

2015



Latin America and the Caribbean
in the World Economy



UNITED NATIONS



**Regional trade at a crossroads:
Assessment and outlook**

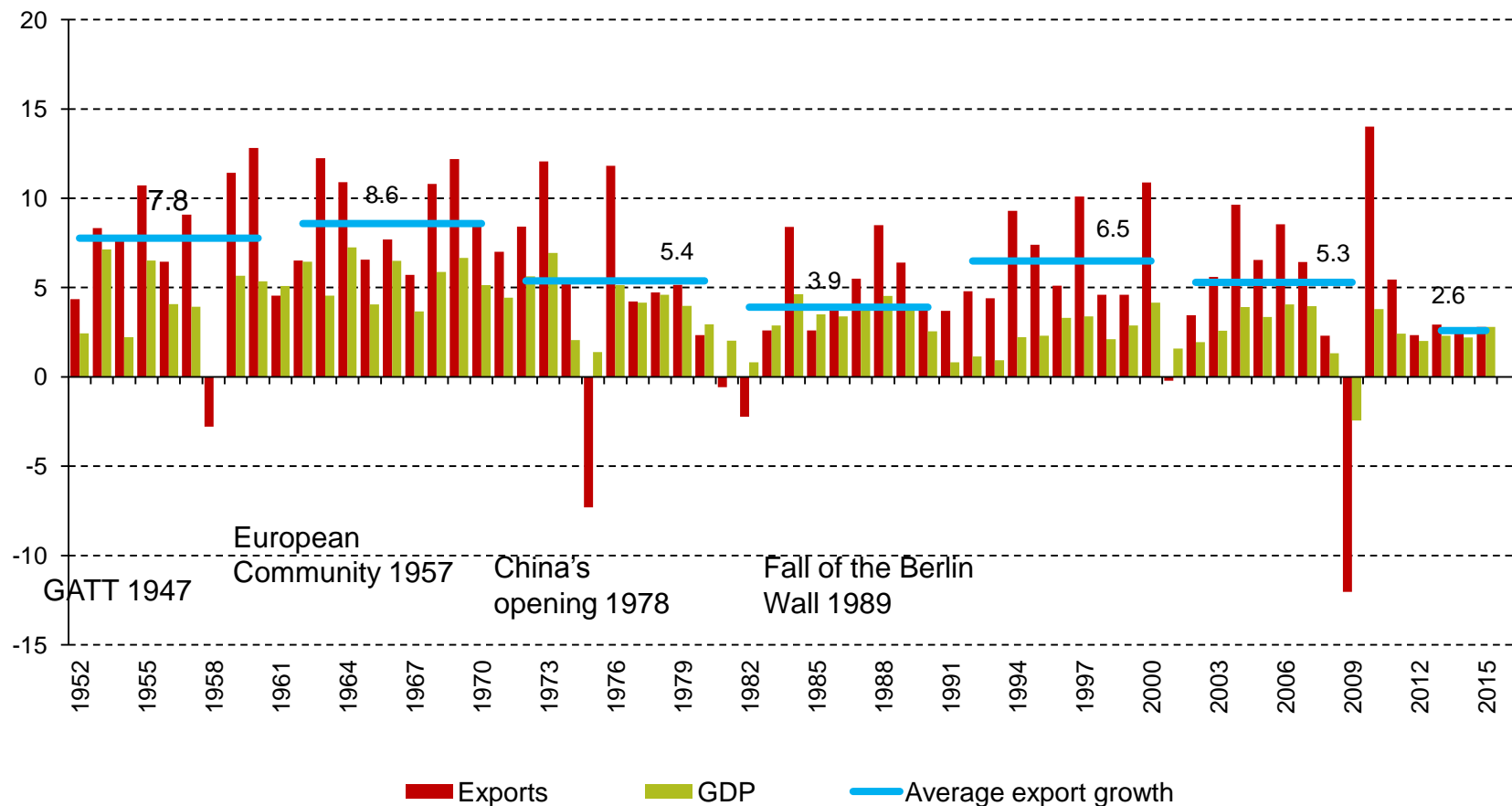
State of affairs

1. **Deceleration of world trade**
2. **International context with recessionary bias:
excess liquidity and insufficient demand**
3. **Structural imbalances: de-linkage between the
financial market and the real economy**
4. **Slow growth and global uncertainty exacerbate
the region's weaknesses**
5. **The region's worst export performance in decades
(four years of no growth)**



World trade grew faster than GDP during most of the post-war period...

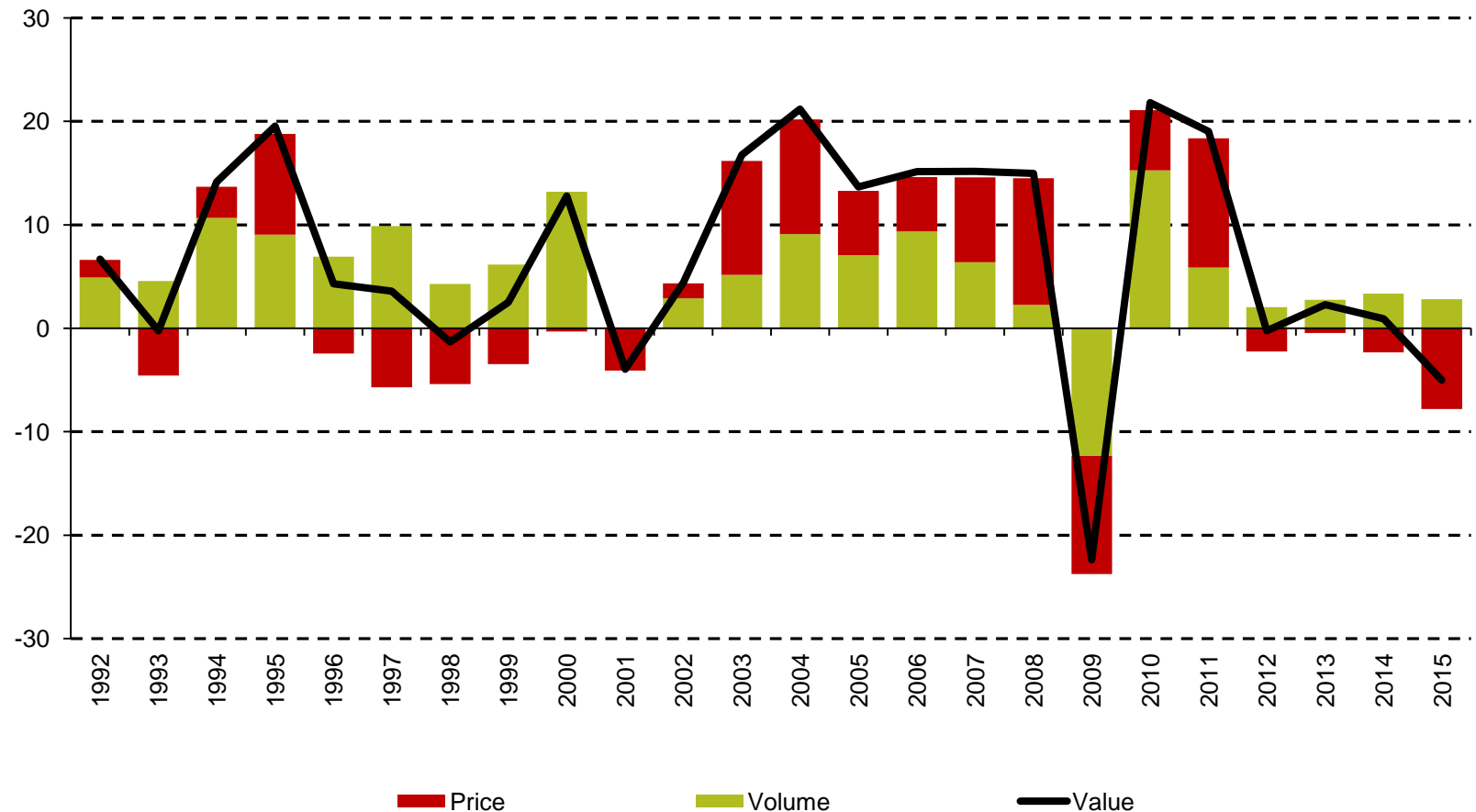
ANNUAL VARIATIONS IN GLOBAL GOODS EXPORTS VOLUMES AND GLOBAL GDP, 1952-2014
(Percentages)



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

... but it has lost momentum since 2008-2009

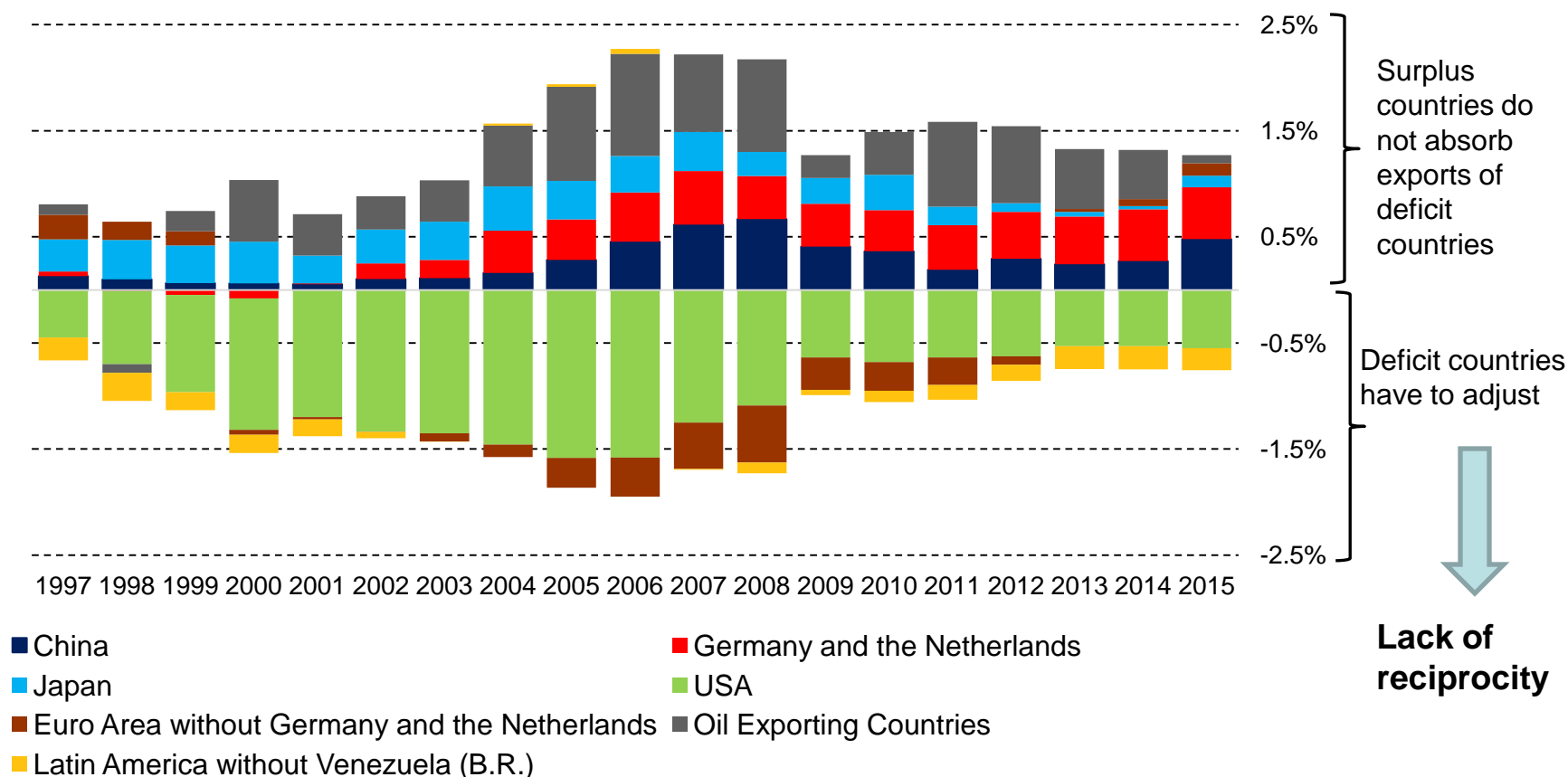
ANNUAL VARIATIONS IN GLOBAL GOODS EXPORTS BY VALUE AND VOLUME, 1992-2015 ^a
(Percentages)



Source: ECLAC, on the basis of Netherlands Bureau for Economic Policy Analysis (CPB), World Trade Database.
^a Figures for 2015 are ECLAC projections.

Current account imbalances and their distribution

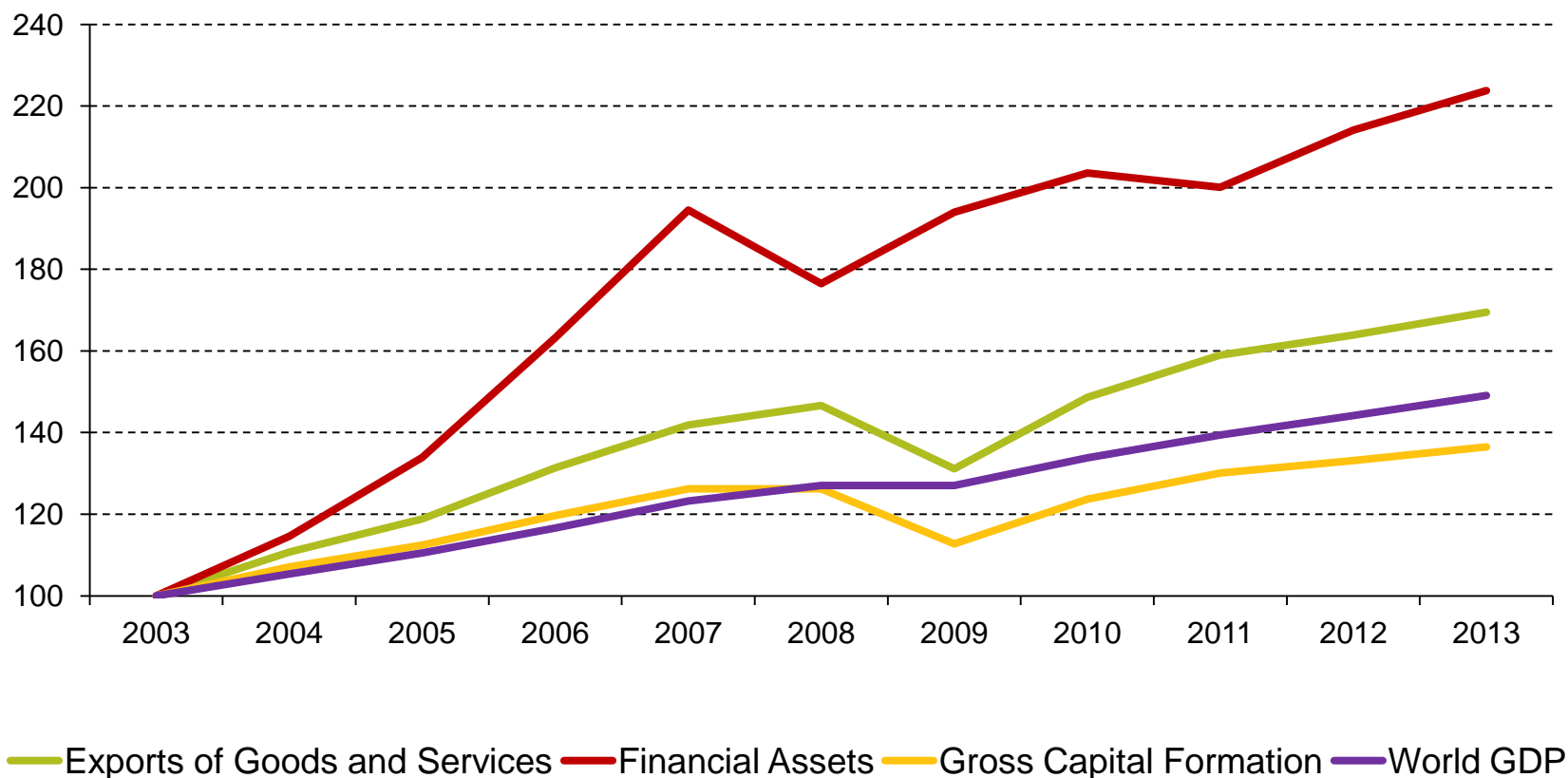
SELECTED GROUPINGS AND COUNTRIES: BALANCE-OF-PAYMENTS CURRENT ACCOUNT BALANCES, 1997-2015^a
(Percentages of GDP)



Source: ECLAC, on the basis of International Monetary Fund, 2015 External Sector Report, Washington, DC, 27 July 2015.
^a Figures for 2015 are projections.

