International Trade Outlook
for Latin America and the Caribbean

Recovery in an uncertain context

2017

UNITED NATIONS

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Recovery in an uncertain context

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Explanatory notes:
- Three dots (…) indicate that data are not available or are not separately reported.
- A dash (-) indicates that the amount is nil or negligible.
- A full stop (.) is used to indicate decimals.
- The term "dollars" refers to United States dollars, unless otherwise specified.
- A slash (/) between years (e.g. 2013/2014) indicates a 12-month period falling between the two years.
- Figures and percentages in tables may not necessarily add up to the corresponding totals due to rounding.

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Foreword

This first edition of *International Trade Outlook for Latin America and the Caribbean*, which is the continuation of *Latin America and the Caribbean in the World Economy* with a new title, covers 2017 and contains three chapters. The first chapter describes the current international context and the recovery of trade in the region. Despite the recent upturn in global growth, the medium-term international context remains uncertain, with unanswered questions regarding the sustainability of the recovery of the world economy, challenges to traditional trade posed by the digital revolution and the emergence of political movements in developed countries. In turn, these factors could impact policies to promote investment and productive diversification. In that uncertain context, the foreign trade of Latin America and the Caribbean is showing signs of recovery after four years of negative performance between 2012 and 2016. The value of the region's goods exports is projected to increase by 10% in 2017. That increase comprises a 6.5% rise in prices and 3.5% growth in volumes. After four years of falling value, the region's imports are also recovering and are projected to grow by 7.0% in 2017. That improvement derives mainly from a 5.0% rise in import basket prices, together with a slight increase (2.0%) in import volumes.

Chapter II reviews the region's performance in global trade in services in general and in modern services in particular, since 2005. Modern services are those traded mainly over the Internet, such as telecoms, computer and information services; financial services; insurance and pension services; royalties; and other business services. Latin America and the Caribbean is still a marginal player in global modern services trade, accounting for just 2% of exports in this category, although it is the fastest-growing segment of global trade. The chapter examines the experience of the region's larger economies with respect to services exported indirectly through incorporation into manufacturing exports, in whose competitiveness they are crucial. Some South American countries have a relatively high domestic services content in their manufacturing exports, which raises their cost, whereas manufacturing export firms in Costa Rica and Mexico, for example, tend to import proportionally more services than similar firms in South America, partly because they are more integrated into North American value chains. The differences between countries with respect to their export patterns partly reflect the public-private strategies in place in such areas as human capital and certification, tax treatment of business and foreign direct investment attraction. In addition, only a few subregional integration schemes are actively engaged in promoting this type of trade.

Chapter III provides an overview of Latin America and the Caribbean's share of the world agricultural trade since 2000 and offers some policy recommendations for increasing the sector's contribution to regional development. It highlights the specificities of various subregions and countries through a range of indicators (such as net exporters and importers, the weight of the agricultural sector in total exports and imports, composition of the export basket, main destination markets and suppliers, and the evolution of product and market concentration). It notes that although the region is a significant global supplier of a range of agricultural products, most of them are primary goods, with a very low presence of agroindustrial products. The product concentration is particularly high in shipments to Asia, a part of the world that has become the main market for the region's agricultural exports. In contrast, greater diversification can be seen in intraregional trade. The chapter then addresses the central role that industrial policy has to play in de-commoditizing the region's agricultural exports through the creation of differentiating factors and the processing of products that are currently exported almost exclusively in their raw form. Finally, it highlights the importance of trade agreements in improving those exports' access to important, highly protected markets.

The foreign trade of Latin America and the Caribbean is showing signs of recovery after four years of negative performance between 2012 and 2016. The value of the region's goods exports is projected to increase by 10% in 2017.
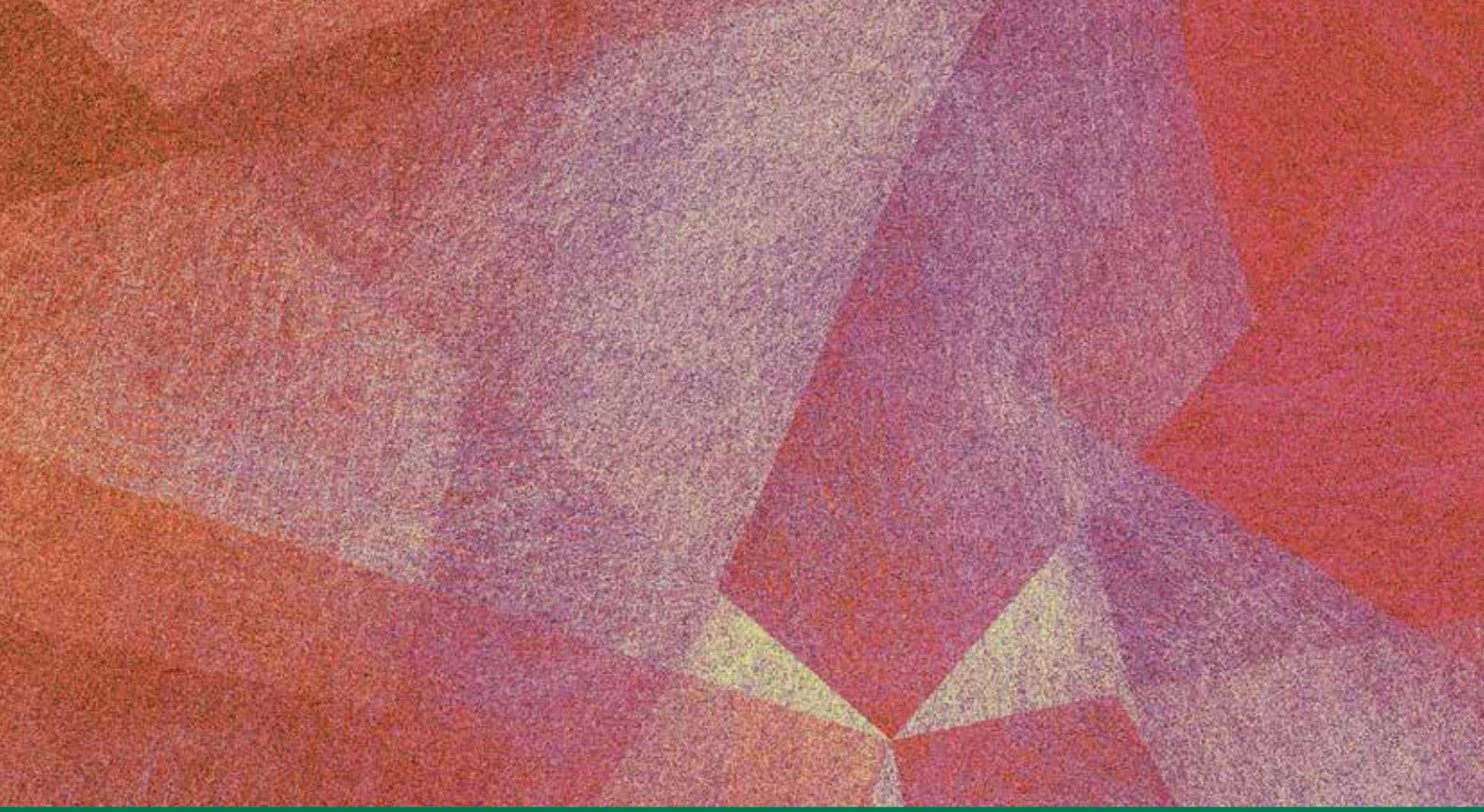
Summary

A. Regional trade picks up in an uncertain global context

The global trade in goods has been less dynamic following the international economic and financial crisis. Before the crisis, its volume was growing by an average of 6.3% per year, while its post-crisis annual growth has been only 2.2%. The correlation between trade and global GDP also decreased, until in 2016 trade expanded more slowly than GDP. The factors that could explain the weakness of world trade in the wake of the crisis include low dynamism in global demand, a reduced rate of expansion of global value chains and reduced trade liberalization if not an actual increase in protectionism.

In 2017, world trade is expected to increase by 3.6%, driven by increased growth in output in the United States, the eurozone and China. Slightly slower growth is forecast for 2018, on account of a higher baseline than in 2017 and the tightening of monetary policy expected in the United States, the eurozone and China, exacerbated in the case of China by reduced fiscal expansion. In the medium term, the international context remains uncertain, with doubts still existing about the recovery of the global economy, the challenges posed to traditional trade by the digital revolution and, more recently, the emergence of populist political movements in some developed countries.

Despite the recent uptick in growth, the advanced economies face considerable uncertainty regarding the long-term sustainability of economic activity. The major economies are reporting significant decelerations in per capita GDP growth compared to historical trends. At the same time, investment as a percentage of GDP is still below its pre-crisis levels in all the major developed economies. Productive capital continues to expand slowly and productivity growth has not returned to its past levels. Inflation rates are still too low, and while unemployment stands at historically low levels, nominal wages remain stagnant, which curtails consumption.

The digital revolution is creating new patterns of consumption, production and business in all sectors of the economy, which has the potential for a significant impact on employment. While traditional trade and investment flows slowed notably in the wake of the financial crisis, digital flows increased 45-fold between 2005 and 2014 and are expected to increase by a factor of nine over the next five years. In that context, e-commerce is of growing importance. The Internet plays a dual role in the consumption and delivery of goods and services: first, it facilitates the exchange of traditional goods and services and, second, it serves as a platform for goods and services that are entirely digital, such as music, books and software, As regards production, the Internet and technology facilitate communications, shorten value chains through additive manufacturing and redefine the traditional boundaries between goods and services. Accordingly, global trade in the twenty-first century covers physical goods and services that are conveyed through traditional channels, physical goods and services that are produced, consumed and delivered by means of digital platforms and goods and services that are by nature entirely digital and intangible.

