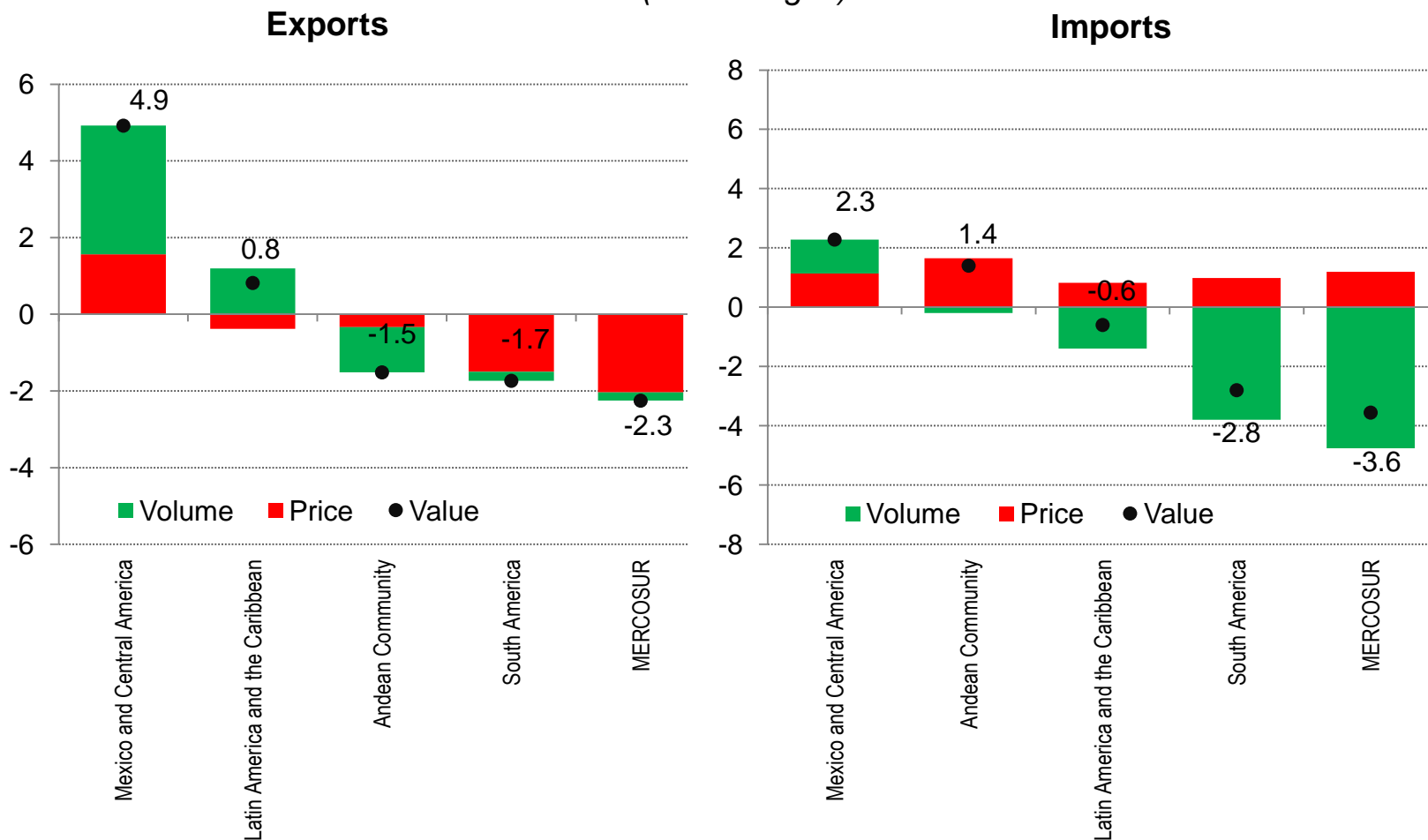


2. Impact on the region

Exports by Mexico and Central America will be the fastest-growing in 2014 (in subregional terms)

Latin America and the Caribbean: annual variation in goods trade by volume, price and value, 2014

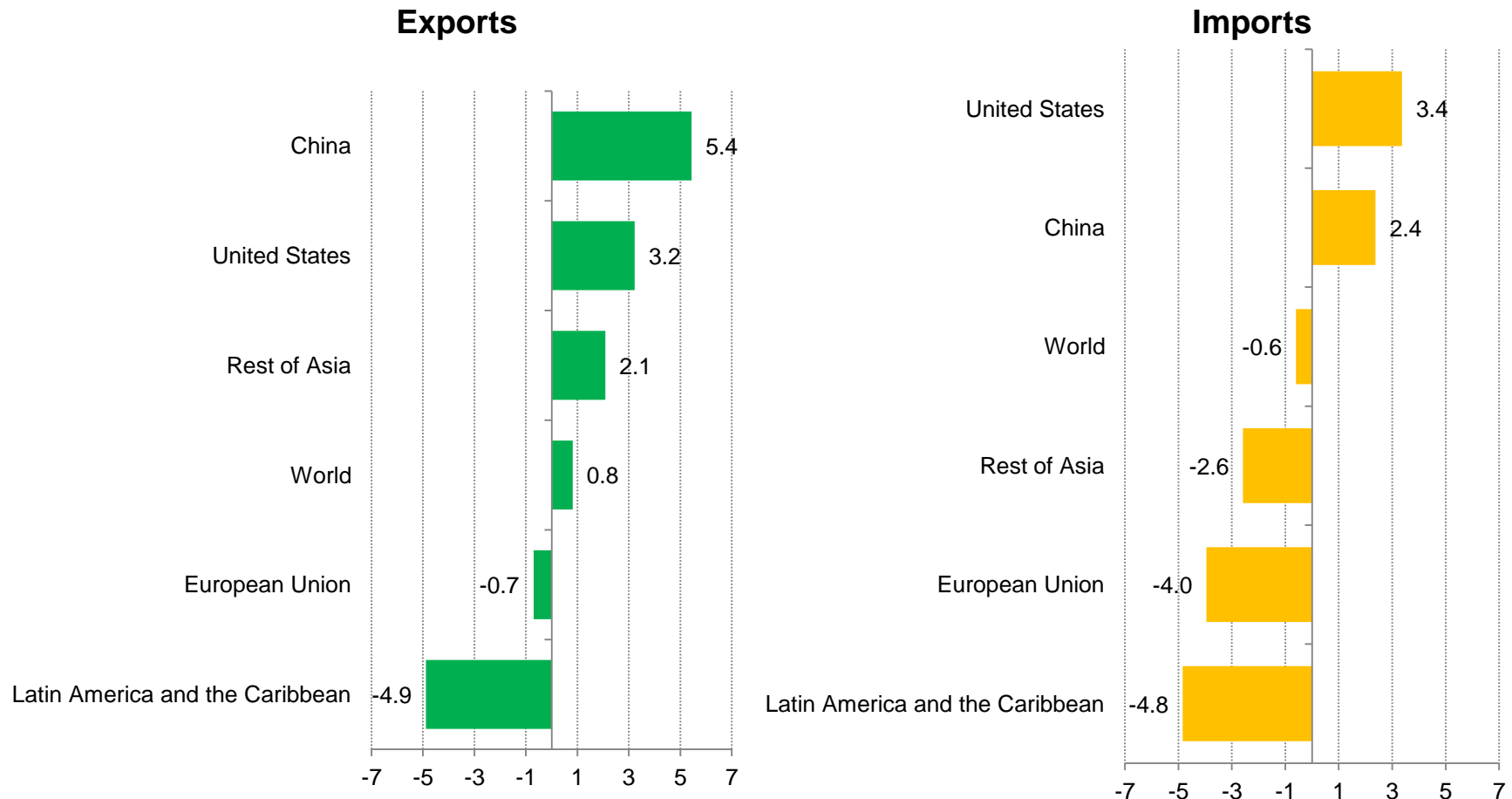
(Percentages)