The financial sector is growing faster and delinking from the real economy

EXTERNAL FINANCIAL ASSETS ^a AND SELECTED REAL VARIABLES WORLDWIDE, 2003-2013
(Indices, 2003=100)



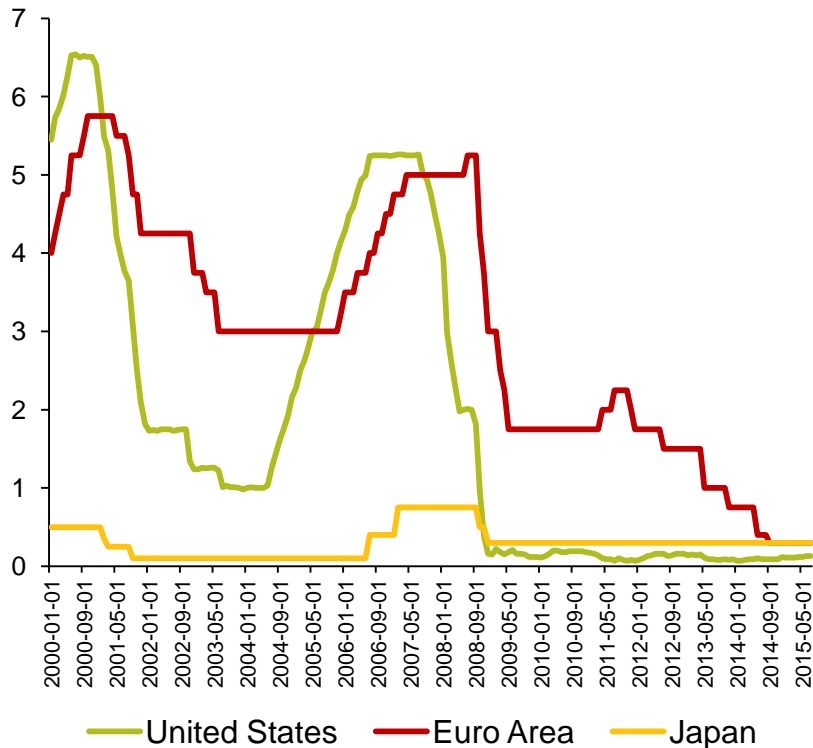
Source: ECLAC, on the basis of data from the IMF, UNCTAD and the World Bank.

^a Calculated on the basis of each country's international investment position.

Excess liquidity and little effective demand: diminished monetary policy space

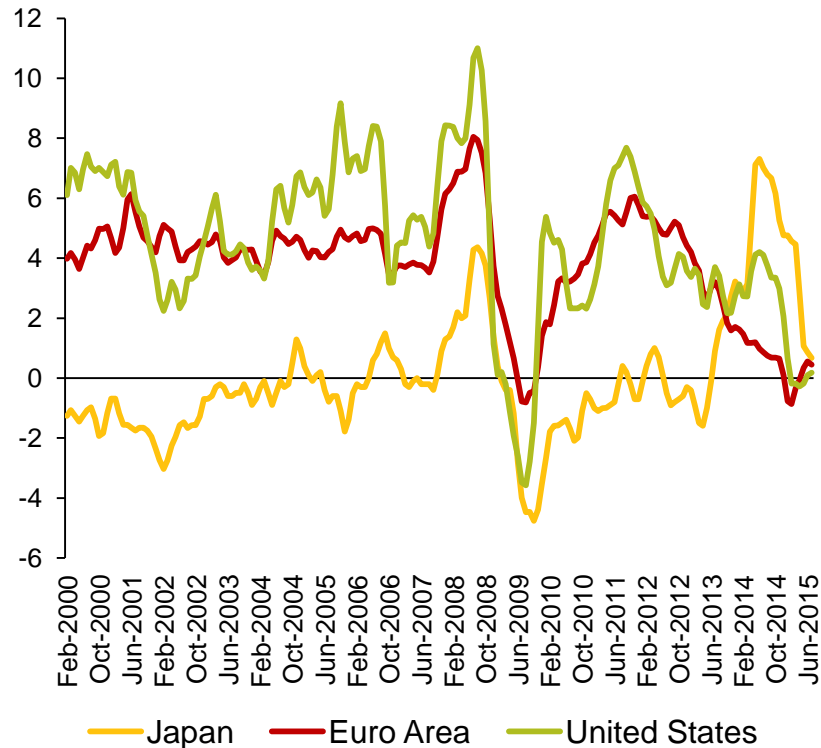
The main interest rate tends to zero

EUROZONE, JAPAN, UNITED STATES: POLICY
RATES, 2000-2015
(Percentages)



Despite QE, inflation does not pick up

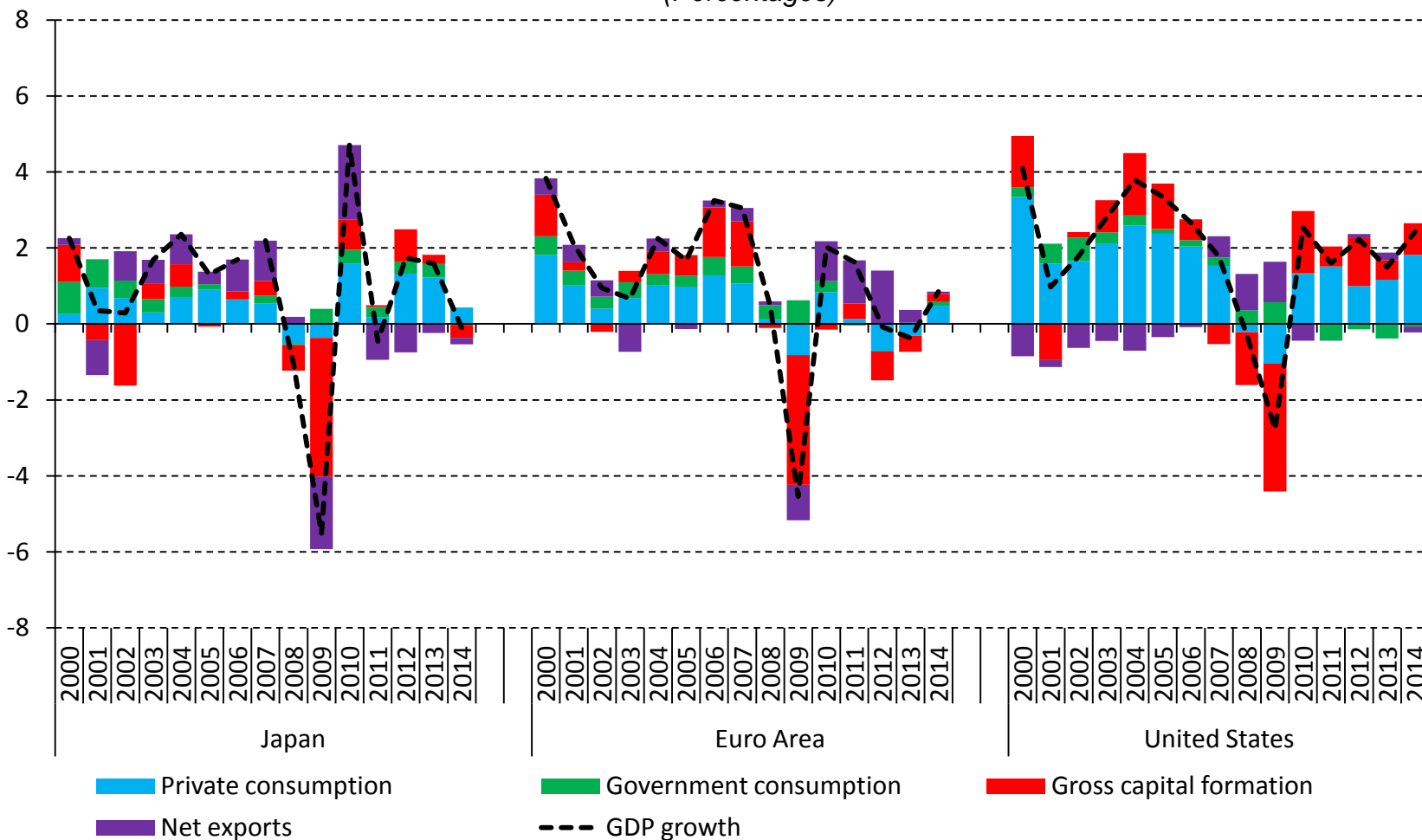
EUROZONE, JAPAN, UNITED STATES: INFLATION RATES,
2000-2015
(Percentages)



Source: ECLAC, based on data from the Federal Reserve Bank of Saint Louis, and from the Federal Reserve and the Statistics Bureau of Japan.

Aggregate demand is less dynamic after the crisis

EURO AREA, JAPAN AND UNITED STATES: CONTRIBUTION OF AGGREGATE DEMAND COMPONENTS TO GDP GROWTH, 2000-2014
(Percentages)

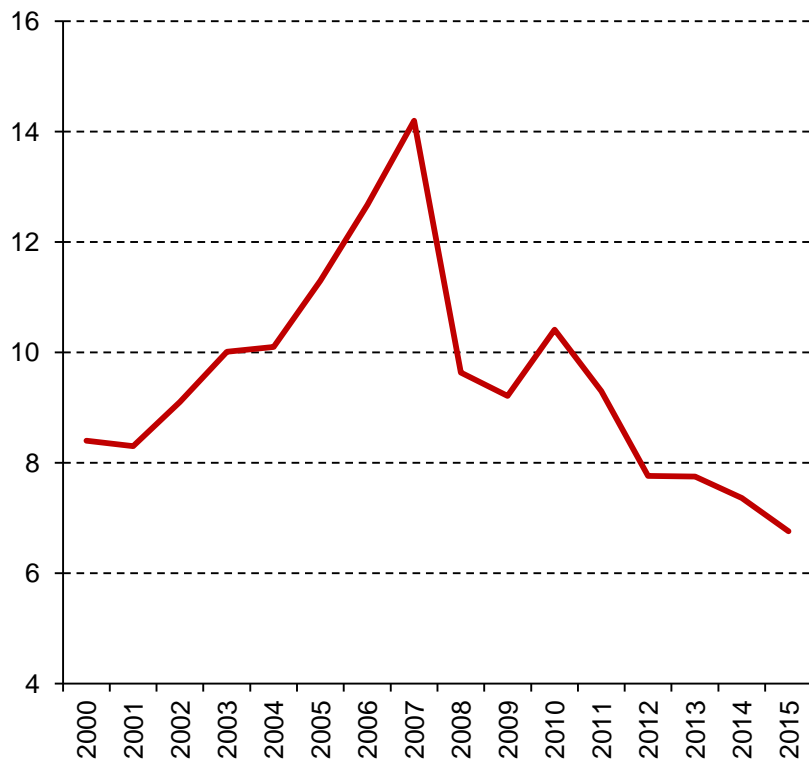


Source: ECLAC, on the basis of data from the OECD.

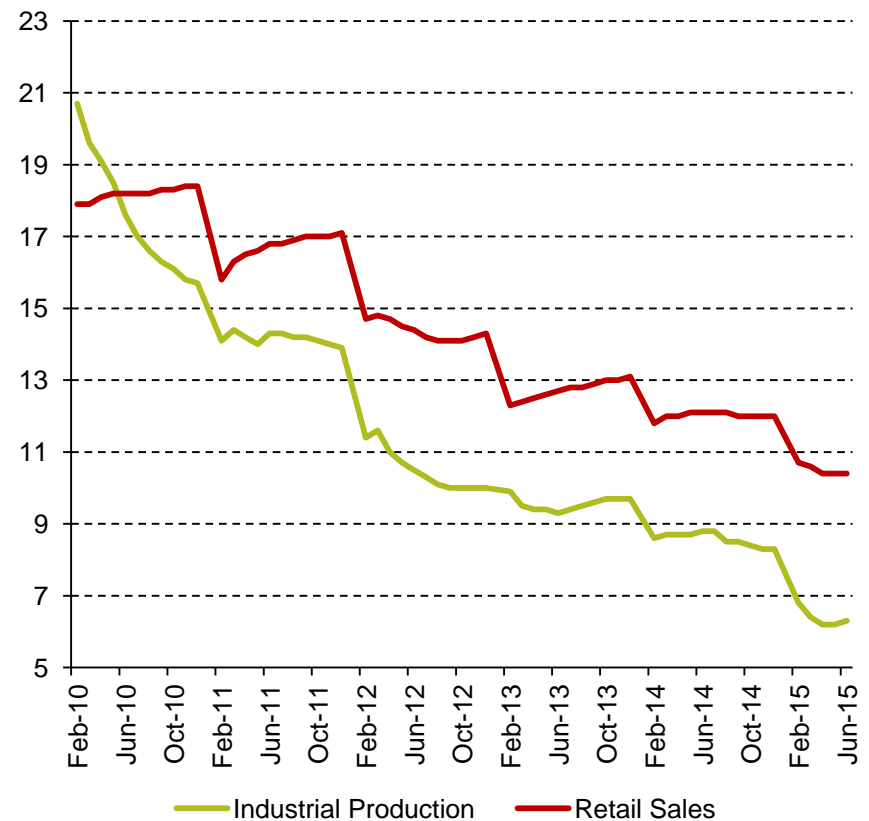
The transition of the Chinese model impacts global growth

CHINA: ANNUAL VARIATIONS IN SELECTED ECONOMIC INDICATORS ^a (Percentages)

GDP (2000-2015)



Industrial production and retail sales (2010-2015)



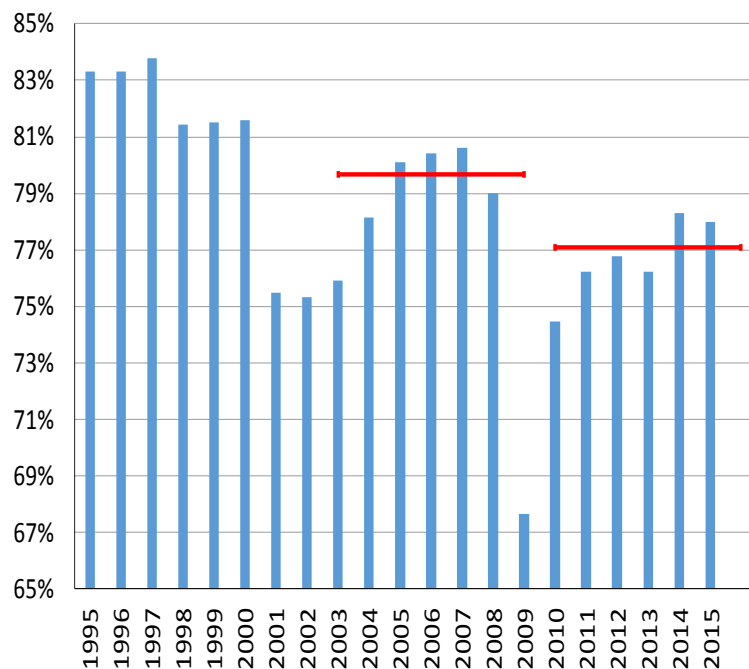
Source: ECLAC, based on IMF, World Economic Outlook Database, April 2015 (GDP) and the National Bureau of Statistics of China (for industrial production and retail sales).