The digital revolution poses unprecedented challenges for the regulation of global trade. The trade agreements of the 1990s are not up to the task of governing today's exponentially expanding cross-border digital flows. While the leeway for formulating traditional industrial policy has been sharply reduced as a result of World Trade Organization (WTO) agreements and North-South trade and investment arrangements, the digital economy remains largely unregulated. This means that governments have room to implement measures such as blocking specific Internet sites, imposing network location server requirements or compelling foreign providers to reveal the source code of their software. In this context, actors such as China, the United States and the European

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Union are competing to influence the regulation of global digital trade, with widely divergent visions and models.

After being the leading advocate of trade liberalization for seven decades, the United States has set out in a radically different direction. While undeniably disruptive, that shift does not yet appear to mark a turning point in the process of trade liberalization that the world has undergone over the past three decades. In this context, the European Union has assumed de facto international leadership in the governance of trade and investment: for instance, through its proposal to replace the heavily criticized system for investor-state dispute settlement that currently exists with a system of permanent tribunals. Its recent agreements with Canada and Singapore include such a mechanism, as well as the parties' commitment to work for the creation of a multilateral investment court. Those agreements also include several provisions that seek to guarantee the right of host States to enact regulations in the public interest. More generally, the European Union has set itself the goal of ensuring that its trade and investment agreements make a greater contribution to sustainable development, including the implementation of the 2030 Agenda for Sustainable Development and efforts to combat climate change.

The high degree of uncertainty seen in the macroeconomic, technological and geopolitical spheres further complicate assessments of whether the current growth will be sustained in the medium term. In any case, their overall impact on policies to promote investment and productive diversification are negative. Uncertainty hampers economic calculations and reduces expected rates of return, with negative repercussions for investment. Difficulties in designing sector-wide policies increase as technological dynamism fuels greater doubts about patterns of specialization and employment generation, even in the medium term. Finally, the growing conflict between the dynamics of growth, usage and consumption in the digital and analogue universes raises questions about the productive structure that will be resolved only with the passage of time.

> The recovery in the value of the region's goods exports during the first half of 2017 was particularly pronounced in the mining and oil industries, on account of the higher prices commanded by products such as oil, natural gas, coal and metals.

Latin American and Caribbean trade is showing signs of recovery, leaving behind the negative performance of the 2012-2016 period (see table 1). The rise in the value of goods exports and imports over the first half of 2017 is attributable mainly to the rising prices of the respective baskets (8.9% and 5.4%, respectively) This is in contrast to what happened in the developed economies, China and the rest of Asia, where the increase in export value was mainly on account of larger export volumes. The recovery in the value of the region's goods exports during the first half of 2017 was particularly pronounced in the mining and oil industries (see figure 1), on account of the higher prices commanded by products such as oil, natural gas, coal and metals. This was also reflected in its imports, since fuel was the category that reported the most growth. Recovery was reported in all categories with the exception of capital goods; even so, the drop there was lower than the one posted for the corresponding period in 2016.

Table 1
Latin America and the Caribbean: variation in the value of trade in goods and services,
January-June 2017 compared to January-June 2016
(Percentages)

Flow	Goods		Services	
	January to June 2016	January to June 2017	January to June 2016	January to June 2017
Exports	-9.0	12.1	-0.4	8.2
Imports	-13.1	7.3	-8.6	2.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national statistics institutes.

Latin America and the Caribbean: year-on-year variation in the value of trade in goods and services by categories, January-June 2017
(Percentages)
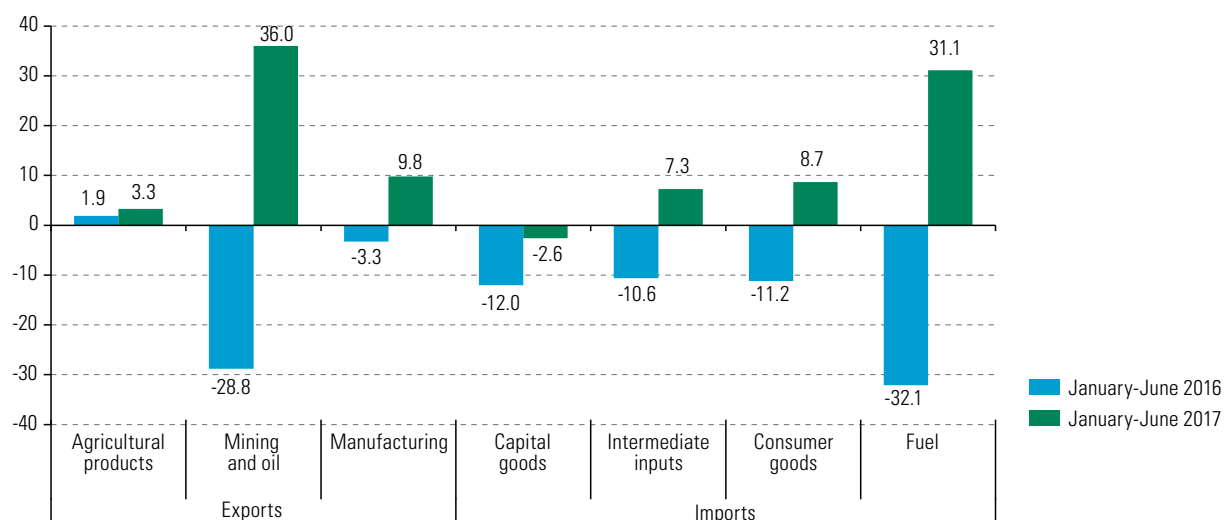
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national statistics institutes.

Along with the greater dynamism of aggregate demand in some of its major trading partners, other factors that contributed to the rebound of trade in Latin America and the Caribbean included the recovery of growth in the region itself after two years of recession and the dismantling of tariff and non-tariff measures in certain countries. The value of the region's goods exports is projected to increase by 10% in 2017. That increase comprises a 6.5% rise in prices and 3.5% growth in volumes. Thus, the region leaves behind five years of falling export basket prices and weak export volume growth. The region's imports are also recovering, after four years of falling in value: they are projected to grow by 7.0% in 2017. This expansion derives mainly from a 5.0% rise in import basket prices and a slight increase (2.0%) in import volumes.

The recovery in the region's exports is expected to be led in 2017 by shipments to China and the rest of Asia (see figure 2). Exports to the United States and within the region are forecast to post rates of growth close to the average, while exports to the European Union are expected to be the least dynamic. This stronger performance in exports to Asia is strongly linked to higher metal and mineral prices, which account for a significant portion of those exports. On the import side, the greatest dynamism will be seen in purchases from the region itself and from the United States, while those from the European Union and Asia will grow more slowly than average.

Among the various subregions and countries of Latin America and the Caribbean, the greatest increase in export values in 2017 is forecast for Central America (13.1%), mainly as a result of the significant increase in export volumes (see figure 3). Similarly, Mexico's export volume is expected to increase slightly more than the prices of its export basket. In contrast, export recovery in South America and the Caribbean will be led by higher prices for their respective baskets. The largest increases in export product prices will be posted by the South American countries. This is on account of the greater weight of petroleum, minerals and metals in their export baskets, particularly those of the Andean countries. On the import side, the recovery will be dominated by higher import basket prices in all the subregions. The only subregion where import volumes will fall in 2017 is Central America (0.5%). This is on account of lower fuel consumption, caused by rising prices.

Figure 2
Latin America and the Caribbean: year-on-year variation in the value of trade in goods by trading partners, 2017
(Percentages)
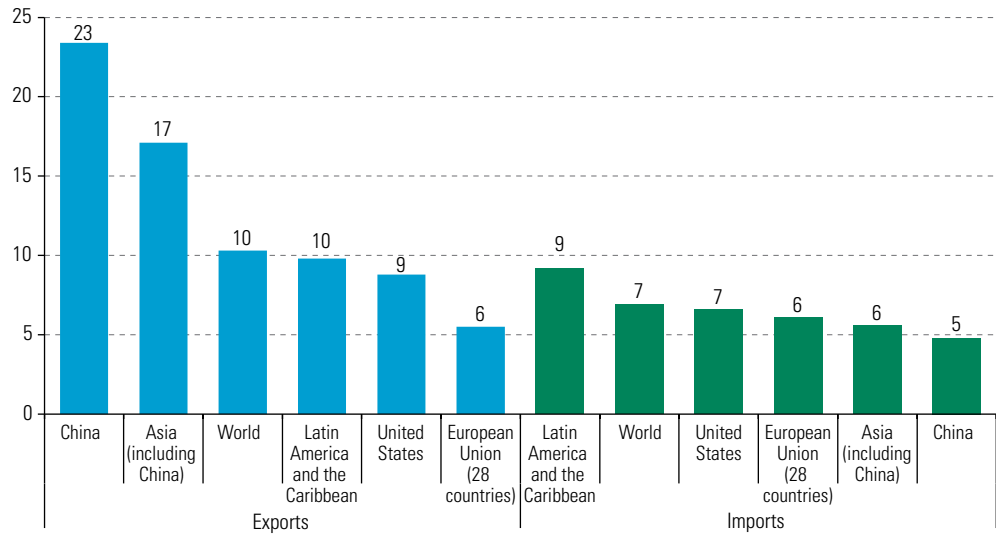
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national statistics institutes.