Source: ECLAC estimates, on the basis of official information.

The poor performance of regional trade is due mainly to declines in trade with the European Union and within the region itself

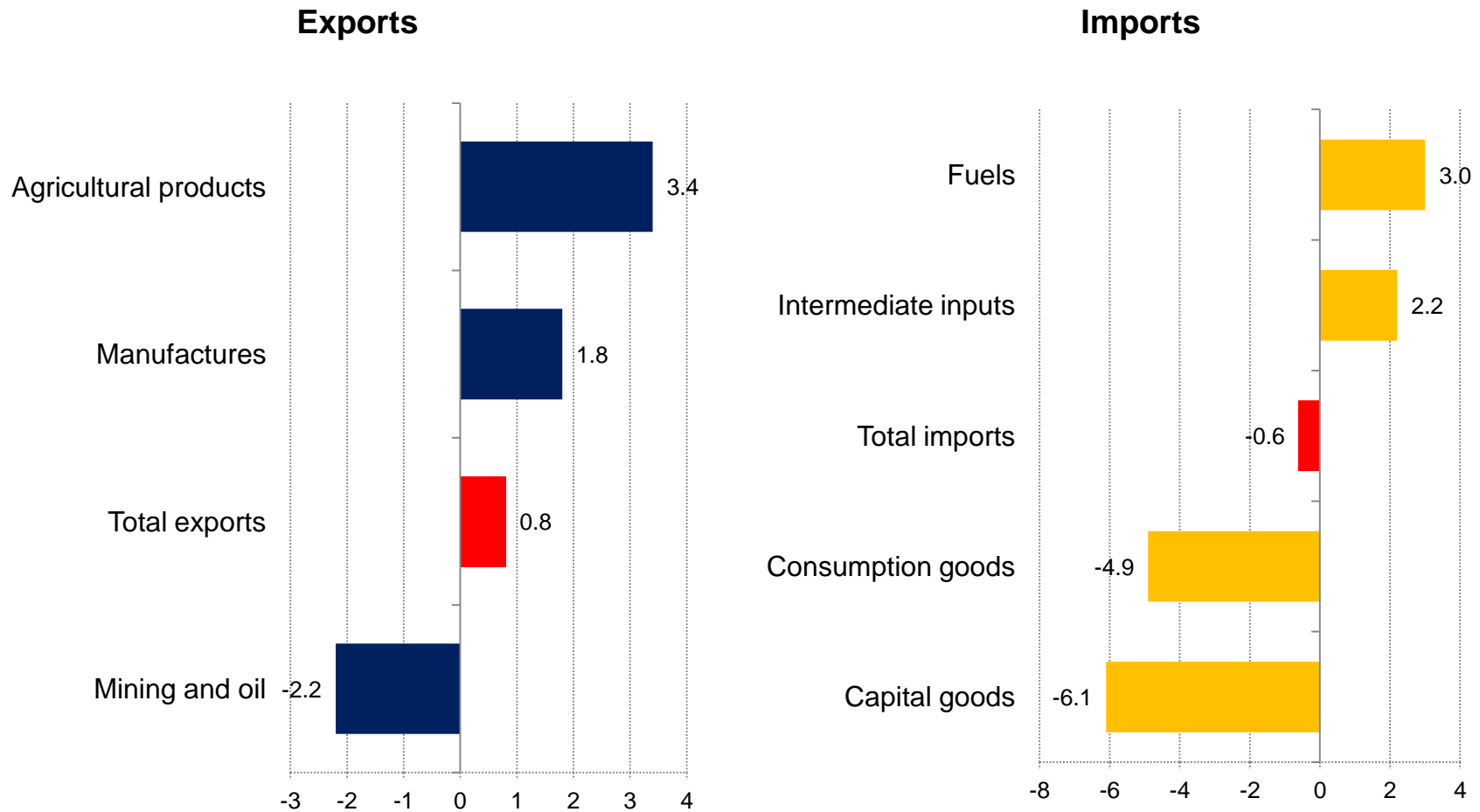
Latin America and the Caribbean: estimated annual variation in goods trade value, by trading partner, 2014 (Percentages)



Source: ECLAC estimates, on the basis of official information.