^a Figures for 2015 are projections.

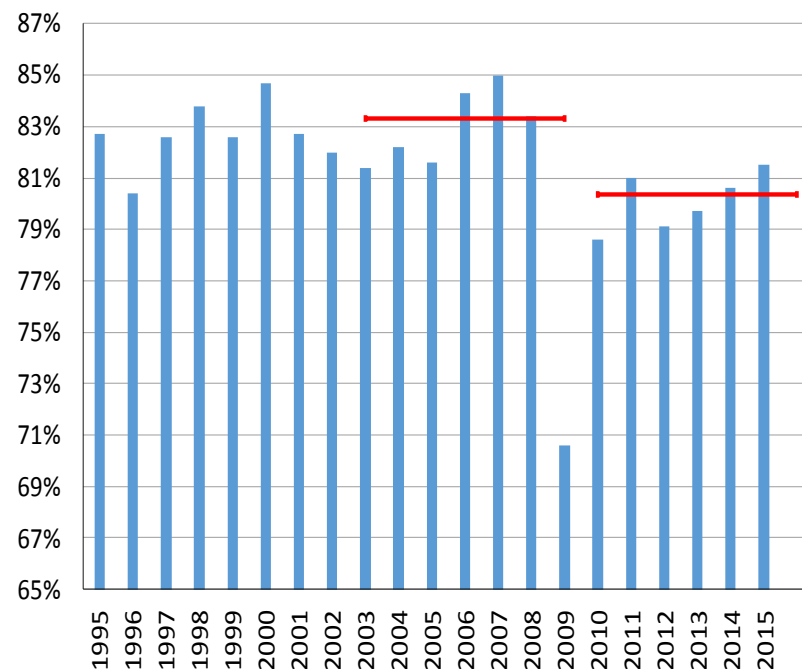
Utilization levels have not recovered...

INSTALLED CAPACITY UTILIZATION, 1995-2015 (Percentages)

United States



Eurozone

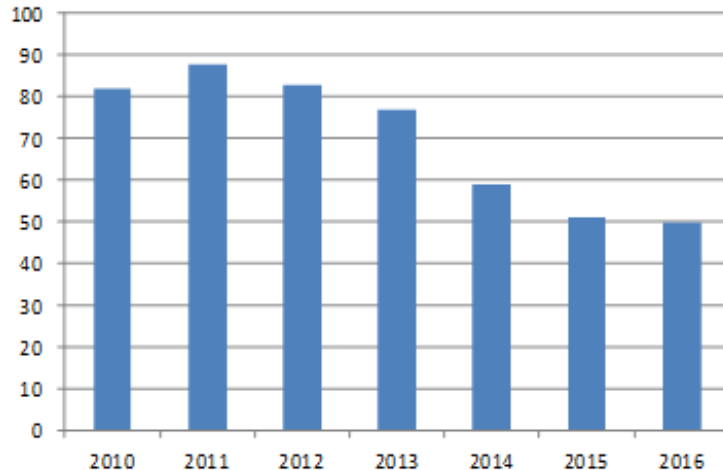


Source: ECLAC, based on data from Eurostat and the United States Federal Reserve.

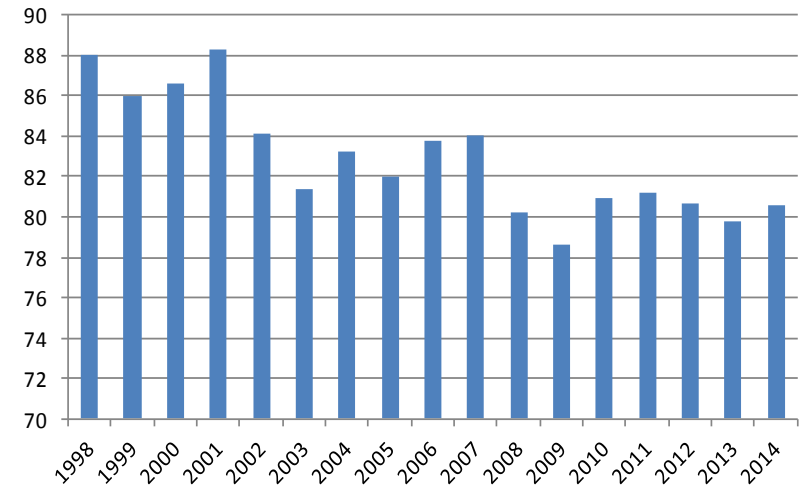
... the same happens at the sectoral level and excess capacity sends prices tumbling in China

LEVEL OF UTILIZATION OF INSTALLED CAPACITY
(Percentages)

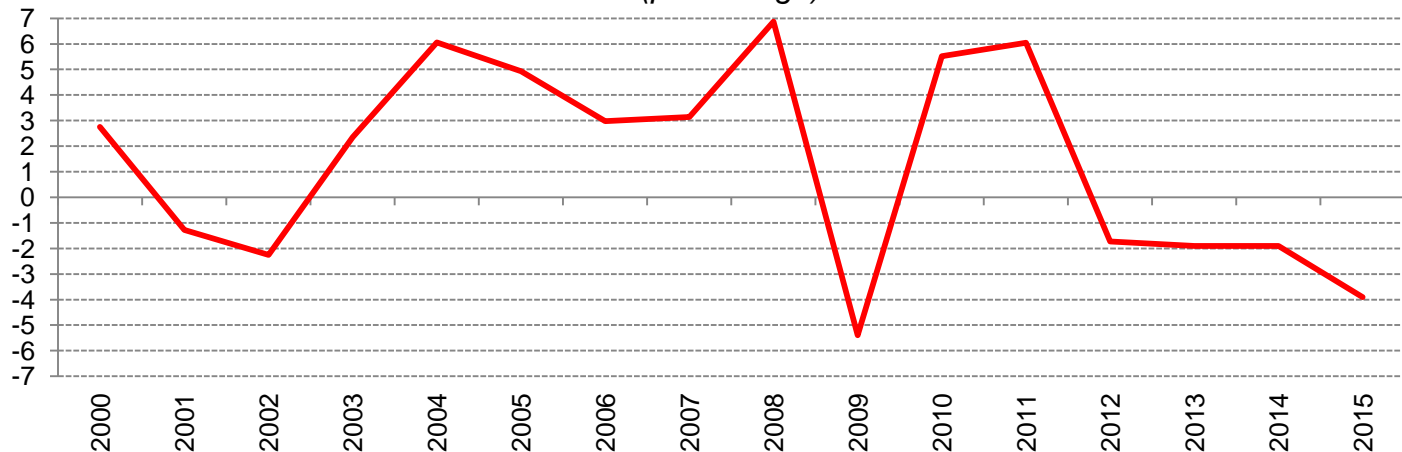
Automobile industry in Brazil



World copper refining

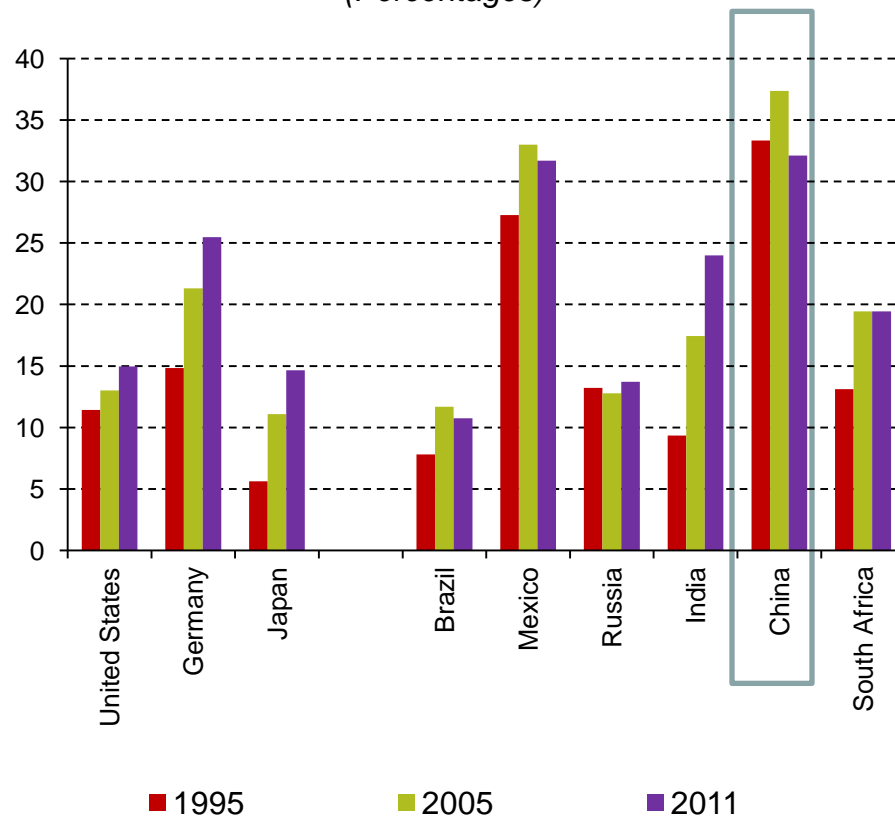


CHINA: Annual variation of industrial producer prices 2000-2015^a
(percentage)

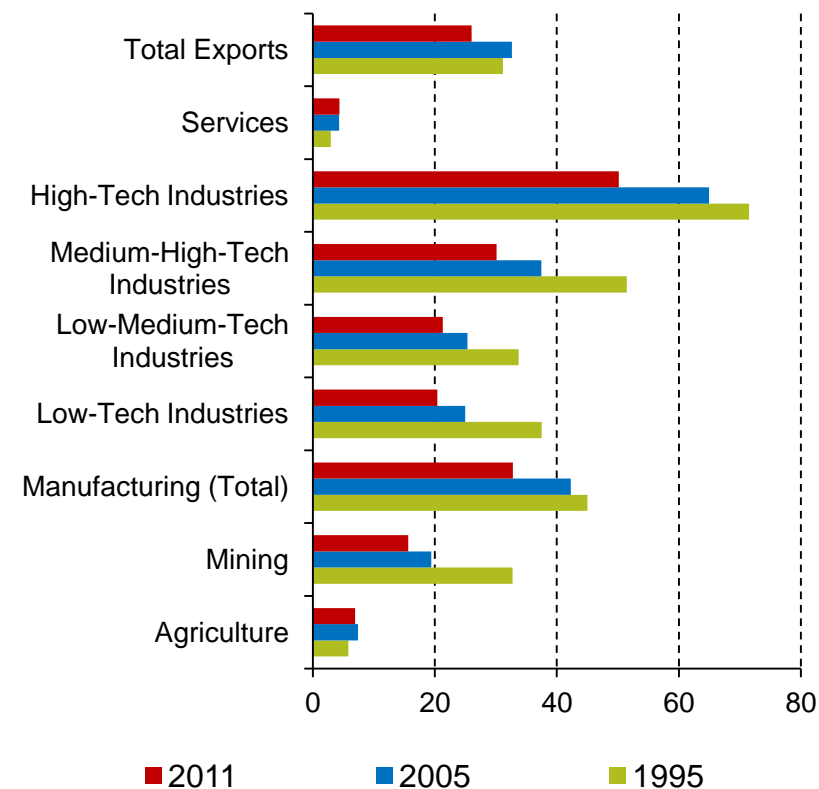


China is reducing the imported content of its exports, especially in high-tech products...

SELECTED COUNTRIES: IMPORTED CONTENT IN GOODS AND SERVICES EXPORTS, 1995, 2005 AND 2011
(Percentages)



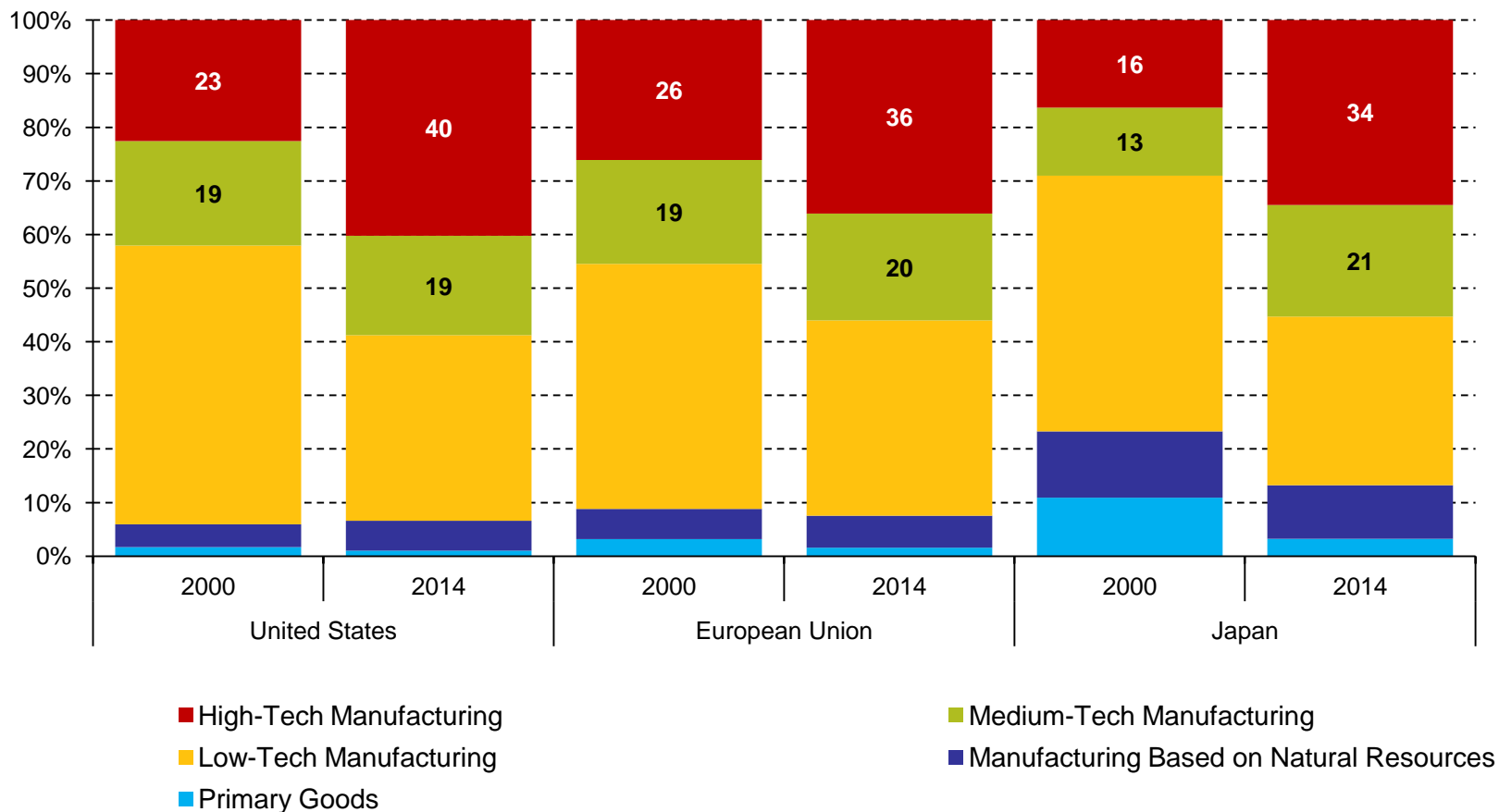
CHINA: IMPORTED CONTENT OF EXPORTS BY SECTOR, 1995, 2005 AND 2011
(Percentages)



Source: ECLAC, based on data from the OECD/WTO Trade in Value Added (TIVA) database.