Figure 3
Latin America and the Caribbean (selected subregions and countries): projected year-on-year variation in trade in goods, by price and volume, 2017
(Percentages)
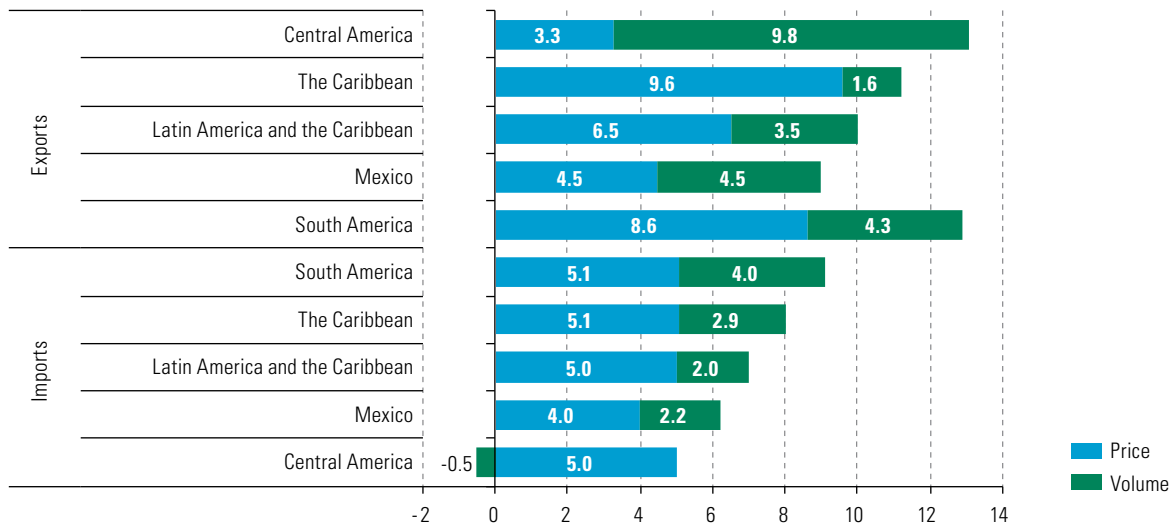
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national statistics institutes.

The passage of hurricanes Irma and Maria through the Caribbean damaged infrastructure in some of the Caribbean Community (CARICOM) countries. The main effect was reduced export volumes from Dominica and Haiti, and lower than expected growth in the volumes reported by Cuba, the Dominican Republic and Saint Kitts and Nevis. The impact on imports will be lower because of the capital goods and fuel that will be required during the reconstruction process.

In the first half of 2017, all intraregional trade circuits posted increases, with a particularly auspicious improvement in South America. For the year as a whole, the value of intraregional exports is projected to grow by 9%. As a result, their weight in the region's total exports to the world would stand at 16.8%, well below the peak of nearly 22% recorded in 1994.

Empirical evidence shows that intraregional trade is characterized by a model favourable to production diversification. Thus, the regional market is the destination for the largest number of products. Similarly, for many countries in Latin America and the Caribbean, this is the largest market for their manufactured exports (in many cases, accounting for more than 50% of the total). The region is also the natural market for the internationalization of small and medium-sized enterprises (SMEs). However, intraregional trade remains subject to severe, mainly non-tariff barriers (quotas, non-automatic import licences, informal barriers, antidumping duties and others). On average, non-tariff barriers in force in the region equate to a tariff of 25.3%, which is almost nine times the average value of the tariffs imposed on intraregional trade (2.9%). In addition to tariffs and non-tariff measures, there are costs associated with customs processes (reflected in export and import times) which, according to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC), are equal to an additional average tariff of 20%.

To summarize, global output and trade are showing signs of a rebound in 2017, after several years of sluggish growth. However, there are still doubts about the sustainability of this upturn, given the considerable macroeconomic, technological and geopolitical uncertainty that exists. In that context, the value of the region's exports has started to rise again in 2017, after falling for four years. Yet, this recovery is underpinned more by exogenous factors (the increase in the prices of several commodities) than by domestic growth.

Intraregional trade offers great potential for exports of manufactured goods and more processed products in general. This underscores the urgent need for deeper regional integration, especially with the recent shift in the United States' trade policy and the uncertainty surrounding the renegotiation of the North American Free Trade Agreement (NAFTA). The simulations presented in this chapter indicate that signing a regional trade agreement would produce considerable gains, which would be greater if the agreement were not limited to reducing tariffs, but also included the removal of non-tariff barriers and the harmonization or mutual recognition of technical, sanitary and phytosanitary standards. Likewise, appropriate cumulation of origin mechanisms would also promote the integration of production. Trade facilitation is another major component of deeper regional integration, which could help raise the current low levels of intraregional trade, promote the internationalization of SMEs and strengthen production chains within the region.

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B. The region's weak performance in modern services trade

The spread of information and communications technologies (ICTs) has driven a growing business, analytical and policy interest in trade in services. The Internet enabled the long-distance delivery of services between producer and consumer, something that was not possible before and opened up great potential for international trade in these activities. In addition the different types of services built into industrial products through digital platforms generate the greatest value for clients, for example in mobile telephone. Other digital platforms (such as Alibaba, Amazon, Flipkart and Skype, for example) facilitate the exchange of traditional goods and services. Platforms also make certain goods and services entirely digital, as in the case of music, books and software. As a result, the traditional boundaries between goods and services are gradually blurring. A number of services are also crucial for the operation of global value chains in goods, such as research and development (R&D), logistics, financial services and marketing.

The great business interest in services is reflected in the rapid growth in their international trade, especially in Internet-enabled modern services, compared with goods trade. Modern services include telecoms, computer and information services; financial services; insurance and pension services; royalties; and other business services. From 2005 to 2016, the value of global modern services exports grew by an annual average of 6.7%, compared with 4.5% for traditional services (goods-related services, transport; travel; construction; personal, cultural and recreational services; and government services), and 3.9% for goods.

Latin America and the Caribbean is still a marginal player in global services trade. In 2016, the region's share in total global services exports was just 3.1%, compared to almost 6% in global goods exports. It had a larger share in exports of traditional services (4.4% in 2016) than of modern services (1.8%). In the first category, the region's best performance is in tourism, the specialization par excellence of the Central American and Caribbean countries and Mexico. The region's share in global transport exports is lower than the average. In exports of modern services, the region's largest share is in insurance and pension services, followed by the "other business services" category (see figure 4).

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Figure 4
Latin America and the Caribbean: share in global exports of different services, 2005 and 2016
(Percentages)
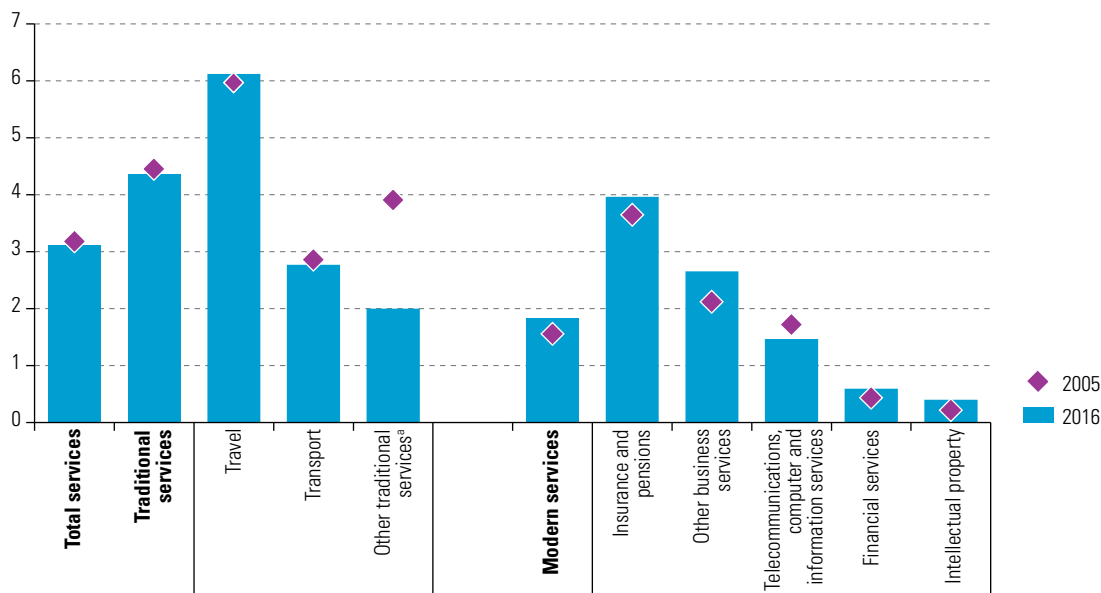
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.
[a] The "other traditional services" category refers to goods-related, construction, personal, cultural, recreational and government services.

South America is the region's largest supplier of services, representing three quarters of total exports in 2016. Its dominant position is reflected especially in exports of other business services. Central America and the Caribbean contribute a fifth of total services exports, although they have a larger share in some categories, such as travel, transport, telecommunications and computer services and financial services. Mexico represents a small share of regional exports, with the exception of travel, and insurance and pension services (see figure 5).

Several of the region's countries run a surplus in traditional services trade, mainly reflecting their specialization in tourism and transport. The dynamics of these services are closely tied to economic cycles, in the case of tourism, and goods trade, in the

case of transport. Only two countries —Costa Rica and Panama— run a surplus in modern services trade. The first specializes heavily in exports of computer services and other business services that are intensive in increasingly skilled labour and foreign direct investment. The second is one of the region's most specialized economies in financial services (see figure 6). The Plurinational State of Bolivia runs proportionally the largest deficit in services (at almost 5% of GDP in 2016), in both traditional and modern services. Chile and Brazil have a smaller deficit in relation to output —mainly in modern services— while Argentina's deficit is mainly in traditional services.