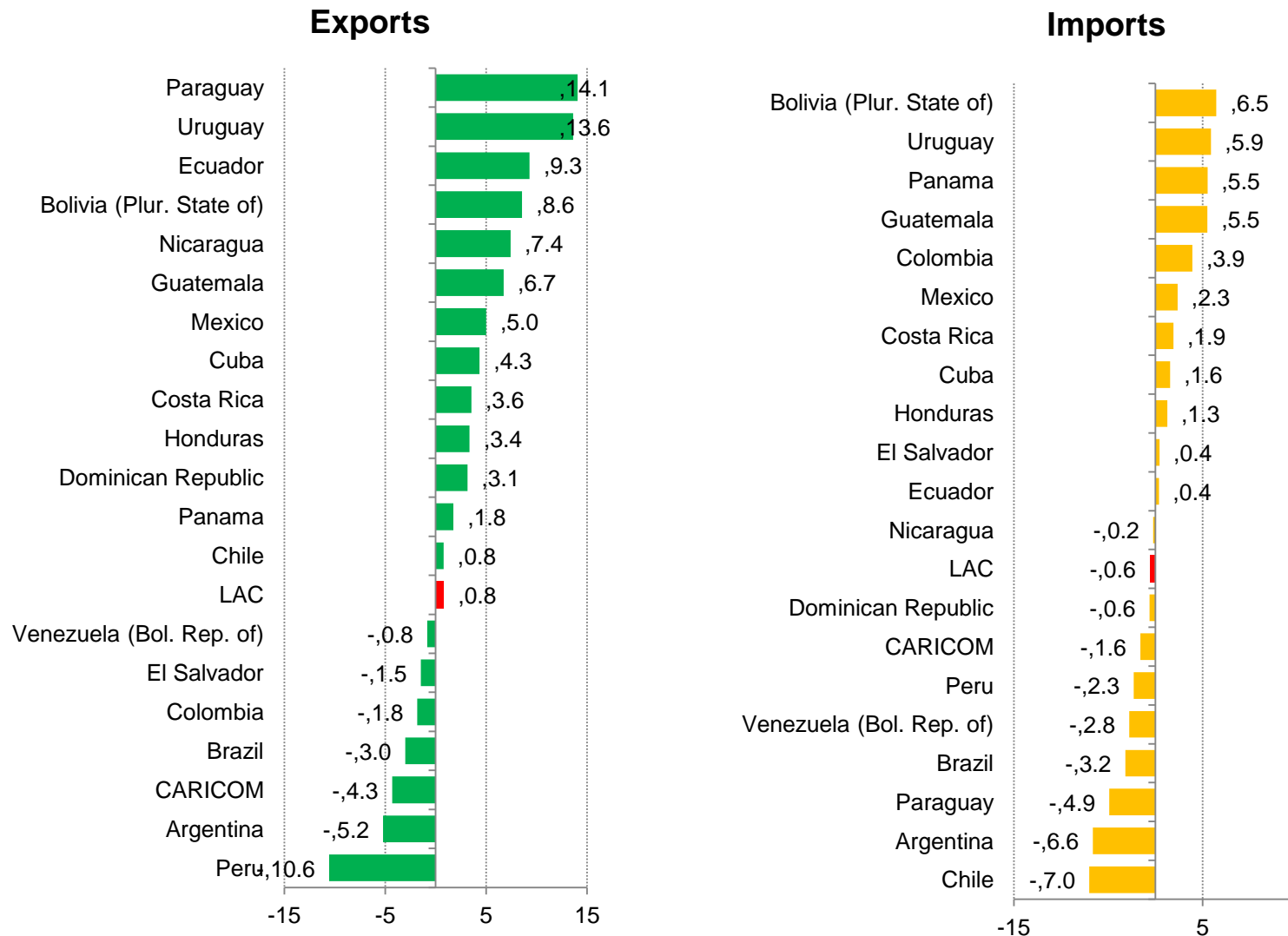
In 2014, agricultural exports will be the fastest-growing

Latin America and the Caribbean: estimated variation in goods trade value,
by major sector, 2014
(Percentages)



Source: ECLAC estimates, on the basis of official information.

Latin American and Caribbean countries: projected variation in trade value, 2014



Source: ECLAC estimates, on the basis of official information.



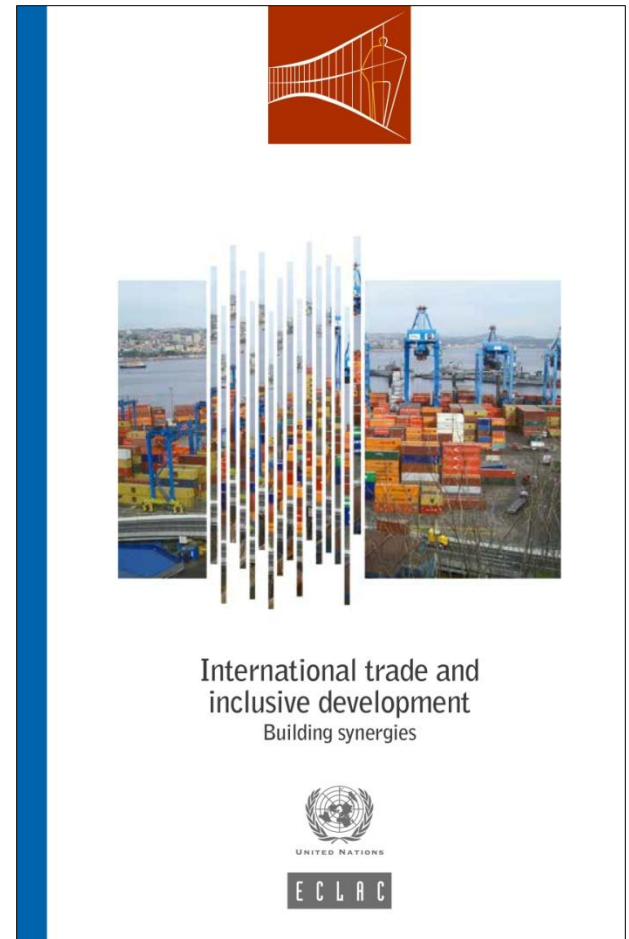


3. Participation and upgrading in value chains

What is inclusive trade?