... while its high-tech exports are gaining market share in developed countries

EUROPEAN UNION, JAPAN AND UNITED STATES: STRUCTURE OF MERCHANDISE IMPORTS FROM CHINA, 2000 AND 2014
(Percentages)



Source: ECLAC, based on data from COMTRADE.

Lack of reciprocity and the recessionary bias is stalling trade recovery

- Slow growth in the European Union (one-third of global trade).
- Import substitution in China results in reduced demand: transition towards a new model
- Reduced incentives for further geographical fragmentation of production due to the maturity of China's and Eastern Europe's integration into the world economy
- Weaknesses in global governance impede the coordinated expansion of world output and productive restructuring in deficit countries



The TPP and other megaregional agreements aim to inject dynamism into world trade but...

- TPP accounts for:
 - 36% of world GDP
 - 23% of world exports, 26% of world imports
 - 28% of FDI inflows
 - 43% of outflows
 - 11% of world population
- Intra-TPP trade reached US \$2.1 trillion in 2014
- WTO-plus commitments in services, investment, government procurement, digital trade
- By excluding China, the US wants to write the rules of the game for IP incl. granting extended protection for pharmaceutical patents
- Risks include the opening up sensitive sectors such as auto parts and dairy products
- Textile sector is sensitive for Central America (due to increased competition from Viet Nam)



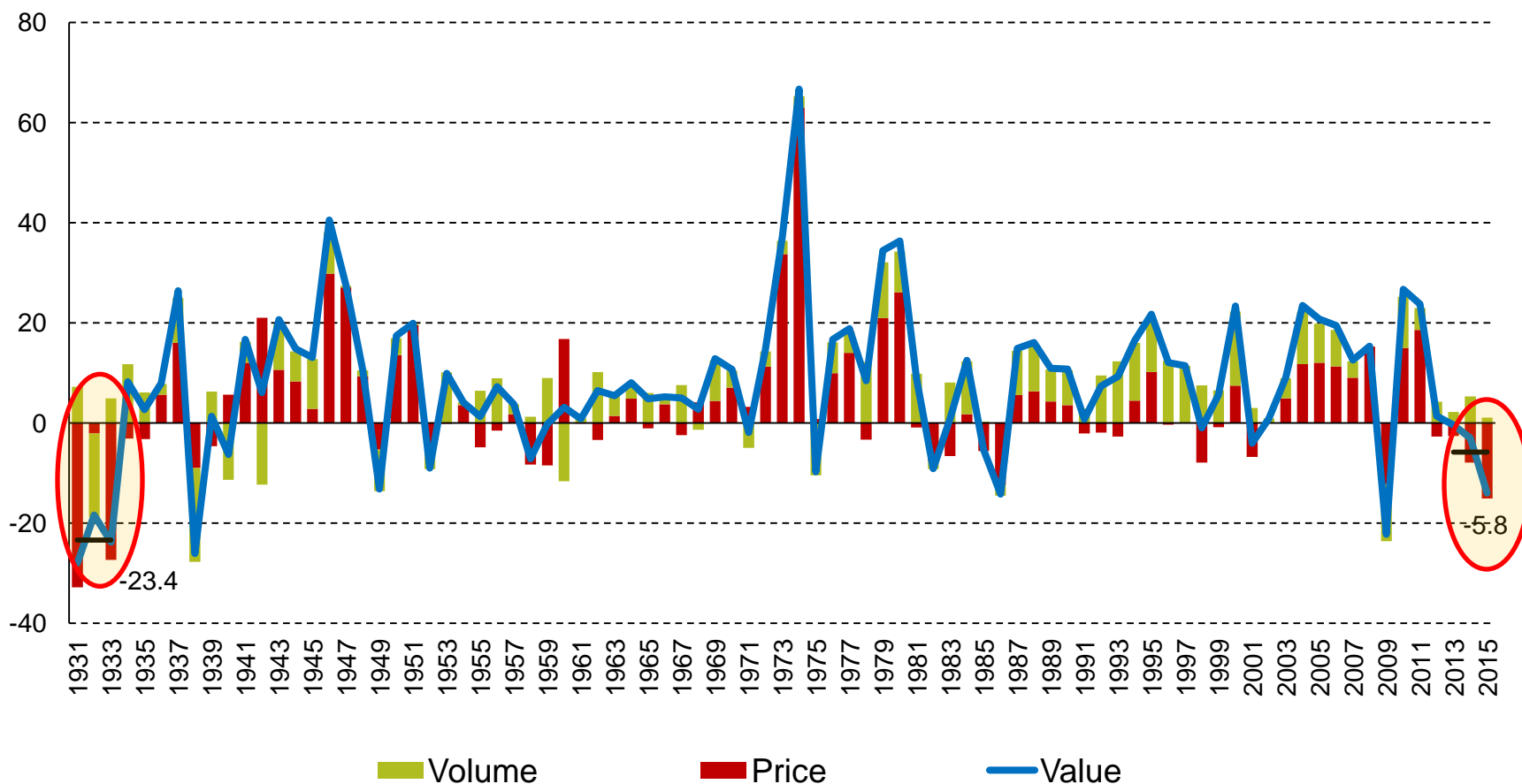


**Latin America and the Caribbean
shows its worst export
performance in eight decades**

**The region's foreign trade
will experience sharp
contractions in 2015**

Between 2012 and 2015, the region has its worst export performance in 8 decades

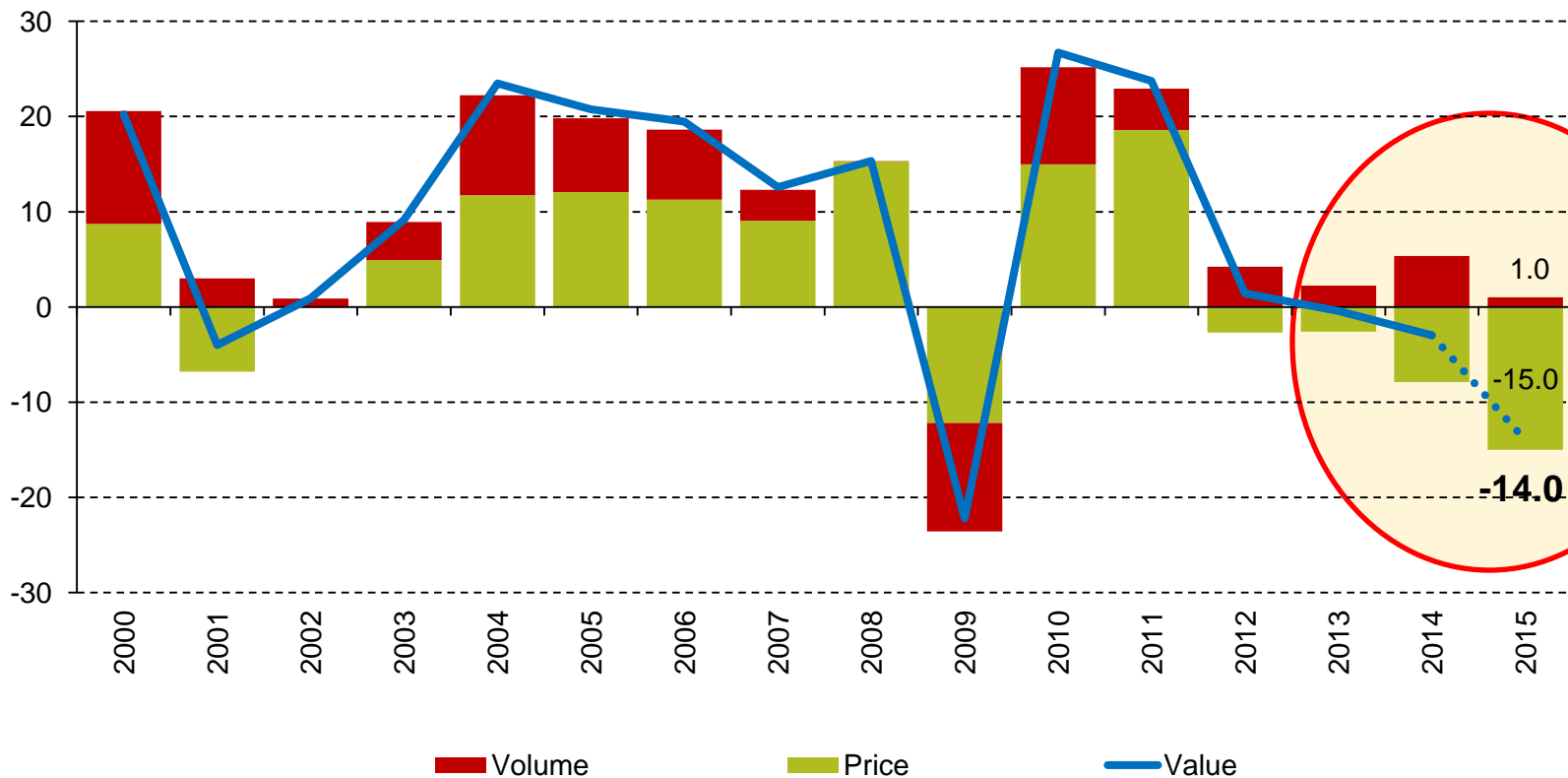
LATIN AMERICA AND THE CARIBBEAN: ANNUAL VARIATION IN EXPORT
VALUE AND VOLUME, 1931-2015
(Percentages)



Source: ECLAC, based on ECLAC, "América Latina: relación de precios de intercambio", Cuadernos Estadísticos de la CEPAL, N° 1, Santiago, 1976 and data from regional indices.

Regional exports are projected to drop 14% in 2015, the third straight year of ever increasing declines in value

LATIN AMERICA AND THE CARIBBEAN: ANNUAL VARIATION IN MERCHANDISE EXPORTS, 2000-2015 ^a
(Percentages)

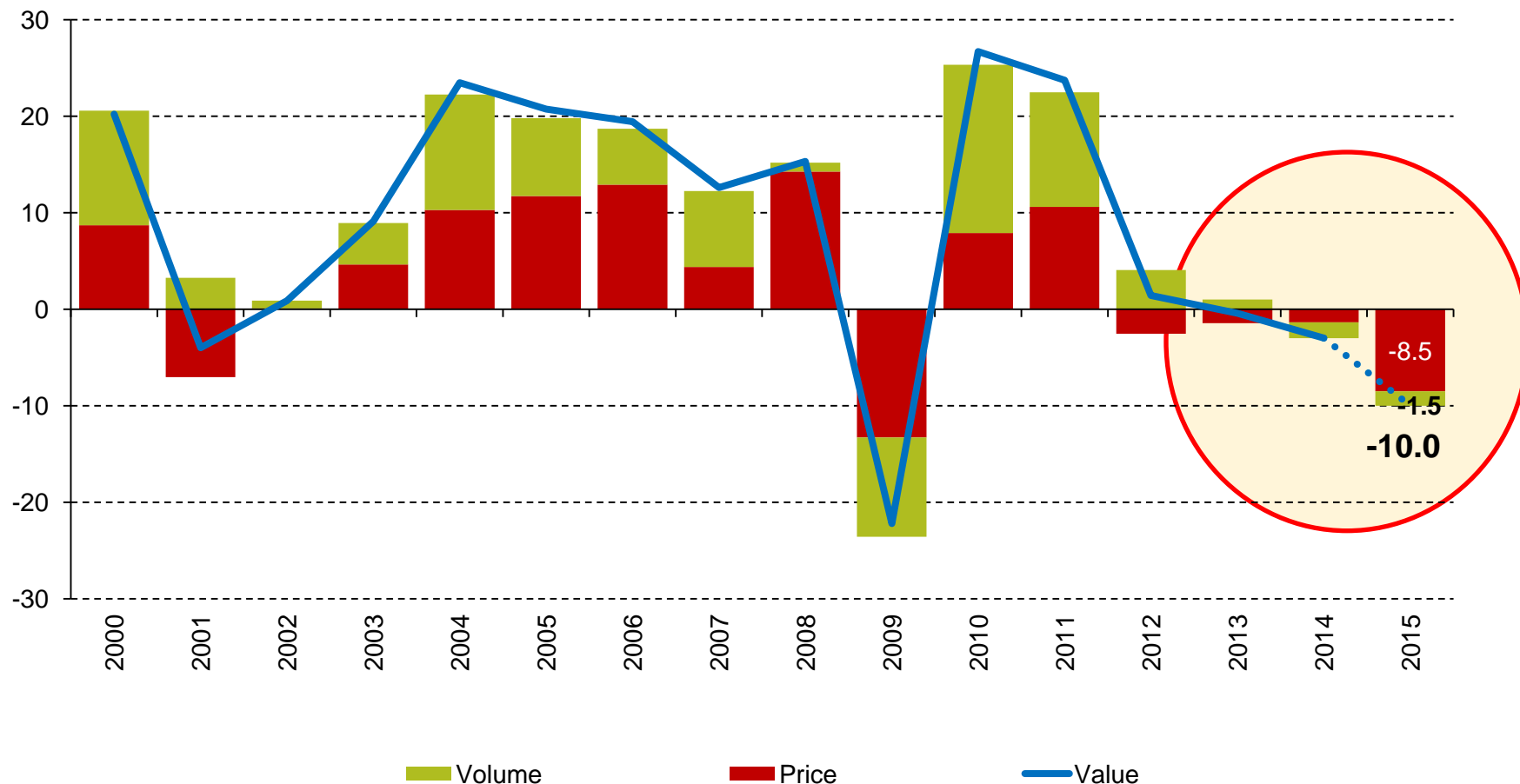


Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2015 are projections.