Figure 5

Latin America and the Caribbean (selected countries and subregions): share in regional exports of different services, 2016
(Percentages)
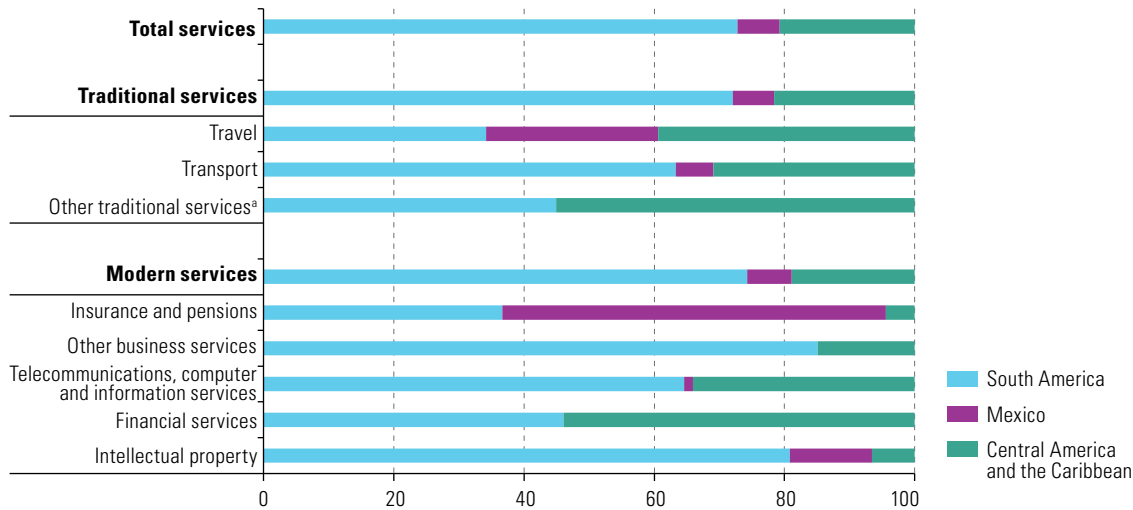
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.
[a] The "other traditional services" category refers to goods-related, construction, personal, cultural, recreational and government services.

Figure 6

Latin America and the Caribbean (selected subregions and countries): trade balance in modern services, traditional services and total services, 2016
(Percentages of GDP)
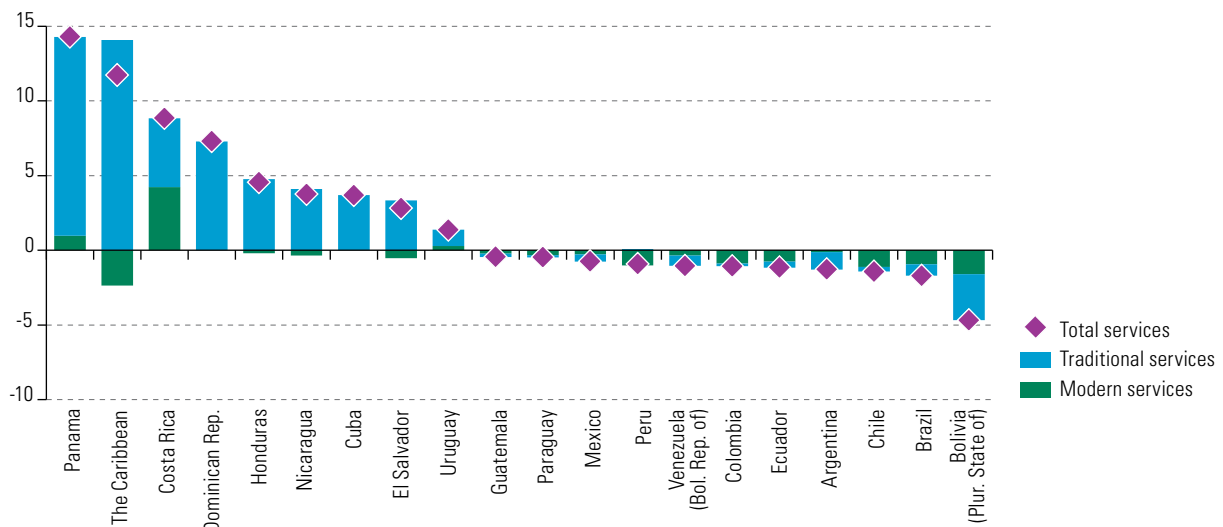
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.

The foregoing analysis concerned direct exports of services. However, many services traded indirectly through their incorporation as intermediate inputs in exports of goods. Many manufacturing firms incorporate certain types of "cost" services to improve efficiency and increase productivity. Examples are transport and logistics services, finances, ICT services, insurance, management, renting and leasing of machinery, equipment and buildings, and insurance. Other manufacturers add "value" services to differentiate their products and make them more attractive to clients in a highly competitive environment. Manufacturers use wireless networks and digital technologies to build sensors and microchips into their goods to allow communication between them (Internet of things), to provide additional services and to collect information on consumer behaviour. These activities are concentrated in the category of business services.

Using new statistics from the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD) on international value added exports, it was shown that the indirectly exported services are similar in value to directly exported services. For the region's larger economies, indirect exports represented between 65% (in the case of Chile) and 160% (in the case of Mexico) of direct services exports in 2011. Chile's low percentage has to do in part with its specialization in processed commodities such as refined copper, which require relatively few services to compete internationally. Conversely, the high percentage in Mexico reflects its exports of medium- and high-tech industrial products such as automobiles and electronics, which incorporate many services for competitiveness.

Brazil and Costa Rica were the countries with the largest shares of domestic intermediate services in the value of manufacturing exports in 2011 (see figure 7). The high domestic services content in Brazil contributes little to the international competitiveness of its manufacturing sector, as it mostly reflects the high prices of key services such as finance, logistics and telecoms. In turn, these high prices result from relatively low productivity, limited competition and low levels of investment. Meanwhile, Mexico and Costa Rica incorporated the largest percentages of imported intermediate services in their manufacturing exports in 2011 (see figure 7). This may be because the manufacturing sectors of these two economies are the most integrated in global and regional production networks that have a high concentration of technology-intensive products, which are in turn intensive in imported services.

Figure 7
Latin America (selected countries): share of domestic and imported intermediate services in the gross value of manufacturing exports, 2011 *(Percentages)*
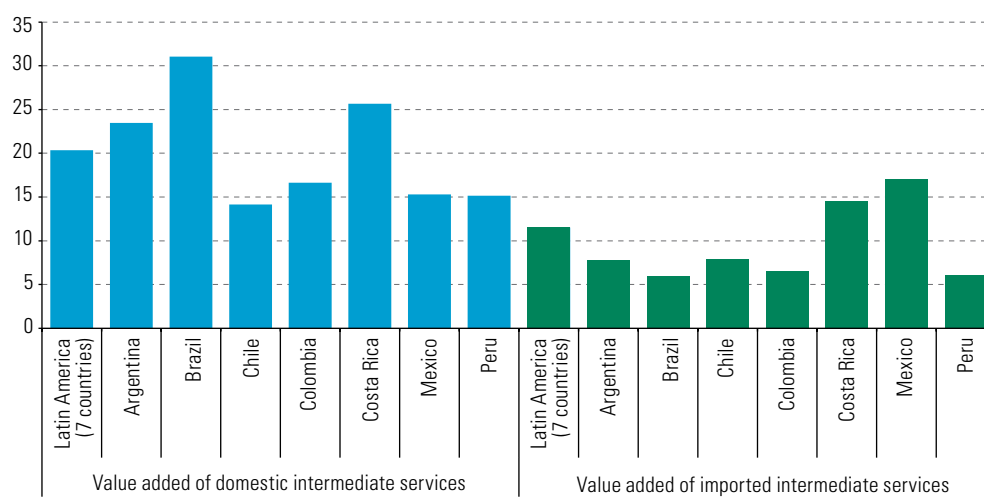
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO), Trade in Value Added (TiVA) database, 2016 [online] http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.

The success of traditional and modern services exporters in the region depends heavily on the public-private strategies in place to support this sector. These strategies need to comply with modern governance standards, with a medium-term focus, clear goals, sufficient budgets, clear allocation of responsibilities, constant monitoring and regular evaluation. Examples in the region are the Productive Transformation Programme established in Colombia in 2009, with targets for 2019 for software and information technology (IT) services exports, business process outsourcing (BPO) and knowledge process outsourcing (KPO), and the public-private plans known as PROSOFT 3.0 in Mexico, introduced in 2014, which seeks to quadruple sales and exports by 2024. The governments of other countries, including Chile and Peru, also have export targets.

The availability of human capital is one of the most important drivers of export success in modern services. The 2017 ranking by A.T. Kearney affords Brazil, Mexico and Argentina the highest scores in the region in this regard (see figure 8). To better respond to the needs of modern service exporters, some countries in the region, such as Costa Rica, have created a specific public-private-academic committee for this purpose. Other countries, such as Argentina and Chile, have set specific goals for the university training of professionals in areas where there is particular need, such as computer programmers.

Figure 8
Latin America and the Caribbean (selected countries) and India: performance in key aspects for localization and export of modern services, 2017
(Maximum points per category)
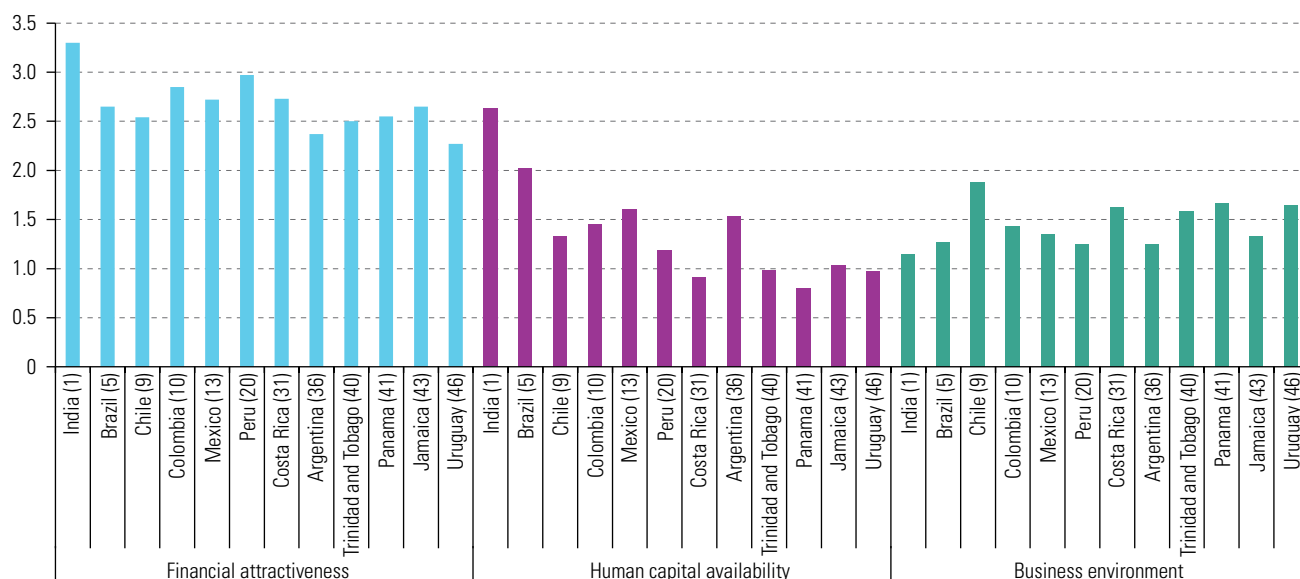
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Sethi and J. Gott, *2017 A.T. Kearney Global Services Location Index: The Widening Impact of Automation*, A.T. Kearney, 2017; A.T. Kearney, *The Shifting Geography of Offshoring: The 2009 A.T. Kearney Global Services Location Index*, 2009.
Note: The number shown alongside each country name refers to its position in the global ranking of the 55 most attractive countries for the location and export of modern services. The maximum points in each category are 4.0 for financial attractiveness and 3.0 for human capital availability and business environment.