A type of trade that:

- promotes growth and productivity
- reduces structural heterogeneity
- improves well-being for the majority (employment and wages)
- reduces inequality



Potential benefits of international value chains for inclusive development

A. Upgrading

- Greater value added
- Broader access to quality intermediate goods
- Better human capital and wages

B. Participation of SMEs

- Larger market (international)
- Technology transfer
- Job creation

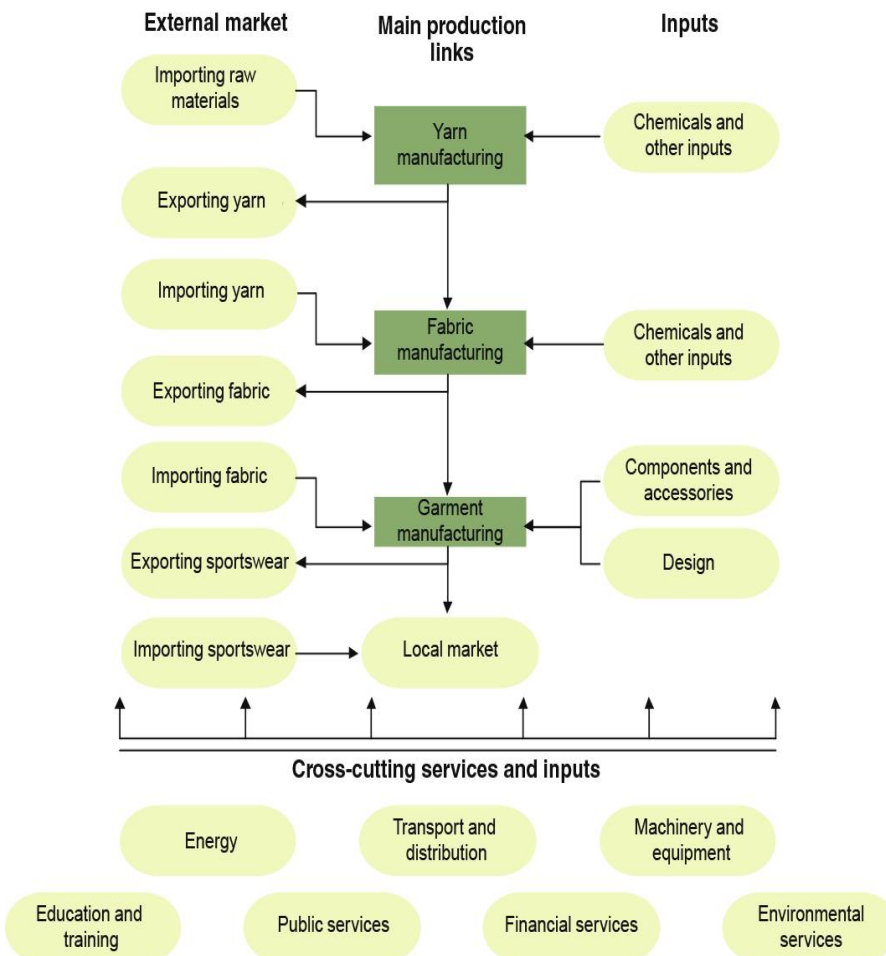
C. Access to financing

- Provided by large firms
- ... or banks (lower lending risk associated with being in a GVC)

These benefits depend crucially on cross-cutting policies



A. Example of innovation and upgrading: synthetic fibre sportswear chain in El Salvador



Recommendations for upgrading:

- Create a centre of innovation and technological development
- Improve the educational profile of technical staff
- Better support for public innovation bodies
- Work on the country brand

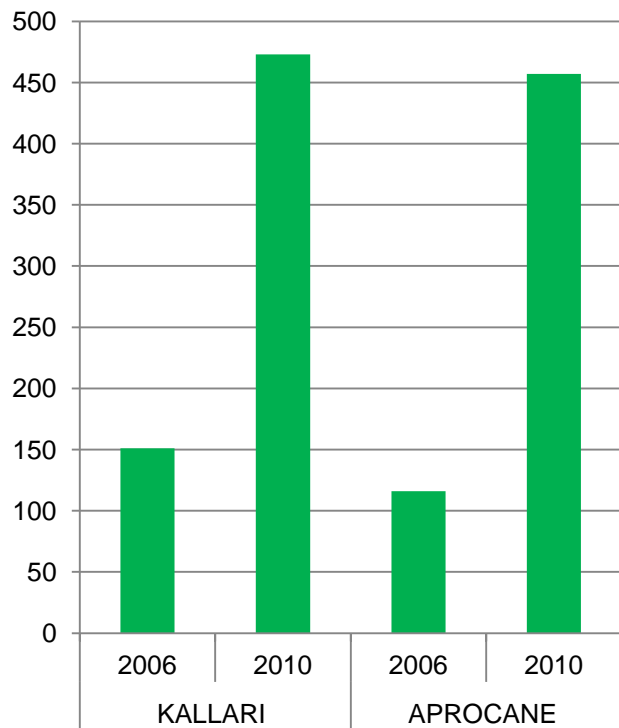
Source: R. Padilla Pérez (ed.), *Strengthening value chains as an industrial policy instrument. Methodology and experience of ECLAC in Central America*, Libros de la CEPAL, No. 123 (LC/G.2606-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2014. United Nations publication, Sales No. E.14.II.G.9.