Regional imports will drop 10% in value

LATIN AMERICA AND THE CARIBBEAN: ANNUAL VARIATION IN MERCHANDISE IMPORTS,
2000-2015^a
(Percentages)

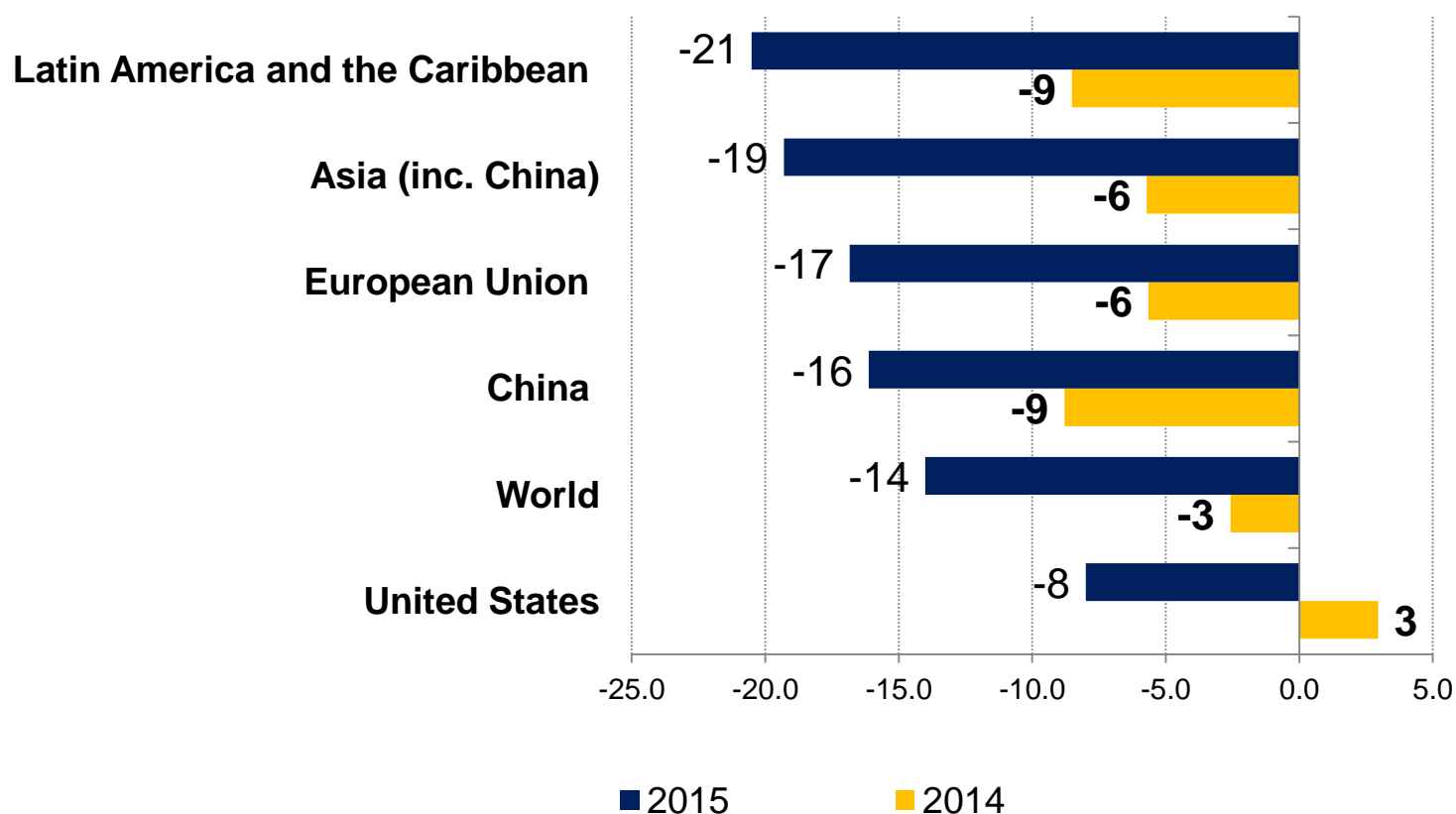


Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2015 are projections.

In 2015, there is a drop in the region's exports to all its main trading partners

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE VALUE OF EXPORTS TO SELECTED MARKETS, 2014 AND 2015 ^a
(percentages)

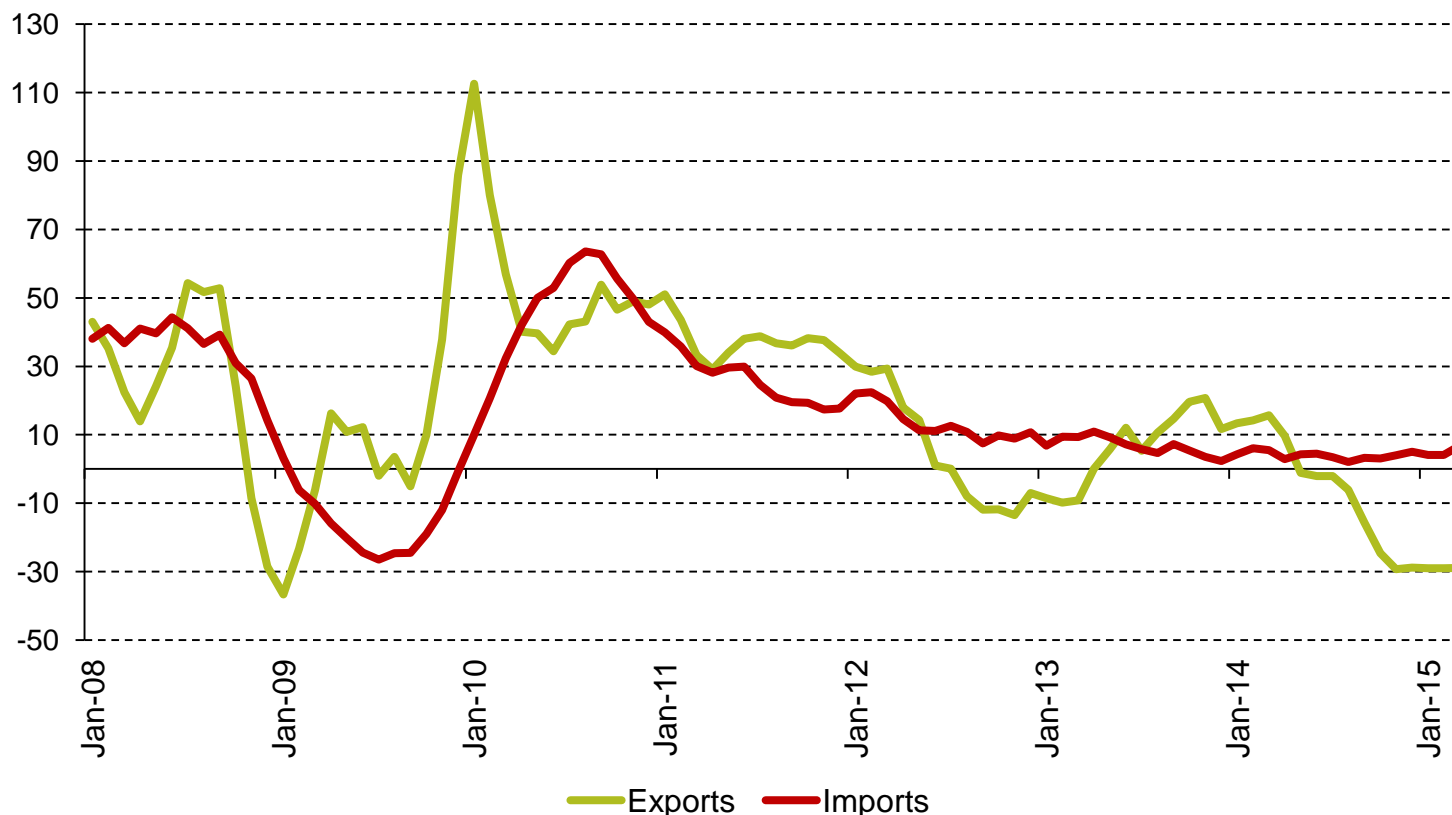


Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2015 are projections.

Trade with China has lost momentum and exports have fallen for two consecutive years

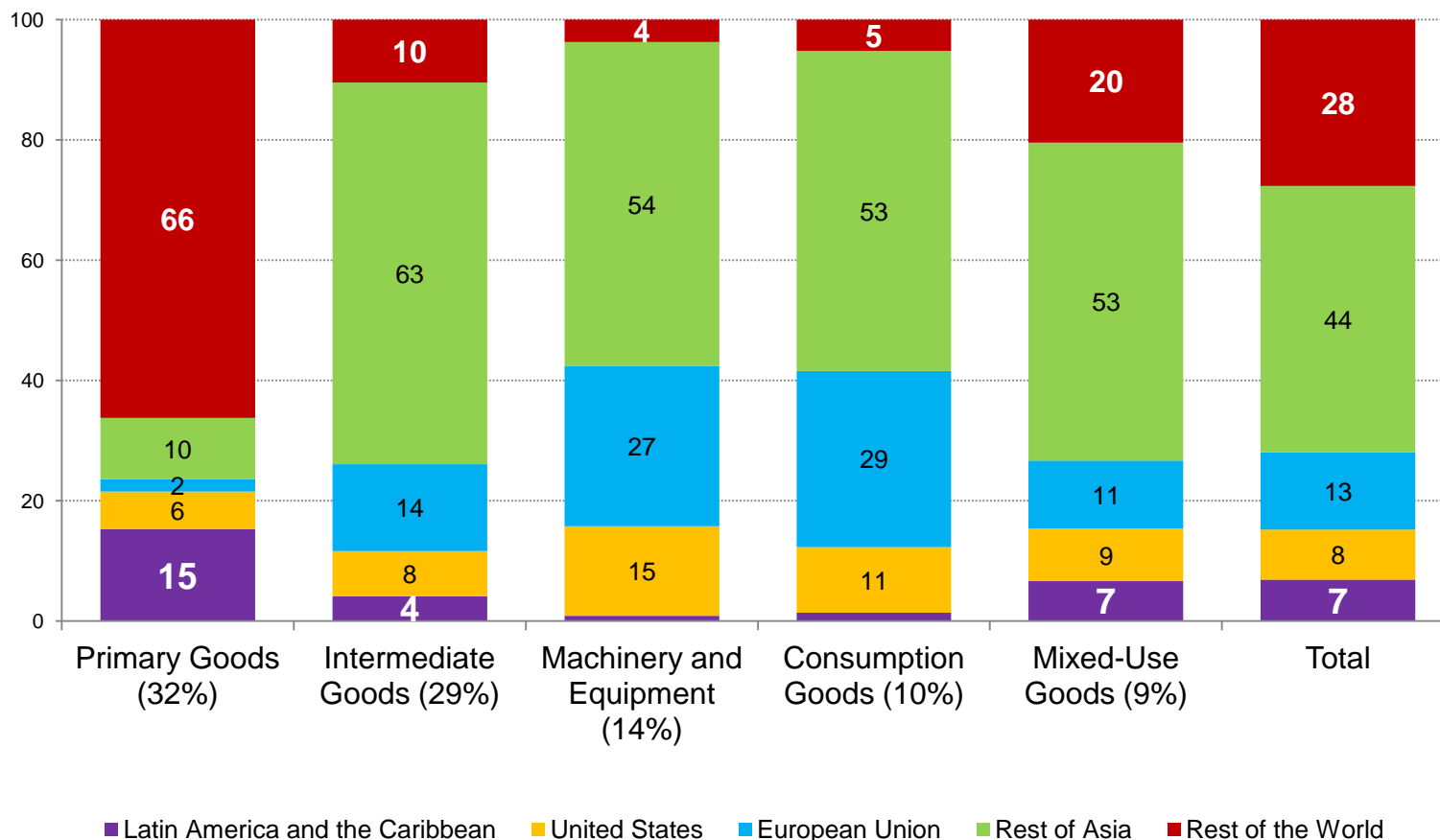
LATIN AMERICA AND THE CARIBBEAN : ANNUAL VARIATION IN VALUE OF TRADE WITH CHINA, 2008 to 2015
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of data from the National Bureau of Statistics of China.

For China, the region is relatively unimportant except as a supplier of commodities

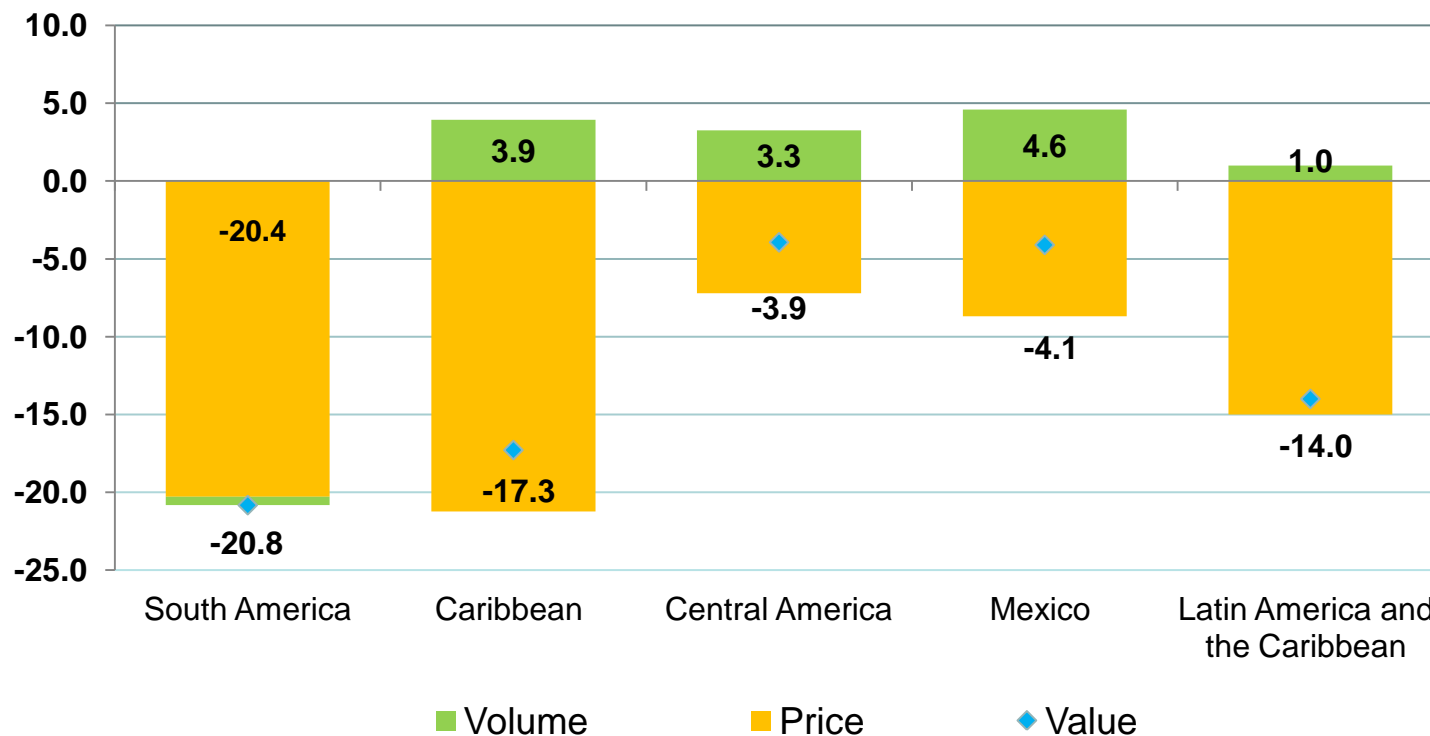
CHINA: STRUCTURE OF IMPORTS OF GOODS BY REGION OF ORIGIN, 2013
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on the database *Trade Flows Characterization* of the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII).