Tax breaks and concessions are another important instrument for attracting multinational firms and supporting the international expansion of modern services. The creation of free trade zones (FTZs) is probably the largest fiscal incentive to attract foreign investors and promote service exporters. Within the region, Costa Rica, the Dominican Republic and Uruguay have created FTZs to promote global services exports. Other countries —Argentina, Brazil, Chile and Mexico— offer partial tax exemptions. Double taxation treaties are another instrument used to avoid service exporters having to pay taxes in both the home and destination countries.

Digital ecosystems are also increasingly important for the development and export of modern services. These systems refer to how governments, firms, consumers and things interconnect through standardized digital platforms based on common interests. The spread, use and safety of these platforms require active policies. The development of digital industries, including modern services, depends critically on the overall digitalization of production. The region is substantially behind Europe and North America in this sphere. Most of the countries examined have also adopted policies to expedite the development of a digital ecosystem. Brazil, Chile, Colombia, Costa Rica, Peru and Uruguay have introduced laws for personal data protection and to enhance cybersecurity. Moreover, Costa Rica, Peru and Uruguay have developed e-platforms in the form of a digital market-place to connect buyers with sellers, consumers with suppliers and employees with employers.

In addition to national endeavours, a more determined effort is needed to promote regional integration in services trade. In two of the region's five subregional integration schemes, the negotiation agenda on trade in services is stalled, while the others could do more to bring new regulatory areas into their agendas, following the example of numerous twenty-first century trade agreements. This is particularly important considering that the region is the most important destination for many services exporters. Finally, governments must also increase their cooperation at the regional level to produce public goods related, for example, to the digital ecosystem.

> A more determined effort is needed to promote regional integration in services trade. This is particularly important considering that the region is the most important destination for many services exporters of Latin America and the Caribbean.

C.   Latin America and the Caribbean: the challenges of global agricultural trade

The value of world trade in agricultural products, measured by exports, stood at US$ 1.69 trillion (equivalent to 11% of world merchandise exports).[1] As a region, Latin America and the Caribbean is a net exporter of agricultural products and consistently posts a trade surplus in that sector. During this century, the weight of the agricultural sector in the region's exports rose considerably, from 17% in 2000 to 26% in 2016. The region's share of world agricultural exports has also increased, albeit to a lesser extent, from 10% in 2000 to 13% in 2015. This last figure is more than double the regional share of world exports of all merchandise, which stood at 5.6% in 2015. The agricultural exports of Latin America and the Caribbean showed much greater resilience than its total shipments did over the period 2012-2016, when its overall export performance was the weakest since the 1930s. Meanwhile, between 2012 and 2016 the value of the region's agricultural exports declined by 1%, while that of its total exports dropped by 21%, having declined for four consecutive years (see figure 9).

The region runs an agricultural trade surplus with all its main partners, with particularly rapid growth in the surpluses with China and the rest of Asia. In fact, Asia is now the main destination for the region's agricultural exports, accounting for 35% by value, followed by the United States (22%), the European Union (18%) and the region itself (16%). The United States, for its part, is the main supplier of agricultural products to the region, with a 43% share of the total value of imports. In second place is the region itself, with 33%. The United States is the dominant supplier to Mexico and the Caribbean, while South America is its own main supplier. The United States and South America have similar shares in the Central American market.

> The region runs an agricultural trade surplus with all its main partners, with particularly rapid growth in the surpluses with China and the rest of Asia. In fact, Asia is now the main destination for the region's agricultural exports, accounting for 35% by value, followed by the United States (22%), the European Union (18%) and the region itself (16%).

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[1]   For the purposes of this chapter, the definition of agricultural products includes food (including fishery and aquaculture products), the forestry sector and other animal and plant products, such as hides, skins, wool, flax, silk and cotton.

Figure 9
Latin America and the Caribbean: annual variations in the value of total exports
and agricultural exports, 2001-2016
(Percentages)
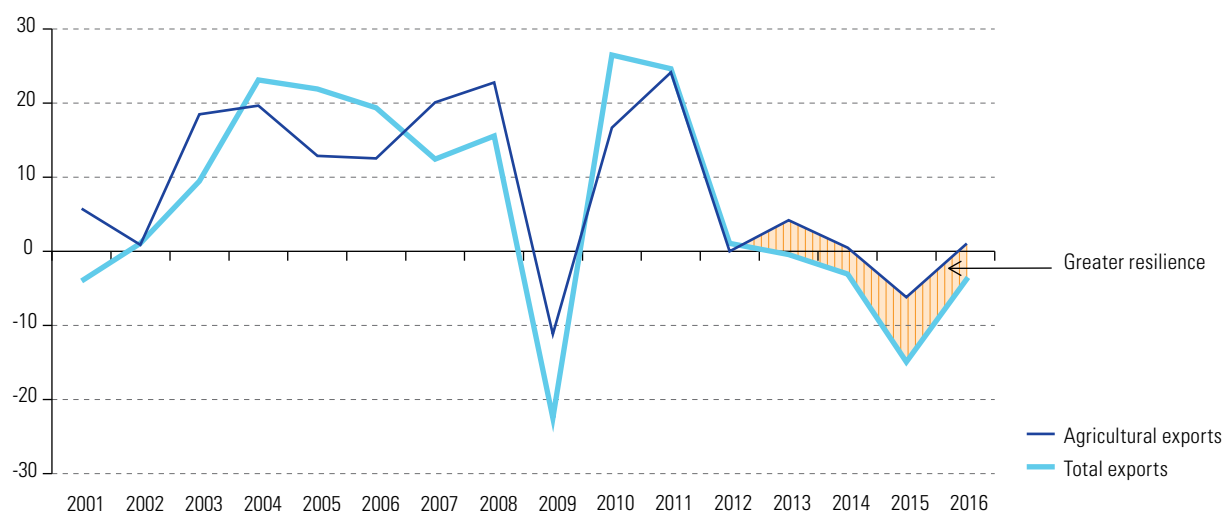
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

The aggregate figures conceal some important differences within the region. During the last decade, South America accounted, on average, for 80% of the value of regional agricultural exports, Mexico 11%, Central America 7%, and the Caribbean only 1%. Over that same period, South America accounted, on average, for 45% of regional agricultural imports, Mexico 35%, Central America 15%, and the Caribbean 5%. South America has a wide and generally growing surplus in its agricultural trade with the world, as does Central America (although on a much smaller scale). Meanwhile, Mexico and the Caribbean are in persistent deficit.

Brazil and Argentina are by far the leading agricultural exporters in the region; in the 2015-2016 biennium their exports accounted for 53% of total shipments and 83% of the regional trade surplus in this sector. Exports from both countries accounted for 5% and 2%, respectively, of total global agricultural exports in 2015. In the same year, Brazil was also the world's top agricultural exporter, with Argentina in second place, in net terms (i.e. on the basis of their trade surpluses in the sector).

The agricultural sector represents a highly varying proportion of the countries' total trade, and especially of their exports. At one end of the scale, agricultural products account for between 60% and almost 80% of total shipments of goods in Cuba, Paraguay, Argentina, Panama, Belize and Uruguay. At the other end of the scale, they account for less than 10% of total merchandise exports in the Bolivarian Republic of Venezuela, Trinidad and Tobago and Mexico (in ascending order in both cases). On the import side the spread is narrower: agricultural goods fluctuate between 6% of total merchandise imports in Argentina and 33% in Saint Vincent and the Grenadines. With the exception of the Bolivarian Republic of Venezuela, all countries where agricultural imports represent 20% or more of total goods imports are in Central America and the Caribbean.

Commodities clearly dominate the region's agricultural exports basket. Seven of the 10 main products exported by the region to the world in 2000 were also among the 10 most exported products in 2016. In the intervening years, frozen shrimp, wheat

and frozen orange juice dropped out of the top 10, and maize, frozen meat of bovine animals and poultry cuts and offal entered the list. Likewise, soybeans displaced coffee (not roasted, not decaffeinated) as the leading export. In fact, the combined weight of soybean products —soybeans, soybean meal (and other solid residues from the extraction of soybean oil) and crude soybean oil— rose from 14% to 22% of the total value of exports, as a result of high demand from China and the rest of Asia.