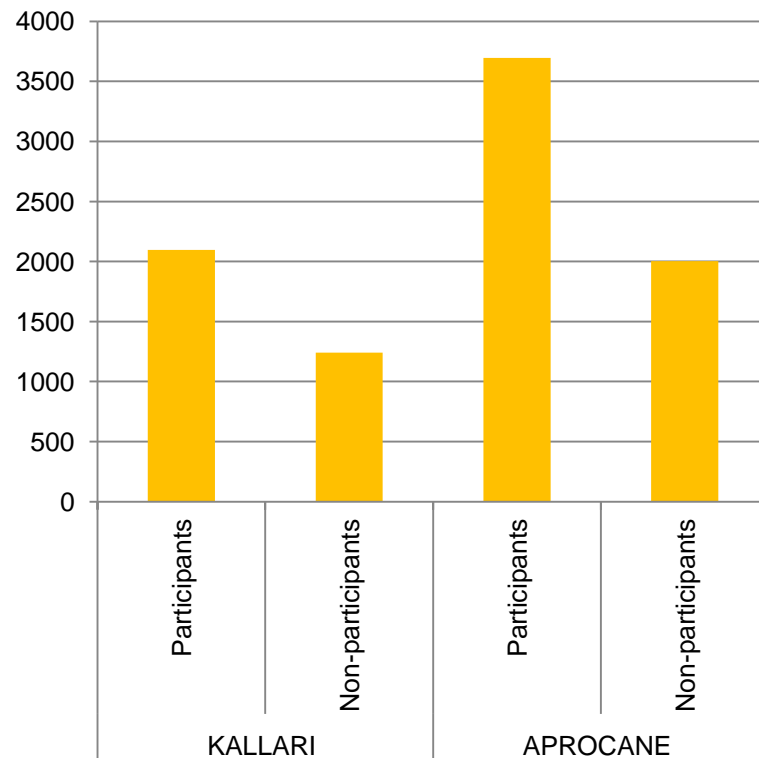
B. Example of SME participation: the fine aromatic cocoa value chain in Ecuador

Impact of the SME programme, 2006-2010

a) Income per hectare of the participating groups
(Dollars)



b) Other income of participant and non-participant farms, 2010
(Dollars)



Source: Hernández, R. A., J.M Martínez-Piva and N. Mulder (2014), *Global value chains and world trade: Prospects and challenges for Latin America*, ECLAC, Santiago.

C. Better access for financing for SMEs in value chains: dairy produce in Argentina

- Dairy processing firm “La Serenísima” (5,000 employees) created guarantee fund in 2009 :
 - For 1,046 suppliers (a third of the total)
 - Suppliers: 65% are small dairy farms
 - Guarantees increased between 2002 and 2009:
 - from 743 to 1.345 in number
 - from US\$ 1.8 million to US\$ 5.5 million in amount



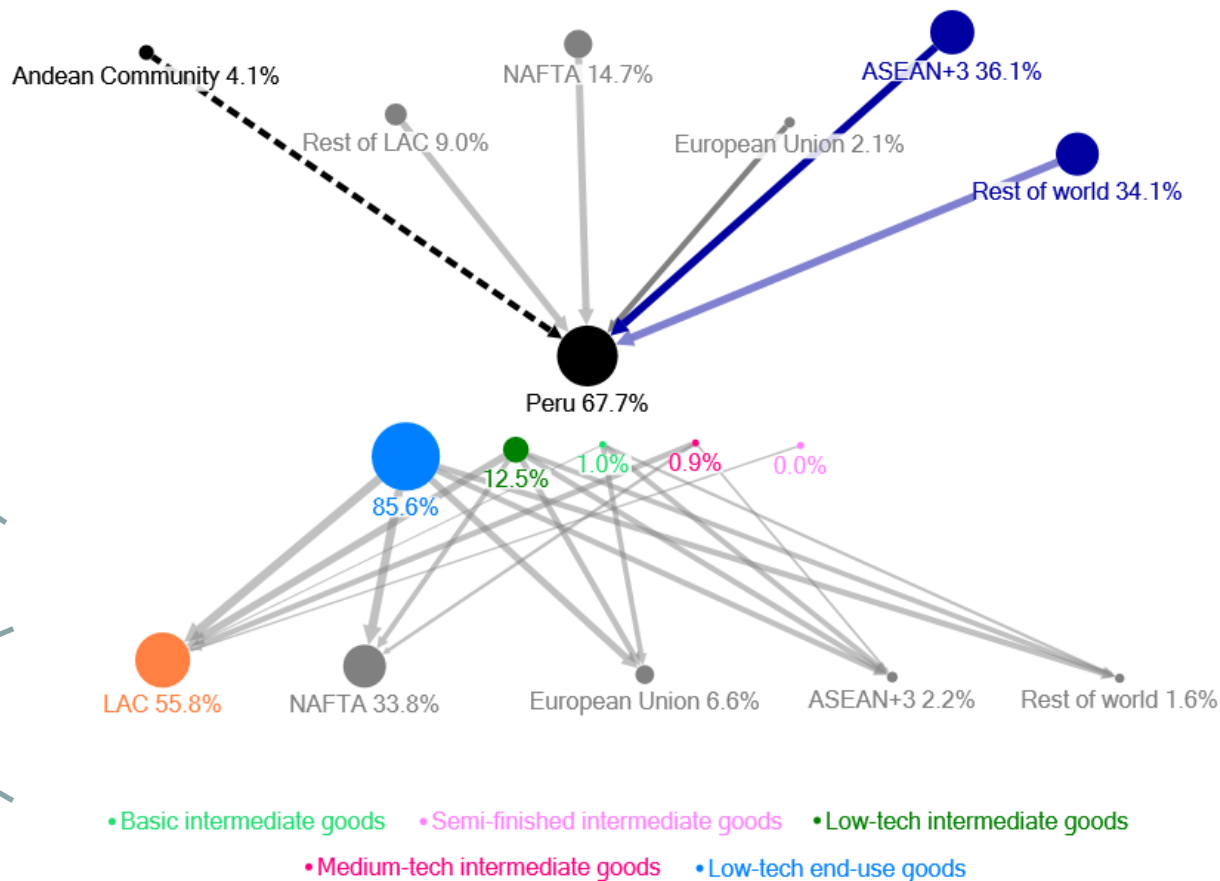
International chains in the textile and clothing industry in Peru, 2012



Suppliers of textile inputs to Peru

Exports of textiles and clothing by Peru

Destination of Peru's textile and clothing exports



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

How can value chains be leveraged to make trade more inclusive?