The largest drops in export value will be in South America and the Caribbean

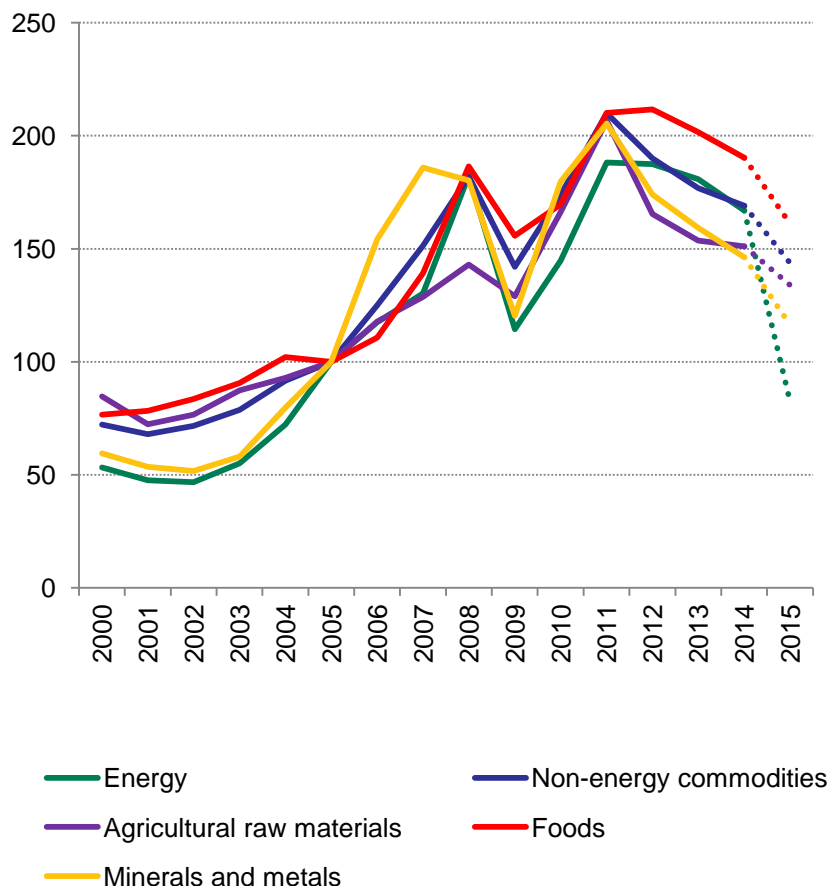
LATIN AMERICA AND THE CARIBBEAN: (SELECTED SUB-REGIONS AND COUNTRIES) PROJECTED VARIATIONS IN EXPORT VALUE, VOLUME AND PRICE, 2015
(Percentages)



Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

Commodity prices: the 40 years that were just 9...

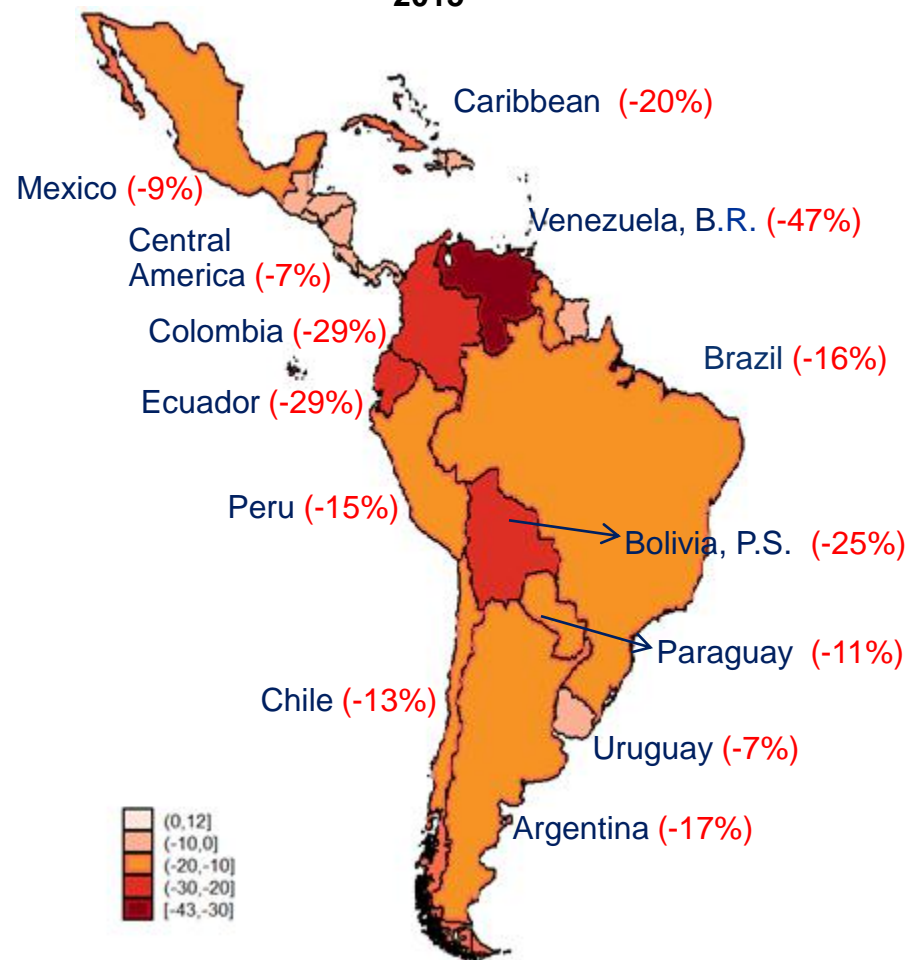
WORLD PRICES OF SELECTED COMMODITY GROUPS, 2000-2015^a
(Indices, 2005 = 100)



Source: ECLAC, based on data from the World Bank, the IMF and The Economist Intelligence Unit.

^a Values for 2015 are estimates.

**LATIN AMERICAN AND CARIBBEAN COUNTRIES:
PROJECTED AVERAGE VARIATION IN EXPORT PRICES,
2015**

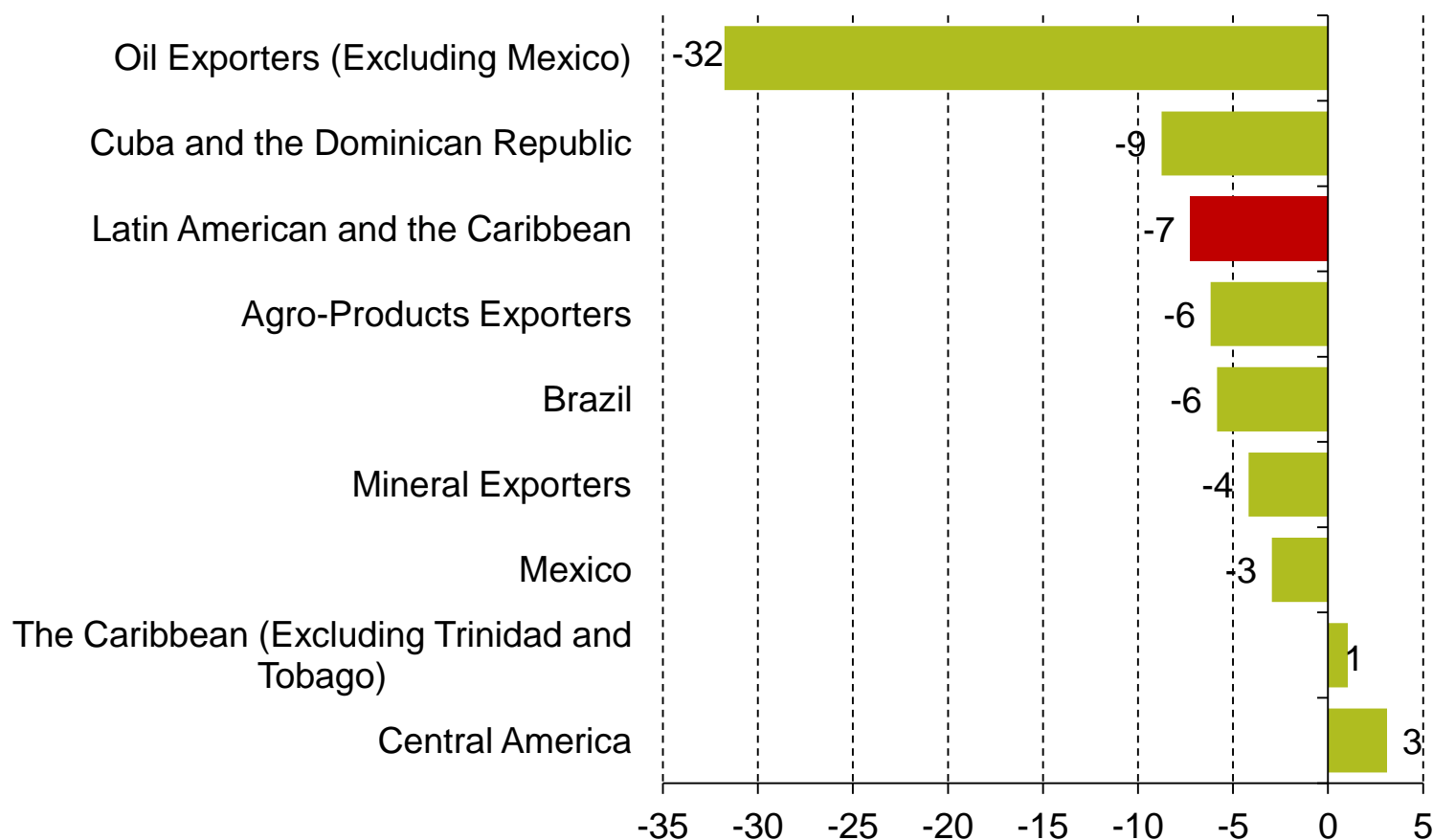


Source: ECLAC based on data from COMTRADE, World Bank, FAO, UNCTAD and the US Departments of Commerce and Labor.

There is a drop in regional terms of trade, except for Central America and non-oil exporting Caribbean countries

LATIN AMERICA AND THE CARIBBEAN (SELECTED GROUPINGS AND COUNTRIES): PROJECTED VARIATION IN THE TERMS OF TRADE, 2015

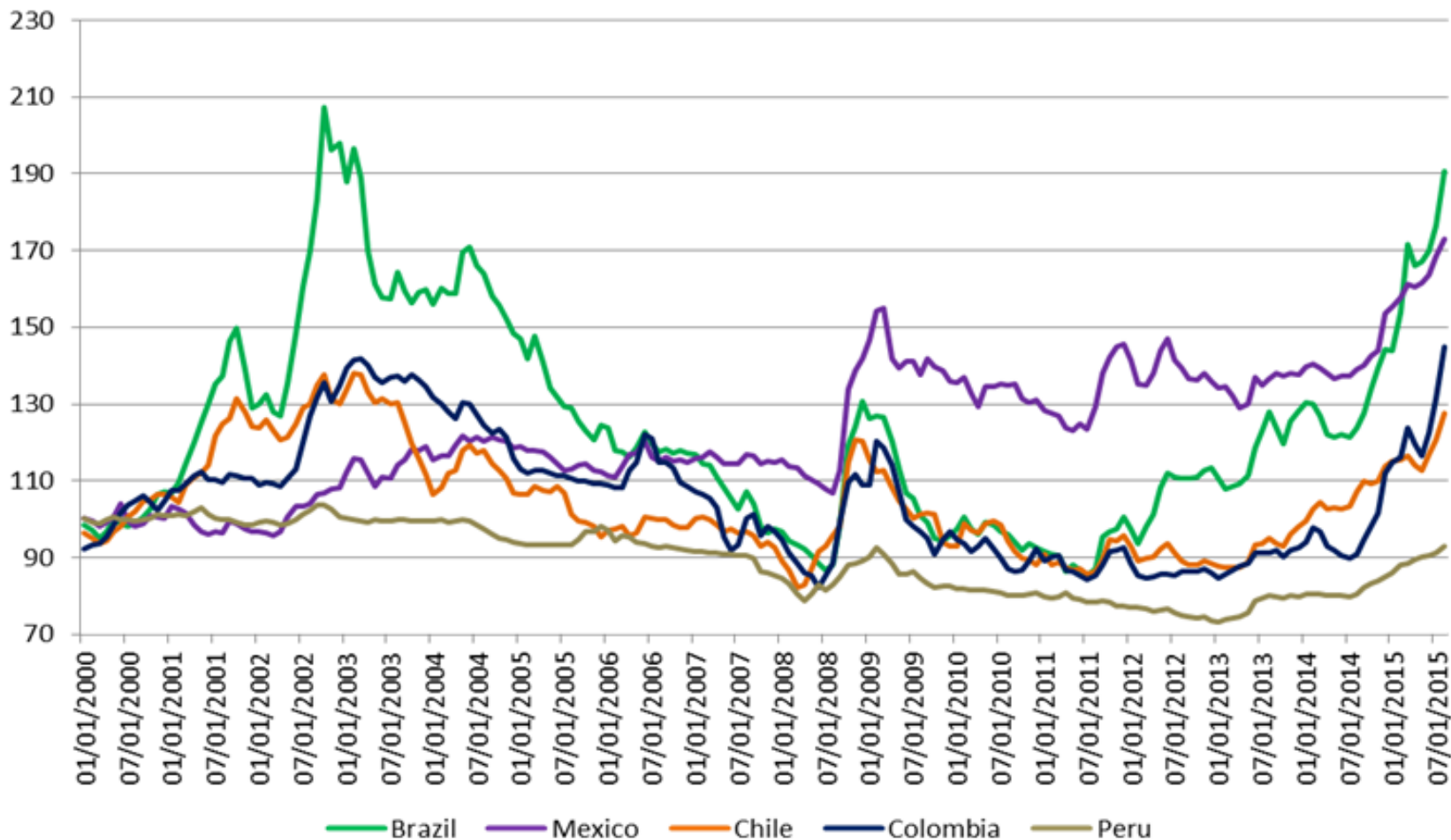
(Percentages)



Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

Nominal depreciations of several currencies in the region have not boosted exports