Fruits and vegetables, oilseeds and meats are, in that order, the categories that contribute most to the region's trade surplus in the agriculture sector, accounting for 51% in 2015. The region has small deficits in only a few categories (the largest, in the paper and paper pulp sector, was US$ 750 million). This situation contrasts with that observed in 2000. At that time, although fruits and vegetables were also the category that generated the largest surplus in the region's agricultural trade, the weight of oilseeds and meats was much lower, while the share of coffee and fishery products was greater in relative terms. This highlights the profound reconfiguration of the region's export basket during this century and, in particular, the growing weight of soybeans. Moreover, in 2000, the region ran larger deficits (in absolute terms) than it does today, especially in the paper and paper pulp, cereals and dairy products sectors.

The composition and the degree of concentration of the region's export basket fluctuate considerably according to the market of destination. Among the most important markets, the most concentrated is China, where a single product (soybeans) accounts for 60% of total agricultural exports by value; the next most concentrated market is the European Union. Shipments to the United States and within the region itself are much more diversified (see figure 10). Accordingly, the number of agricultural products exported to China is much smaller than the number sent to the European Union, the United States and intraregional market, although it has increased significantly since 2000.

Figure 10
Latin America and the Caribbean: share of the top 10 products in the value of agricultural exports destined for selected markets and the world as a whole, 2016
(Percentages)
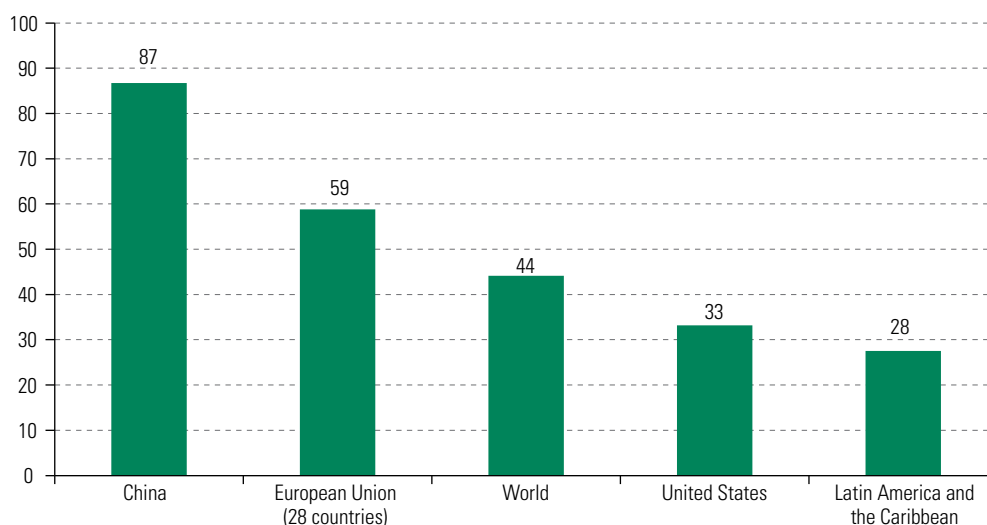
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

Latin America and the Caribbean, as a region, is a major supplier of several agricultural commodities, such as raw cane sugar, soybeans and soybean meal, coffee (not roasted, not decaffeinated), frozen poultry meat, maize and frozen meat from bovine animals (see figure 11). The region's share of exports of all these products increased substantially compared to 2000, mainly as a result of Brazil's greater market share. Meanwhile, the region has very limited weight as a supplier of processed products. For example, despite

being the source of 55% of global exports of not roasted, not decaffeinated coffee, the region accounts for just 1% of global roasted coffee exports. Similarly, although the region's share of global exports of cocoa beans is close to 12%, its weight in world shipments of chocolate and other food preparations containing cocoa is just 4%.
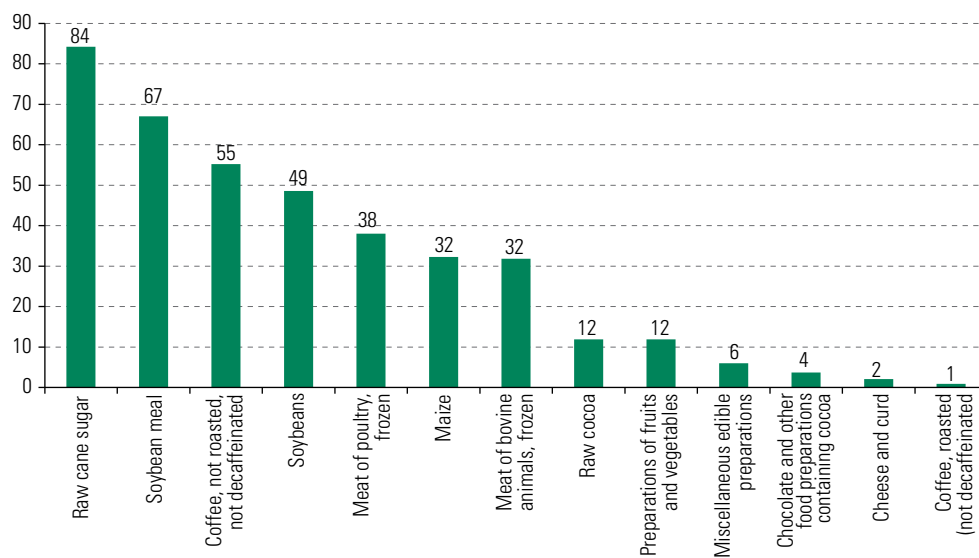
Figure 11
Latin America and the Caribbean: selected agricultural products' share of global exports, 2016
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Trade Centre (ITC), Trade Map database.

The agricultural, agro-industrial, fishery, aquaculture and forestry sectors can make an important contribution to regional development, not only as generators of foreign exchange, but also in terms of value added and the diversification of output and exports. However, the fact that exports are highly concentrated in commodities means that the export basket must be "de-commoditized" as a matter of urgency, as has occurred in other sectors linked with natural resources. For this to happen, distinctive attributes must be developed, such as quality, trademarks, traceability, safety and international certifications (e.g. of organic production, fair trade or ecological footprint) that will allow higher prices to be achieved in world markets. This is an issue of particular importance for the region. The current agricultural export model has had a number of adverse environmental consequences, in particular the deforestation caused by expanding the surface area devoted to soybean crops and livestock.

To boost the value added and the knowledge content of the region's export basket, conditions must also be created that are conducive to processing in the region those products that are currently exported almost exclusively in their raw form. Another attractive niche, bearing in mind the rapidly ageing global population, is functional foods (foods that contain items that offer health benefits beyond nutrition).

Price signals from international markets have not, to date, led to a significant improvement in the sophistication of regional agricultural exports. This requires proactive and coordinated public policies on trade, science, technology and innovation, cluster promotion, intellectual property, financing, and education and training, among other areas. These policies will have a greater impact if the actions undertaken are the result of a joint assessment by the public sector and corporate stakeholders. In short, without a deliberate public policy effort to enhance the sophistication of agricultural exports, it will be very difficult to overcome the many weaknesses in the current pattern of export specialization.

Price signals from international markets have not, to date, led to a significant improvement in the sophistication of regional agricultural exports. This requires proactive and coordinated public policies on trade, science, technology and innovation, cluster promotion, intellectual property, financing, and education and training, among other areas.

Looking ahead, another important task for the countries of the region will be to improve the access conditions of their agricultural exports to the markets that will account for the bulk of the expected increase in global demand for food. The world population, currently around 7.3 billion, is expected to reach 9.5 billion by 2050. Nearly all of this increase will take place in developing countries, especially in Africa (which today accounts for just 5% of the region's agricultural exports) and Asia. In addition to their robust economic growth, these two continents are going through a rapid process of urbanization and expansion of the middle class. All of this creates significant room for food exports from the Latin America and the Caribbean.

As in other sectors, intraregional trade in food and other agricultural products is most conducive to export diversification, being characterized by the greatest number of products traded and by the largest share of processed products. Therefore, any action aimed at promoting such trade will also foster the necessary diversification of output and exports, and the development of agro-industrial value chains. In this context, a successful conclusion to Mexico's current trade negotiations with Argentina and Brazil will encourage diversification of Mexico's agricultural imports, reducing its heavy dependence on the United States. Seeing those negotiations through to a successful conclusion is even more important in the light of the great uncertainty created by the current renegotiation of the North American Free Trade Agreement (NAFTA).

Regional trade picks up in an uncertain global context

A. An incipient recovery in global trade, after half a decade of low dynamism

The global trade in goods —which since 1990 has accounted for an average of 80% of the world's gross trade in goods and services— suffered a dramatic drop in its dynamism following the global economic crisis of 2008-2009. While its volume grew by an annual average of 6.3% between 2000 and 2007, the figure for 2012 to 2016 was only 2.2% per annum and, over the past year, its growth has been a sluggish 1.3%.[1] Similarly, while trade expanded at an average rate of 1.7 times that of global GDP over the earlier period, between 2012 and 2015 the two variables grew at the same pace and, in 2016, trade expanded more slowly than GDP (see figure I.1).