- To upgrade in chains:
 - build capacity to innovate in products and processes
 - strengthen relations between and among links in the chain
 - prepare workers for more sophisticated tasks
- To boost SME participation:
 - ensure support by large firms and government for competitiveness
 - develop horizontal and vertical collaboration
- To expand access to financing:
 - create guarantee funds for SMEs
 - create good public incentives and support coordination between SMEs, banks and large corporations
- Explore regional value chains (which are more inclusive)

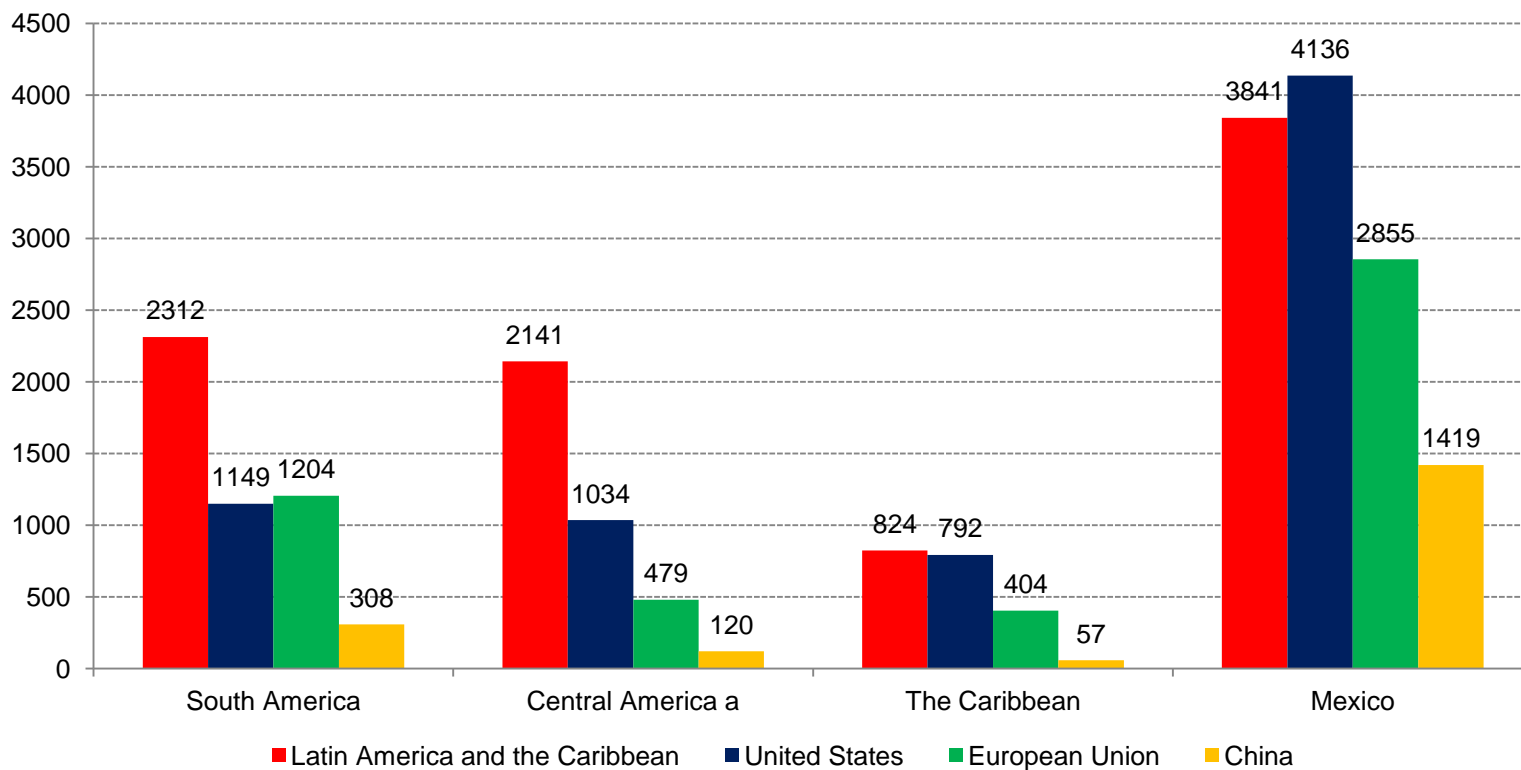




4. How regional integration contributes to production integration

The regional market is the most receptive to export diversification

Latin American and Caribbean countries and subregions: average number of products exported to selected destinations, 2013



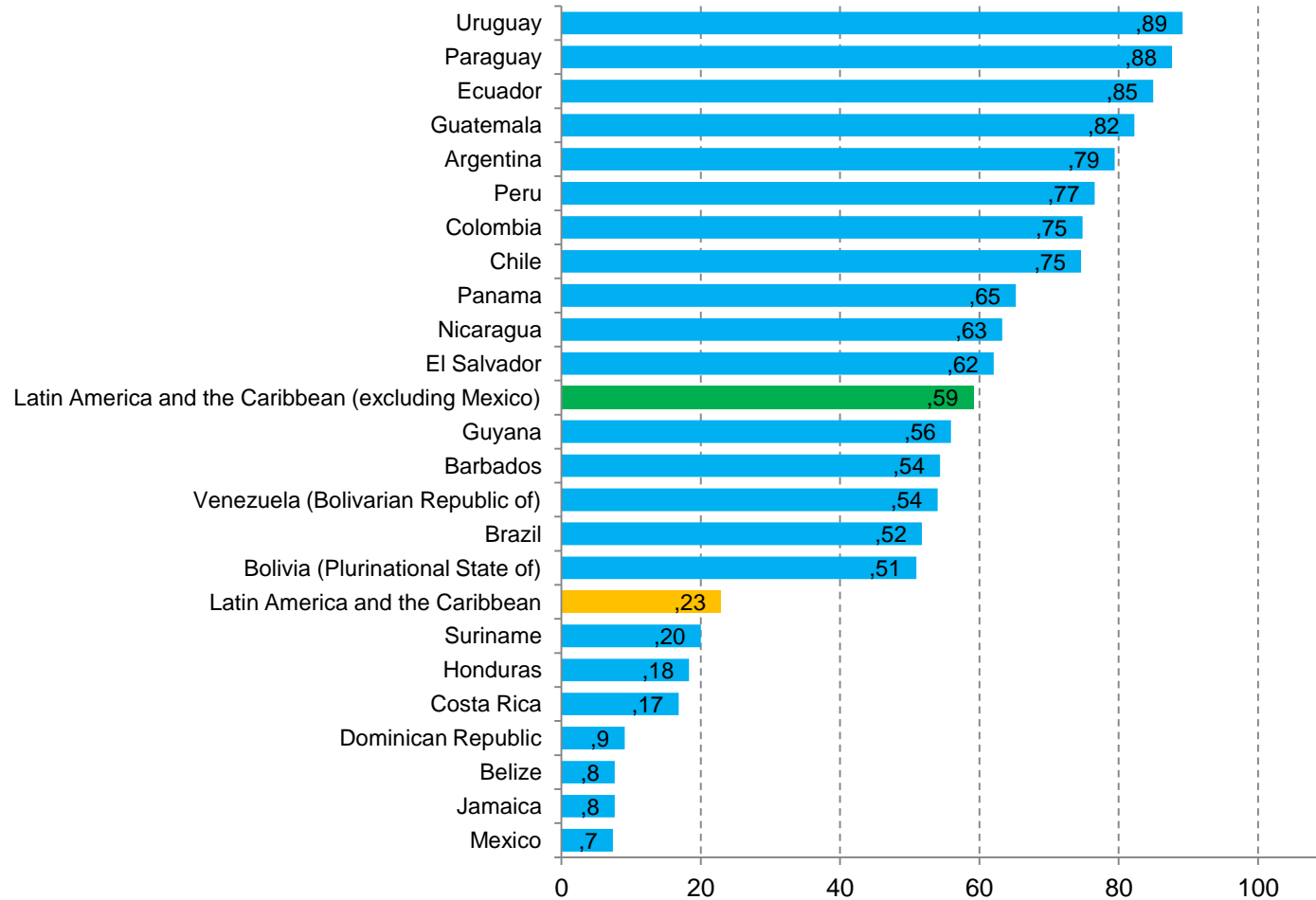
Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).