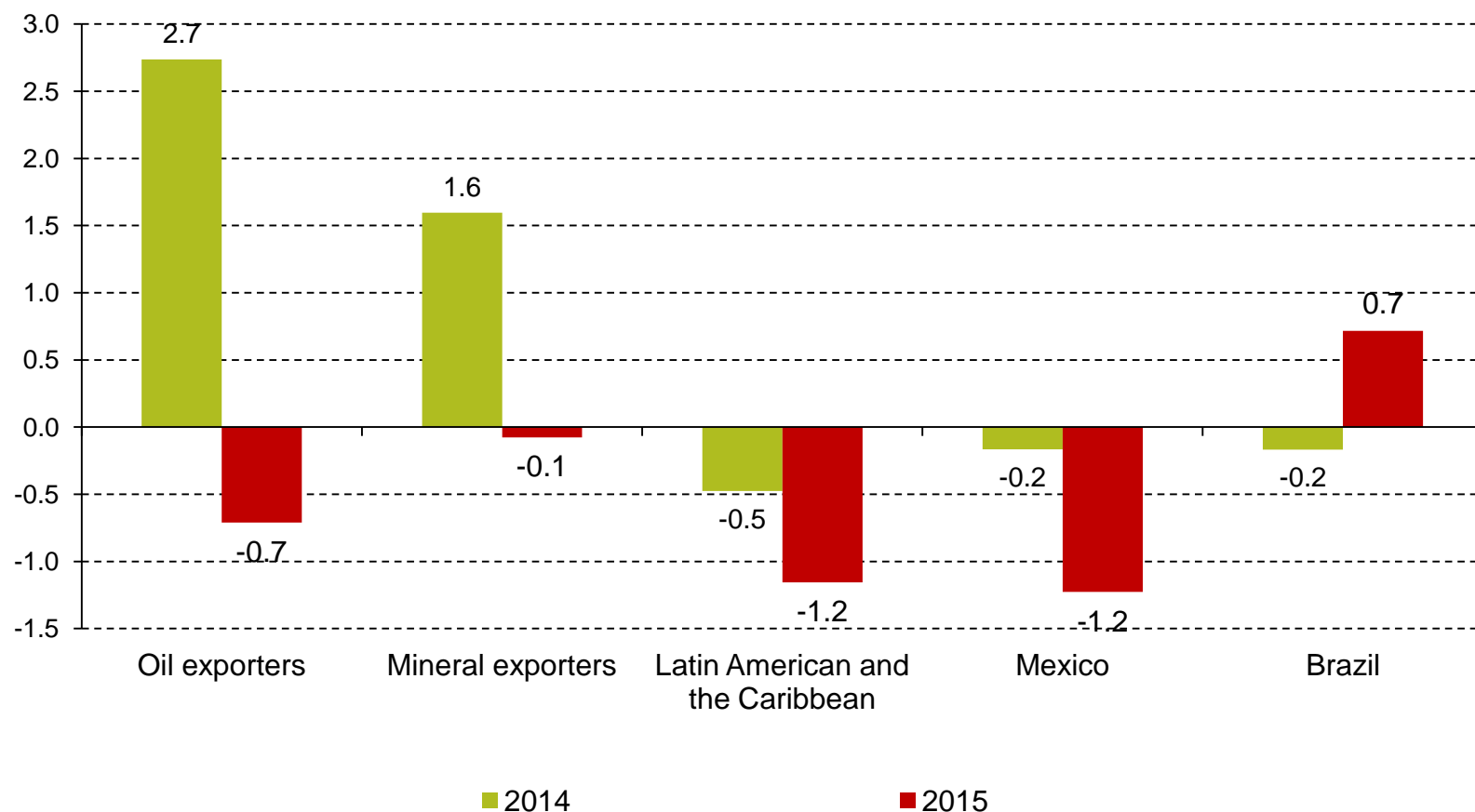
SELECTED COUNTRIES: MONTHLY NOMINAL EXCHANGE RATE INDEX, JANUARY 2000 to JULY 2015
(Index January 2000 = 100)



Source: ECLAC, based on official figures

Moreover, the region's trade deficit as a share of GDP more than doubles in 2015

**LATIN AMERICA AND THE CARIBBEAN (SELECTED GROUPINGS AND COUNTRIES):
TRADE BALANCES, 2014-2015**
(Percentages of GDP)



Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

The region is at a turning point: risk global dependency or move towards diversification and regional integration

GLOBAL CONTEXT

United States

European Union

China

Other emerging economies

Slow growth

Desequilibria and recessive adjustment

Changes in the structure of global trade

SURPLUS COUNTRIES

Absence of reciprocity

DEFICIT COUNTRIES

Lack of coordination

How does Latin America and the Caribbean fit into the global picture?

Export structure:

- highly concentrated
- anchored in natural resources and low technology goods
- weak participation in international value chains

Outcomes:

- worst export performance in 8 decades **(-14%)**
- intraregional trade plummets in South America **(-21%)**
- regional trade deficit doubles **(to 1.2% of GDP)**
- depreciating currencies
- lower (or negative) GDP growth

Import structure:

- diversified and intensive in goods with high technological content
- dependent on imports of capital goods and intermediate goods

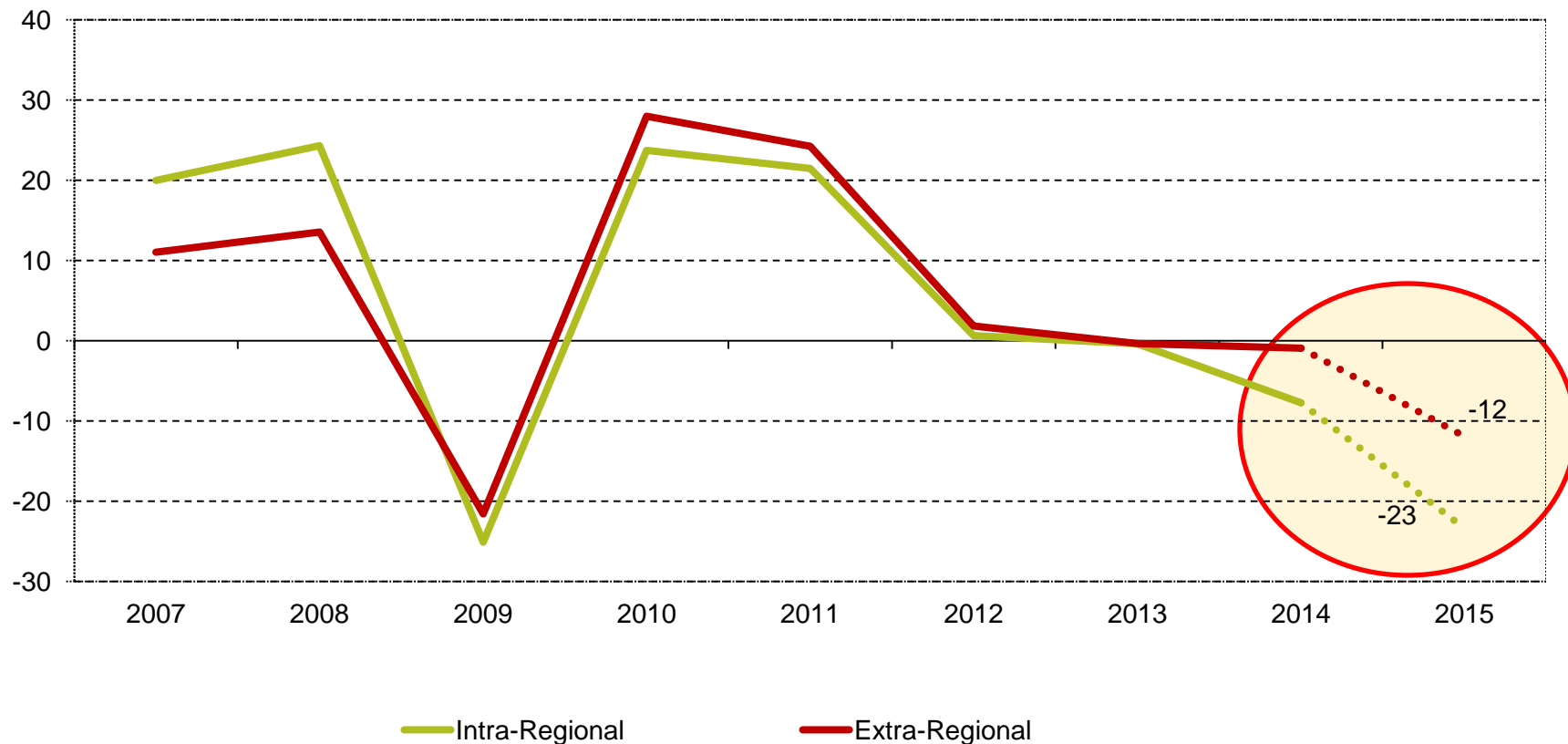
What to do?

- Reinvigorate intraregional trade
- Attract FDI towards non-extractive sectors which favors links with local and regional suppliers
- Promote the Trade Facilitation Agenda
- Diversify, promote industrialization and innovation and increase local and regional content of production and exports
- Weak global governance requires reciprocity and coordinated regional action



Intraregional exports fall more than exports to the rest of the world

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN INTRAREGIONAL AND
EXTRAREGIONAL EXPORTS BY VALUE, 2005-2015 ^a
(Percentages)



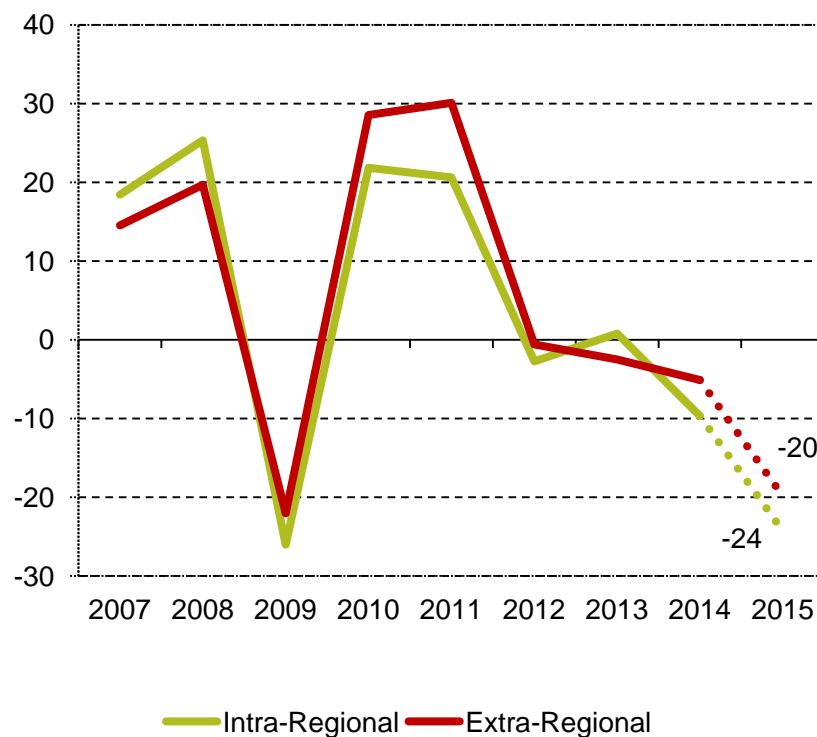
Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2015 are projections.

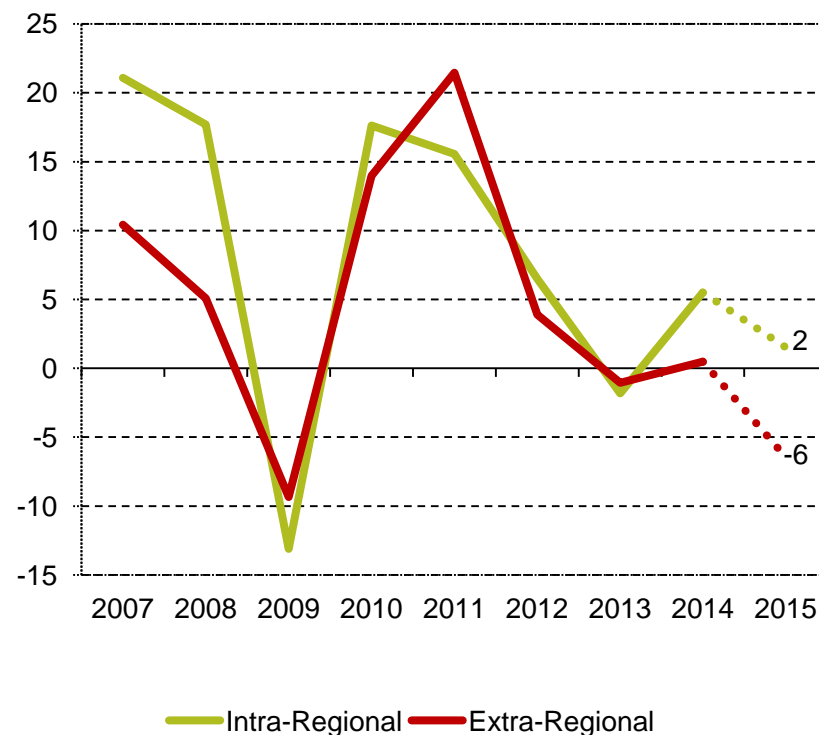
Intraregional trade plummets in South America but grows slightly in Central America

SOUTH AMERICA AND CENTRAL AMERICA: VARIATION IN INTRAREGIONAL AND EXTRAREGIONAL EXPORTS BY VALUE, 2007-2015 ^a
(Percentages)

South America



Central America



Source: ECLAC, based on official figures from the countries' central banks, customs offices and national institutes of statistics.

^a Figures for 2015 are projections.

Trade facilitation helps reduce costs and time to trade in the region

- TF is “the simplification and harmonization of international trade procedures”
- Especially important in the context of global value chains, which implies more border crossings
- It requires a high degree of intergovernmental coordination:
 - Customs, health inspection, ministries of transport, health, migration, etc.
- WTO Agreement on Trade Facilitation (TFA) will soon enter into force
- This year ECLAC conducted a survey in the region to measure the degree of progress made on TF measures and readiness for TFA implementation



The costs of intraregional trade are higher than the costs of trading with the United States

SELECTED GROUPINGS: NON-TARIFF COSTS OF INTRA-GROUP TRADE AND TRADE WITH THE UNITED STATES, AVERAGE 2008-2013
(Tariff equivalents in percentages)

	Caribbean	Central America and Mexico	South America	Southeast Asia	European Union
Caribbean ^a	154%				
Central America and Mexico ^b	160%	88%			
South America ^c	218%	124%	91%		
Southeast Asia ^d				76%	
European Union ^e					43%
United States	89%	66%	84%	85%	67%

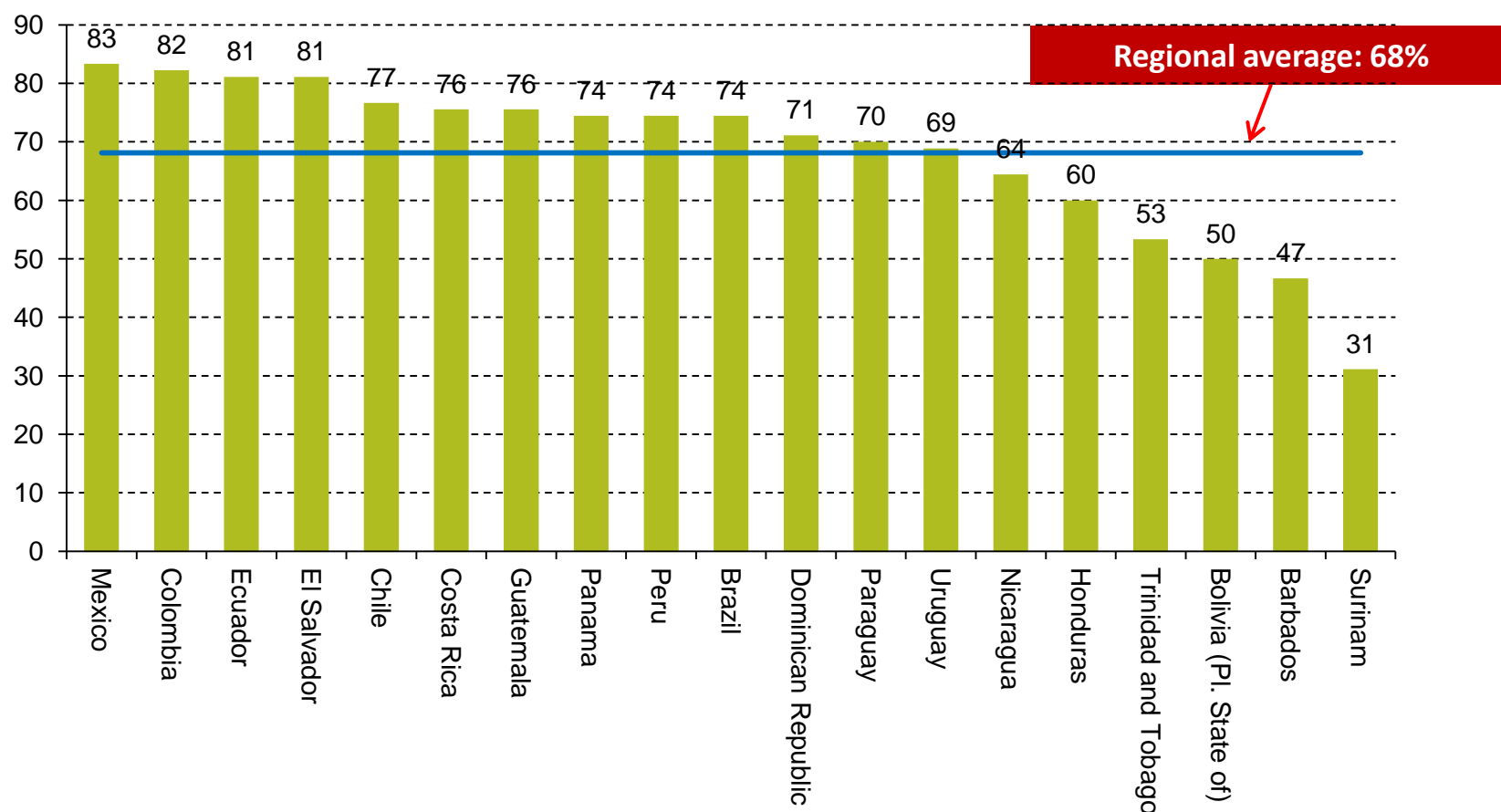
Source: ECLAC, on the basis of information of trade costs from the World Bank and Economic Commission for Asia Pacific (ESCAP) database.