Figure I.1
Annual variation in the volume of global trade in goods and in world GDP, and quotient between both variations, 1981-2018[a]
(Percentages and ratio)

Following the crisis, global trade has not recovered its dynamism
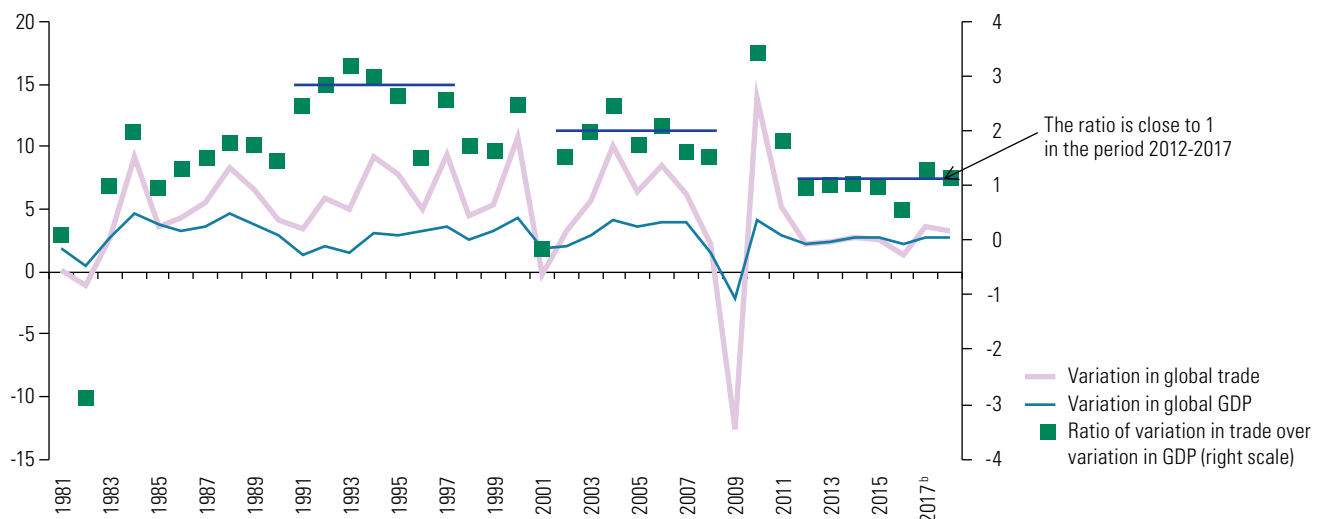
Source: World Trade Organization (WTO), *World Trade Statistical Review 2017*, Geneva, 2017; "WTO upgrades forecast for 2017 as trade rebounds strongly", Geneva, 21 September 2017 [online] https://www.wto.org/english/news_e/pres17_e/pr800_e.htm.
[a] Global trade is the average of exports and imports.
[b] Figures for 2017 and 2018 are projections.

The most recent forecasts hint that the recovery in global trade will be more robust than was anticipated at the beginning of the year. Trade is forecast to expand by 3.6% in 2017 after rising by 4.2% over the first half of the year, driven by increased growth in output —and, as a result, in the demand for imports— in the United States, the eurozone and China. Slightly slower growth (3.2%) is forecast for 2018, on account of a higher baseline than in 2017 and the tightening of monetary policy expected in the United States, the eurozone and China, exacerbated in the case of China by reduced fiscal expansion. In the medium term, China's demand for imports is also expected to cool off, as the weight of services in the Chinese economy rises (from 43% in 2008 to its present share of 54%) at the expense of manufacturing. The reason for the expected decline is that services generally demand fewer imports than the manufacturing sector (WTO, 2017b).

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[1] The analysis excludes 2008 and 2009 (the crisis years) and 2010 and 2011 (short-term recovery).

Notwithstanding this incipient recovery, world trade has still not returned to the levels of dynamism it displayed between the late 1980s and the first half-decade of the new century, a period that Auboin and Borino (2017) have called "the long 1990s". The three factors most frequently offered as an explanation for the decline in world trade during the post-crisis period are weak levels of global demand, a slowdown in the expansion of global value chains and reduced trade liberalization if not an actual increase in protectionism (Auboin and Borino, 2017; European Central Bank, 2016; World Bank, 2016; Constantinescu, Mattoo and Ruta, 2015; IMF, 2016; OECD, 2016).

In general, the literature agrees that the persistent weakness of global economic activity is the main factor behind the slowdown in trade. This impact is amplified by the fact that during the post-crisis period, lower dynamism was reported by those components of aggregate demand that make the most intensive use of imports, investment in particular (see section B.1). In that context, it has been argued that about 75% of the reduction in global goods import growth over 2003-2007 and 2012-2015 was due to the weakness of economic activity (IMF, 2016). In a similar vein, Auboin and Borino (2017) conclude that 80% of the lower dynamism seen in global trade between 2012 and 2015 can be explained by weak aggregate demand, adjusted by the import intensity of its components.

Most authors also agree that the falling dynamism of global trade in the aftermath of the crisis was partly attributable to a slowdown in the expansion of global and regional value chains (for example, Auboin and Borino, 2017; European Central Bank, 2016; Constantinescu, Mattoo and Ruta, 2015; OECD, 2016).[2] Several possible causes could explain that phenomenon. One would be the maturation of those chains, with the exhaustion of most of the efficiency gains associated with the geographical fragmentation of production processes that began in the 1990s. A second explanation would be the shortening of those chains in some key economies, especially China. That country now produces many inputs that it previously had to import, as can be seen in the fall of nine percentage points (from 57% to 48%) in the share of parts and components among its non-oil imports since 2000 (see figure I.2). The third factor would be the lower pace of trade liberalization. For example, the fact that a number of countries, developed and developing alike, have introduced local content requirements in recent years could be encouraging firms to produce and source locally rather than through imports (European Central Bank, 2016).

In contrast to the pre-crisis period, when trade liberalization and expanding global value chains were strong drivers of world trade, in recent years those factors have been a drag on its growth. The period of the "long 1990s" was characterized by intense trade liberalization and thriving foreign direct investment across the world. Among its chief milestones were the establishment of the European Single Market in 1993 and the entry into force of the North American Free Trade Agreement (NAFTA) in 1994 and the agreements of the World Trade Organization (WTO) in 1995, along with China's accession to the WTO in 2001. Also significant were the successive expansions of the European Union (especially the accession of ten Central and Eastern European countries in 2004) and the liberalization processes undertaken since the 1990s by many developing countries, including several from the region. Those factors all contributed to the growth of international production networks and, in general, to the strong dynamism in global trade seen over the two decades preceding the crisis.

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[2]   Backward participation in global value chains, for which the ratio between intermediate goods imports and domestic final demand at constant prices is a proxy, is estimated to have declined by an average of 1.7% a year since 2011 after growing by an average of 4.0% a year between 1991 and 2011 (OECD, 2016).

Figure I.2
China: share of parts and components in total imports (excluding oil) from the rest of the world
and selected partners, 2000-2016
(Percentages)

China gradually replaces imported parts and components with local output
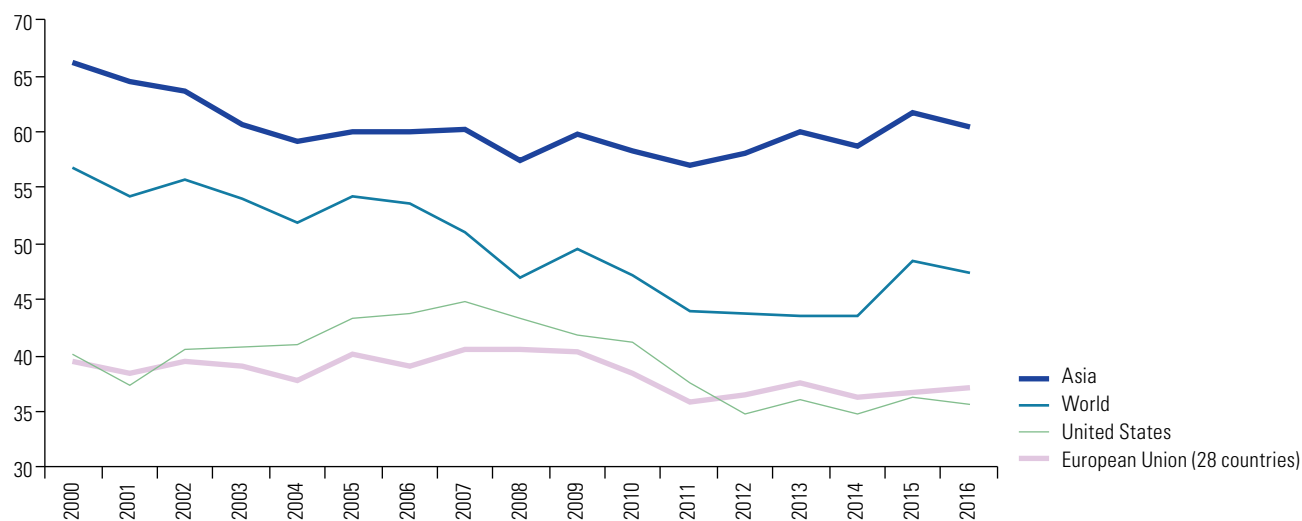
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

The rate of trade liberalization has slowed since the start of the crisis. Prospects for two of the main trade initiatives launched during the present decade —the Trans-Pacific Partnership Agreement (TPP) and the Transatlantic Trade and Investment Partnership (TTIP)— are uncertain on account of the dramatic turn taken by United States trade policy under the current Administration. This is compounded by the difficulties facing WTO and the uncertainty caused by Brexit and the renegotiation of NAFTA (see section B.2). No consensus exists, however, regarding the impact of reduced trade liberalization (or the rise of protectionism) on global trade performance in recent years, which is largely due to problems in establishing precise and quantifiable metrics. While one study concludes that the slower rate of trade liberalization could explain about 25% of the reduction in trade growth over 2011-2015 compared to 1991-2007 (OECD, 2016), another finds that the contribution of a potential increase in protectionism is small and statistically insignificant (Auboin and Borino, 2017).

In the area of technology, continued progress with automation, particularly in advanced countries, could undermine the dynamism of global trade over the coming years. Inasmuch as automation reduces incentives to transfer production to developing countries in search of lower labour costs, this would put a brake on the expansion of global value chains and, as a result, to trade associated with them (see section B.3).

Finally, it should be noted that in an increasingly digital world economy, the statistics available for measuring trade suffer from obvious limitations. The emergence of digital platforms allows trade —including cross-border trade— in a growing range of services previously deemed not tradable, as well as in digital goods such as e-books, video games and downloads of music and films. In some sectors, digital goods have practically displaced their physical counterparts from the market. In those cases, "observable" trade (i.e. trade that crosses borders physically) may be falling, but that could at least partly reflect an increase in digital trade, which the statistics currently available are unable to capture accurately. There is therefore a clear need to develop new methodologies for measuring the digital trade in goods and services.