^a Includes Belize, Dominica, Dominican Republic and Jamaica.

The region absorbs almost 60% of its own manufacturing exports (not including Mexico)

Latin America and the Caribbean: share of the region in total mid- and high-tech manufacturing exports, 2013

(Percentages)

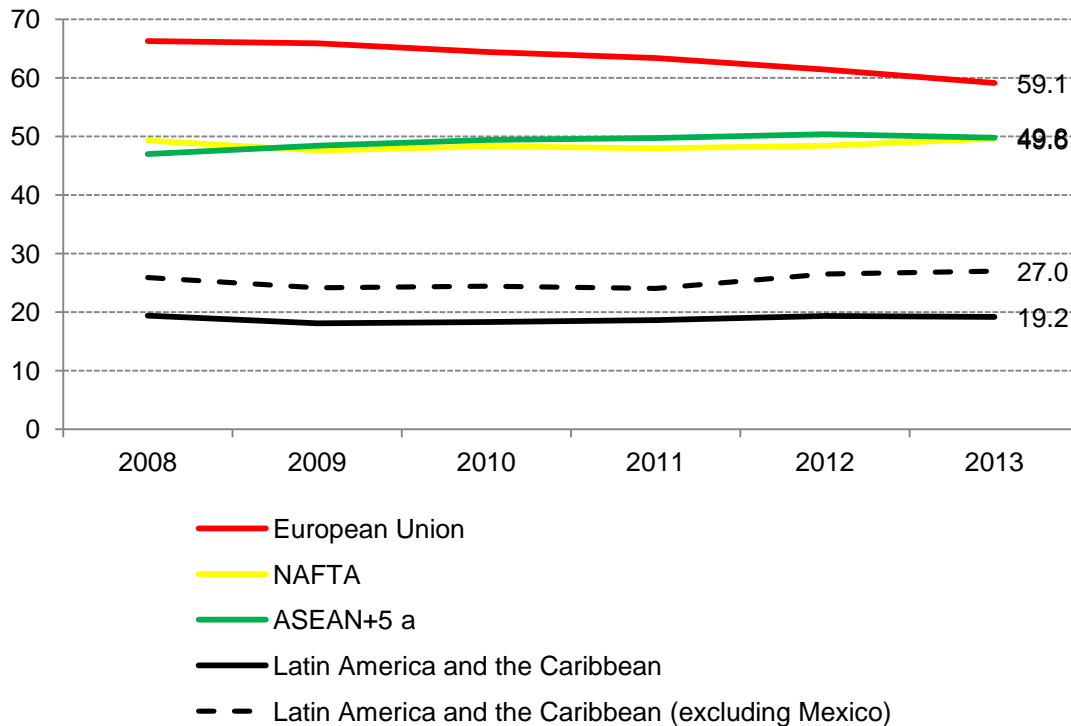


Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).



However, the region's intraregional trade is still limited, with little production integration

Selected groupings: share of intra-group exports in total exports, 2008-2013
(Percentages)