^a Jamaica and Dominican Republic. ^b Costa Rica, Guatemala and Mexico. ^c Argentina, Brazil, Chile and Colombia. ^d Philippines, Indonesia, Malaysia and Thailand. ^e Germany, France and the United Kingdom.

The region is making progress in the implementation of trade facilitation however, the Caribbean lags behind

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): TOTAL SCORES IN THE GLOBAL SURVEY ON TRADE FACILITATION AND PAPERLESS TRADE IMPLEMENTATION, 2015

(Percentages of the maximum possible score)

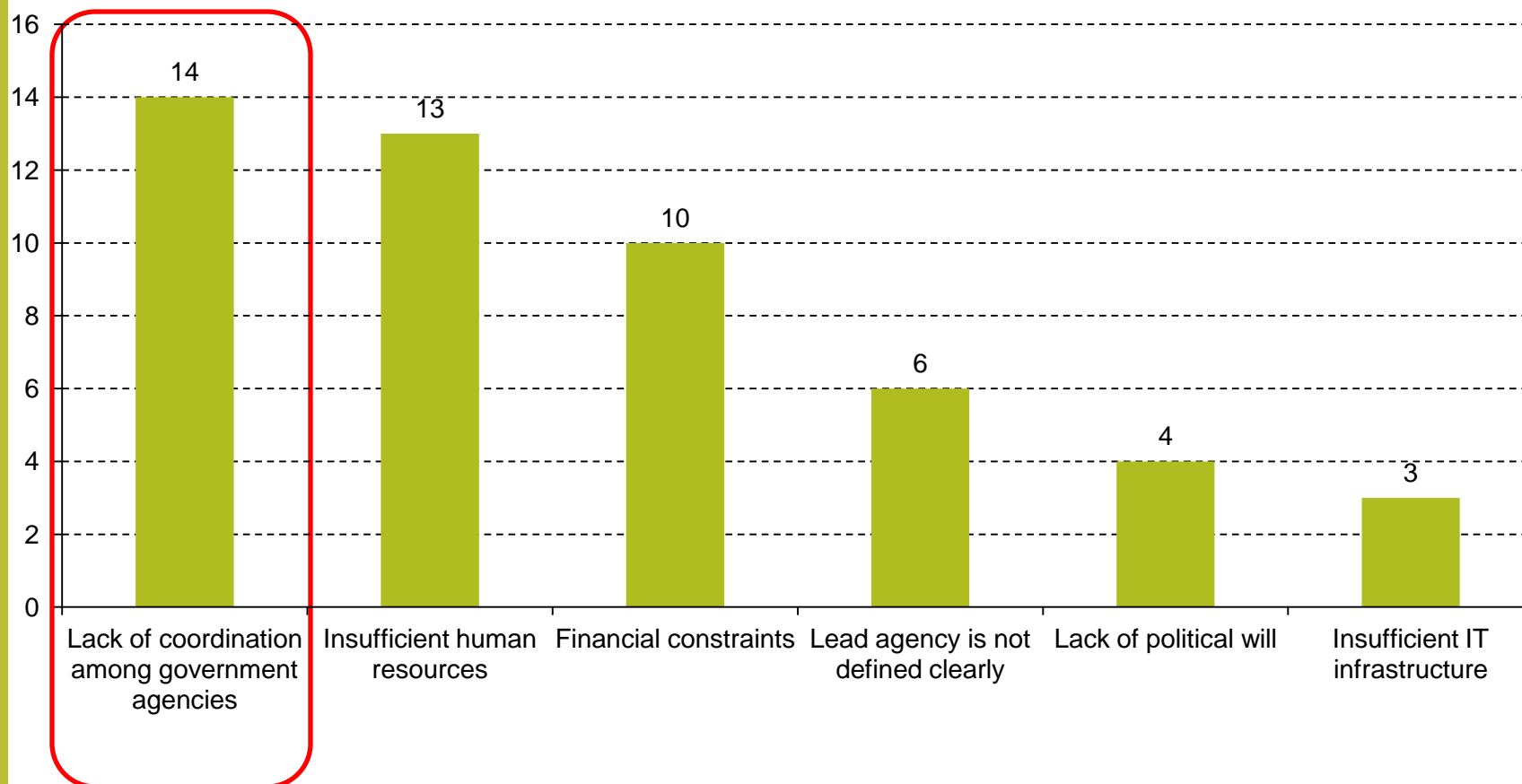


Source : Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Global Survey of Trade Facilitation and Paperless Trade Implementation 2015

Coordination among government agencies is the main challenge in implementing trade facilitation in the region

WHAT ARE THE MAJOR CHALLENGES FACING YOUR COUNTRY TO IMPLEMENT
TRADE FACILITATION MEASURES?

(Number of mentions)



Source : Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Global Survey of Trade Facilitation and Paperless Trade Implementation 2015

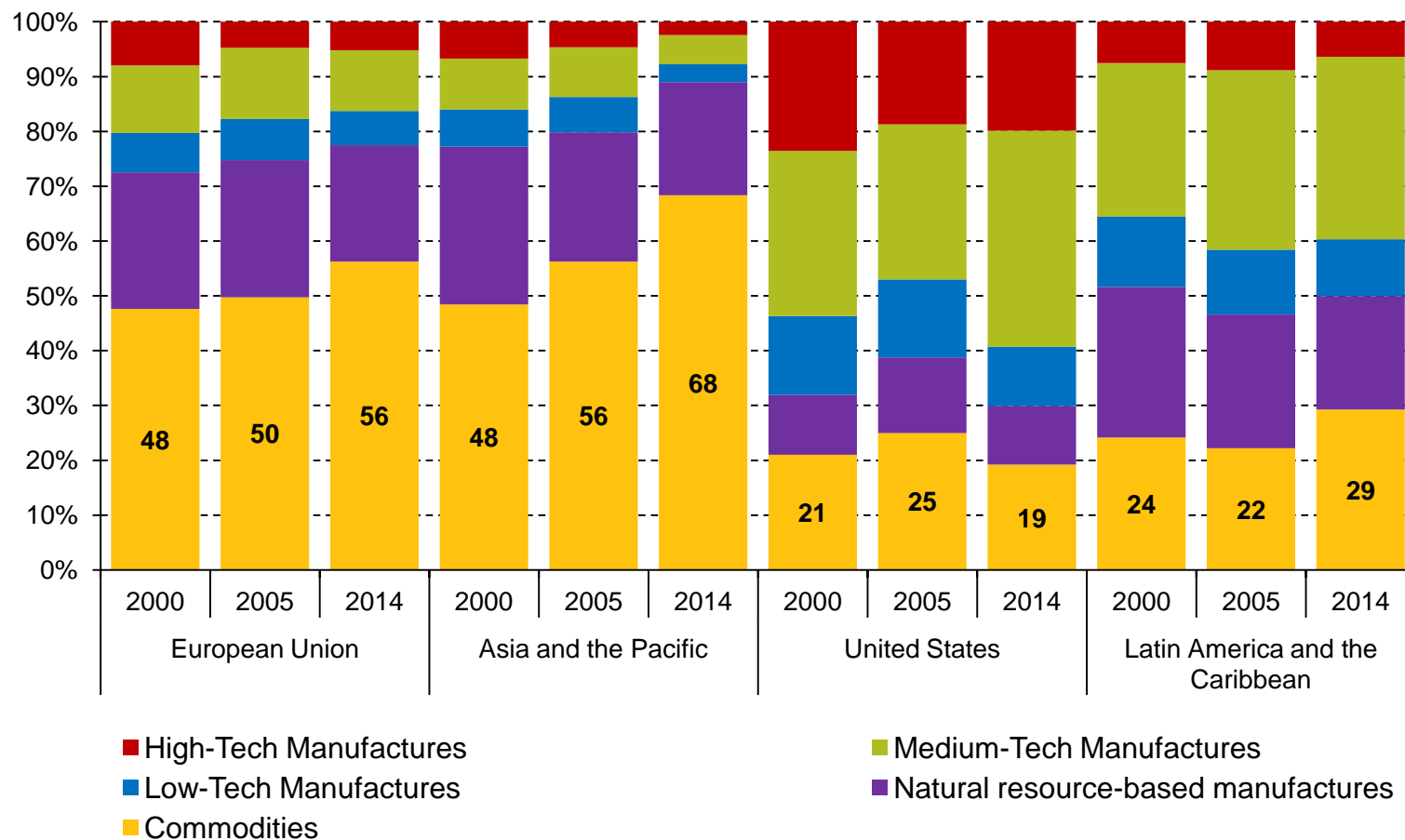
Making progress on the Trade Facilitation agenda is important for the region

- To increase the low share of intraregional trade
- To improve production linkages within the region and with the rest of the world
- To promote the internationalization of SMEs
- To promote transparency and coordination among government agencies and fight corruption
- Integrate the Caribbean with the rest of the region
- National TF efforts would have a greater impact if they are coordinated regionally



During the commodity boom, the region increased its dependence on natural resource exports

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF EXPORTS TO SELECTED DESTINATIONS BY TECHNOLOGY INTENSITY, 2000, 2005 AND 2014
(Percentages)

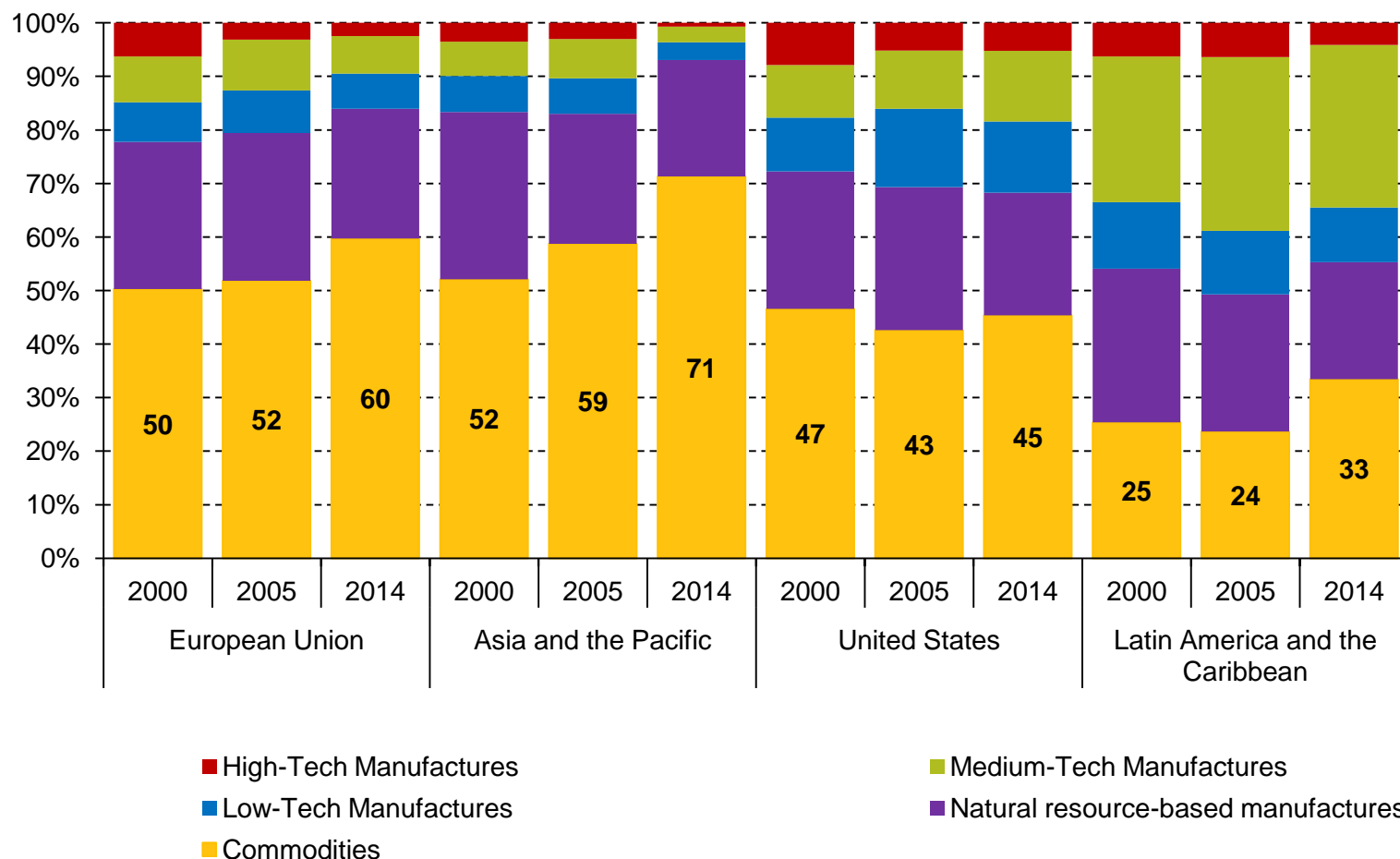


Source: ECLAC, based on data from COMTRADE database.

This trend is even more pronounced if Mexico is excluded

LATIN AMERICA AND THE CARIBBEAN (EXCLUDING MEXICO): STRUCTURE OF EXPORTS TO SELECTED DESTINATIONS BY TECHNOLOGY INTENSITY, 2000, 2005 AND 2014

(Percentages)



Source: ECLAC, based on data from COMTRADE database.

Policy recommendations

- Regional integration: Move towards an integrated space with common rules for trade and investment
- Investment in transport and ITC infrastructure: towards an integrated digital space
- Value chains for greater resilience of intraregional trade and production and export diversification
- Industrial and technological policies with environmental sustainability to grow with equality



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