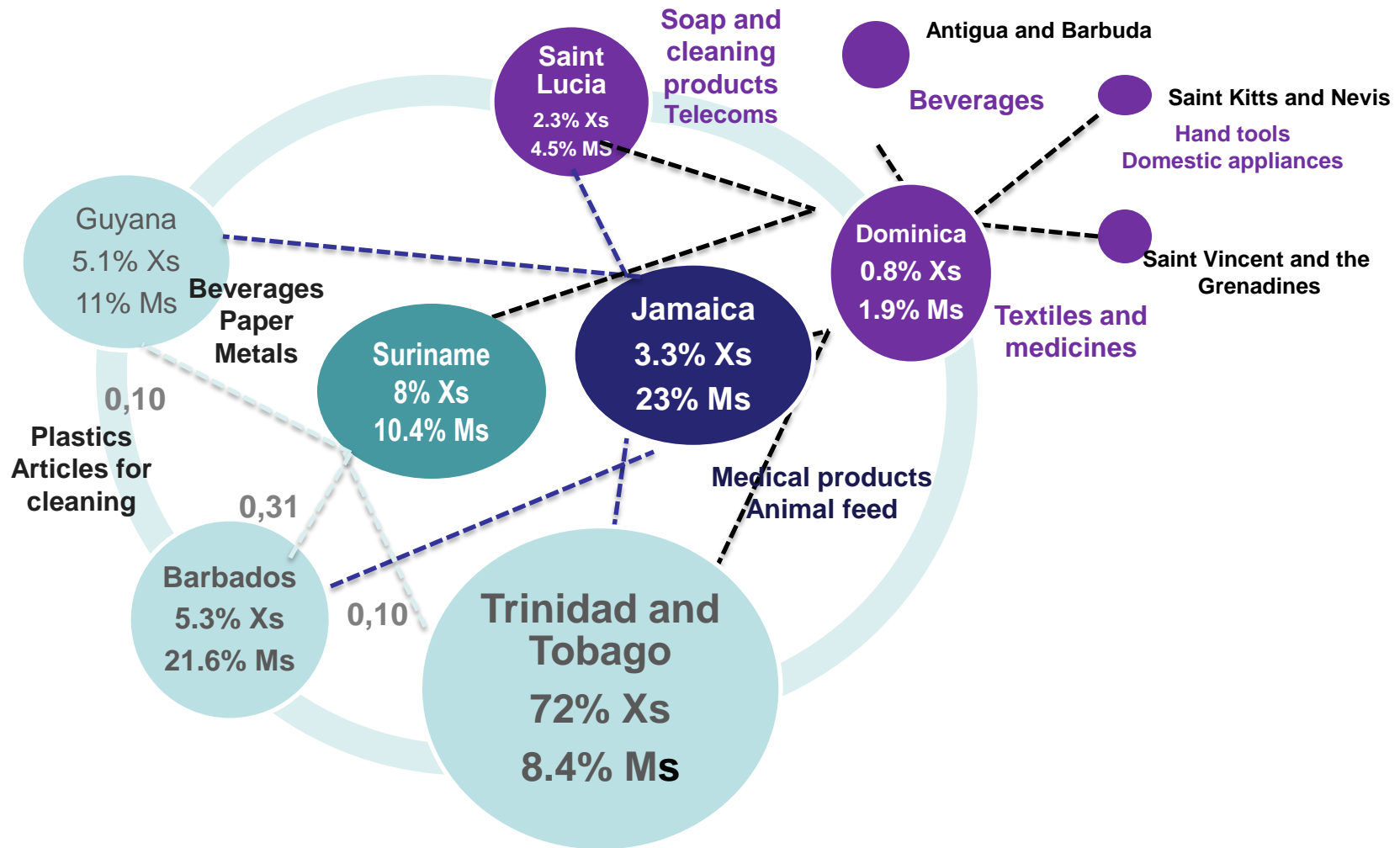
Share of parts and components in intra-group exports, 2013
(Percentages)

Grouping	Percentage
ASEAN+5	34
TLCAN	19
European Union	17
Latin America and the Caribbean	10

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

^a Includes the 10 members of ASEAN and China, Japan, the Republic of Korea, Hong Kong Special Administrative Region of China, and Taiwan Province of China.

The Caribbean has sectors with potential for intra-industry trade



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

The regional market is crucial for developing value chains in Latin America and the Caribbean

Because trade in value chains is highly sensitive to distance-related costs

Because intraregional trade has a large manufactured goods component

Because regional expansion of the trans-Latins encourages production linkages with local suppliers

To leverage this potential, industrial and trade policies need to be coordinated



Industrial policy still has significant room for manoeuvre

- WTO and FTA agreements limit the use of some instruments:
 - Export subsidies
 - Local-content requirements for foreign investment
- But significant manoeuvring room remains:
 - Support for R&D and innovation
 - SME preference in public procurement
 - Support for “green” goods and services
 - Selective FDI attraction
 - Support for clusters
 - Supplier development
 - Building of specialized human capital
 - Skills and quality certification



The region is going through a stage of industrial policy redefinition

South America

- Strategic Industrial Plan 2020 (2011, [Argentina](#))
- Greater Brazil Plan (2011, [Brazil](#))
- Agenda for Productivity, Innovation and Economic Growth (2014, [Chile](#))
- Production Transformation Programme (2008, [Colombia](#))
- Strategy for Transforming the Production Matrix (2011, [Ecuador](#))
- National Plan for Production Diversification (2014, [Peru](#))

Mexico and Central America

- National Centre for the Development of Production Ecosystems (2014, [Costa Rica](#))
- National Policy for Production Structure Development, Diversification and Transformation (2014, [El Salvador](#))
- National Competitiveness Programme (2013, [Guatemala](#))
- National Development Plan “Programme for Democratizing Productivity” (2012-2013, [Mexico](#))



The different national initiatives share several common features

Concern over dependence on raw material exports

Active role of the State and institution-building

Selectiveness (efforts concentrated on particular industries/sectors)

Focus on internationalization and value chains

Boosting growth and employment

Reducing heterogeneity of production

Public-private partnerships

Balanced territorial development

Environmental sustainability



But there are also major differences between the various national initiatives

Issue	Features of the national initiatives
Sectors targeted	Some focus on supporting sectors with proven potential; others seek to create new sectors or industries
Trade orientation	Some seek to replace imports; others aim to boost exports
Role of public and private sectors	Some give the private sector a key role in defining policies and activities; in others the public sector takes the initiative
Use of quantitative targets	Some set specific quantitative targets (on exports, production, employment, etc), others do not
Approach to value chains	Some promote the development of vertically integrated chains; others seek to develop specific segments within particular chains



Some policy messages

- Greater international trade integration is key to progress in achieving more sustainable and inclusive growth
 - Improve embedded knowledge in exports
 - Increase the relative presence of companies in value chains
 - Support the participation of SMEs in value chains
 - Reduce the carbon footprint of production and exports and reduce their use of water
 - Energy efficiency; sustainability
 - Production and export diversification



Some policy messages

- Transition in trade policy
 - From trade liberalization to export promotion, then to internationalization and participation in value chains
 - From finished goods to intermediate goods
 - Growing link: goods-services-investment
 - Professional and technical services; ICT; cultural services and leisure
 - Foreign investment; business partnerships
 - Investing in exports



Some policy messages

- Coordinate macroeconomic, industrial and trade policies
- Need to shift from a purely national perspective to a regional or subregional one:
 - Greater openness to intraregional trade
 - Avoiding competition for FDI through “incentive wars”
 - Moving towards a regional market with common rules (on FDI, public procurement, service regulation etc)
 - Multinational components in specific areas of industrial policy and production sectors
- Dialogue with trans-Latin companies is an essential part of these efforts



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