B.   A particularly uncertain context: macroeconomics, technology and geopolitics

1.   Macroeconomic dynamics: the crisis of the dominant model

In 2017, the world economy is showing signs of recovery: GDP growth is projected to reach 2.7%, compared to 2.3% in 2016. Global GDP growth should rise to 2.9% in 2018, although that would still be below the pre-crisis average (United Nations, 2017). Industrial output, investment and private consumption are expanding, and international trade continues along the path of recovery on which it embarked in late 2016. Thus, there is a chance that the expansionary monetary policies that have characterized the post-crisis period can be abandoned. Macroeconomic authorities in the eurozone and the United States plan to gradually reduce their central banks' balance sheets and have shown openness towards the idea of a slight increase in interest rates.

The countries of the eurozone are growing simultaneously and more than expected (2.4% in the second quarter compared to the corresponding period in 2016), largely on account of private investment and consumption.[3] For the first time since the crisis, the labour market is showing a degree of dynamism, with increased employment and a drop in the unemployment rate to take it to 9.1%, its lowest level since 2009. Nevertheless, a large number of people willing to work still remain outside the labour force, and there are others who, while employed, would like to work more hours, which would partly explain the low dynamism of wages. At the same time, recovery in the eurozone continues to be affected by uncertainties surrounding the Brexit negotiations.[4]

In the United States, economic growth in the second quarter of 2017 (3.1% in annualized terms) has been driven by a larger than expected increase in investment.[5] While employment continues to grow and the unemployment rate remains around 4%, wages are reporting a weak recovery. The high rate of labour inactivity and the structural changes affecting the labour market (digitization, corporate concentration, globalization) could explain the limited increase in wage pressures. In turn, the Japanese economy also regained dynamism in the first quarter of 2017 (1.0% in annualized terms), thanks to increased investment and higher demand for exports, especially in the Asian market.[6] As in the United States, wage pressure remains low, despite the lowest unemployment rate (2.8% in August) in 23 years. For its part, the Chinese economy continues to evolve from its focus on investment and manufacturing to a model based more on consumption and services, and its growth rate will stabilize in the range of 6.4% to 6.7% during the 2016-2018 period (OECD, 2016).

To summarize, despite the recent uptick in growth, the advanced economies face considerable uncertainty regarding the long-term sustainability of economic activity. The major economies are reporting significant decelerations in per capita GDP growth compared to historical trends. At the same time, in all the major developed economies, investment as a percentage of GDP is still below its pre-crisis levels. Productive capital continues to expand slowly and productivity growth has not returned to its historic levels. Inflation rates are still too low, and while unemployment stands at historically low levels (above all in the United States and Japan), nominal wages remain stagnated (see figure I.3).

Despite the recent uptick in growth, the advanced economies face considerable uncertainty regarding the long-term sustainability of economic activity.

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[3] See European Commission (2017).

[4] United Kingdom GDP continues to perform weakly, and productivity and wages continue to grow sluggishly despite the recovery of private consumption and investment.

[5] See: US Bureau of Economic Analysis, "National income and product accounts. Gross domestic product: second quarter 2017 (third estimate). Corporate profits: second quarter 2017 (revised estimate)", 2017 [online] https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.

[6] See Bank of Japan (2017a).

Figure I.3
United States, eurozone, Japan and selected countries: evolution of different economic variables

Recovery with significant unknowns in the advanced economies

A. Selected countries: investment as a share of GDP, 1990-2018[a]
(percentages)
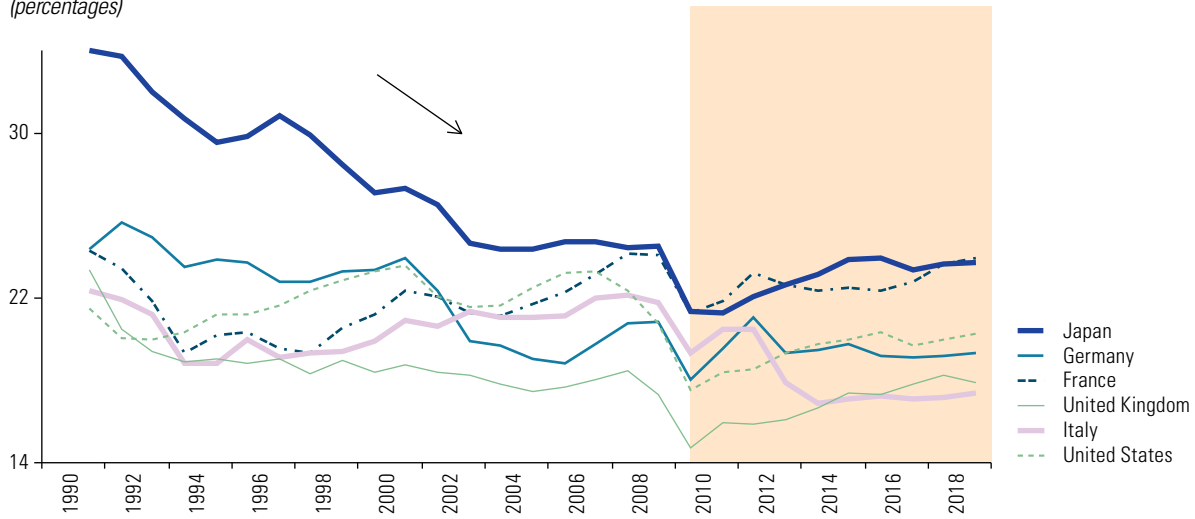
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook, April 2017 [online database] https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/index.aspx.
[a] Figures for 2017 and 2018 are forecasts.

B. United States, eurozone and Japan: unemployment rate
(percentages)
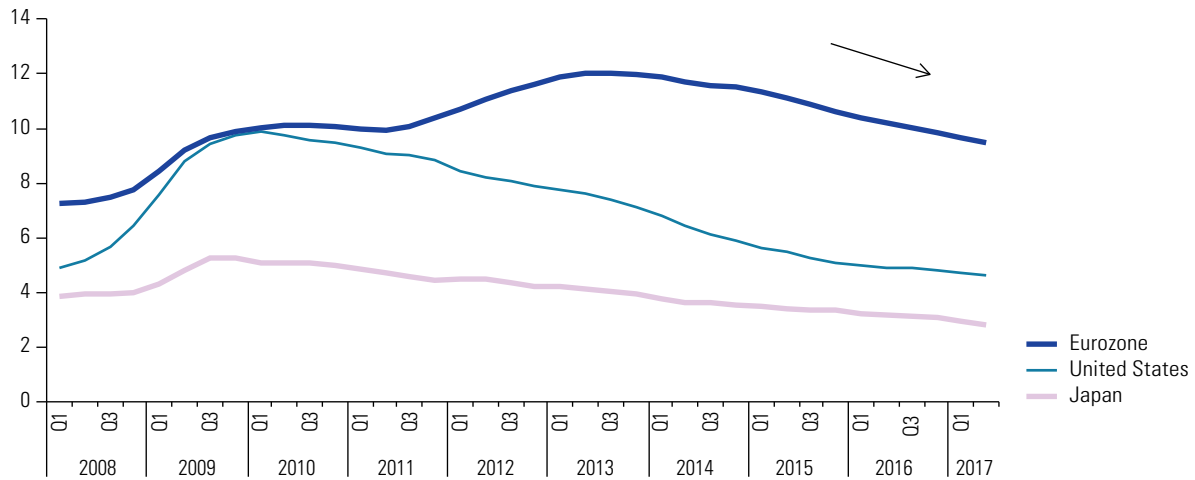
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), "Labour Market Statistics", Paris [online] http://www.oecd-ilibrary.org/employment/data/labour-market-statistics_lfs-lms-data-en;jsessionid=sgb4pbfc14a3.x-oecd-live-02.

Figure I.3 (concluded)

C. United States, eurozone and Japan: core inflation, 2010-2017[a]
(change compared with the previous period, percentages)
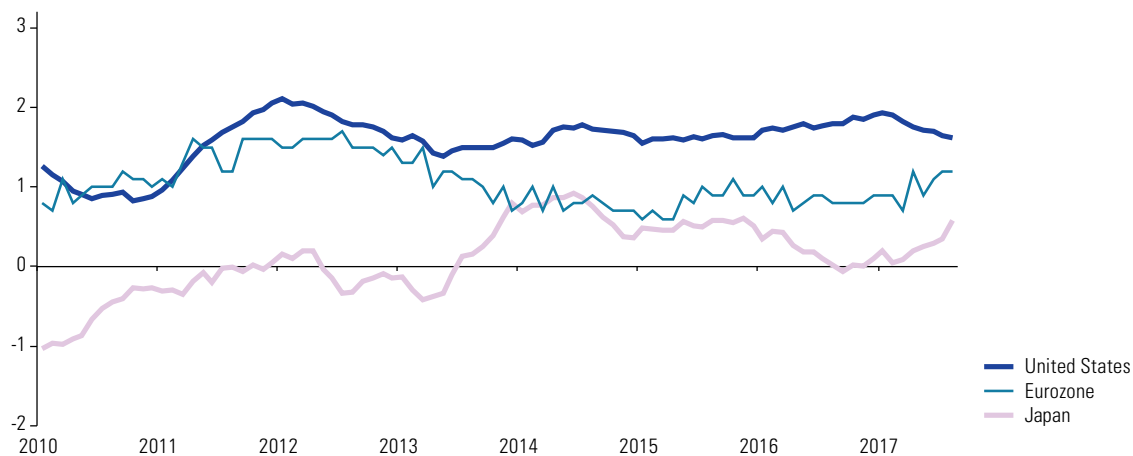
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF) and Haver Analytics.
[a] Core inflation: for the United States, shown by the Personal Consumption Expenditures Price index (PCE); for the eurozone, shown by the Harmonized Index of Consumer Prices (HICP); and for Japan, shown by the Consumer Price Index (CPI), excluding the impact of changes in the consumption tax.

D. United States and Japan: change in nominal wages[a]
(percentages)
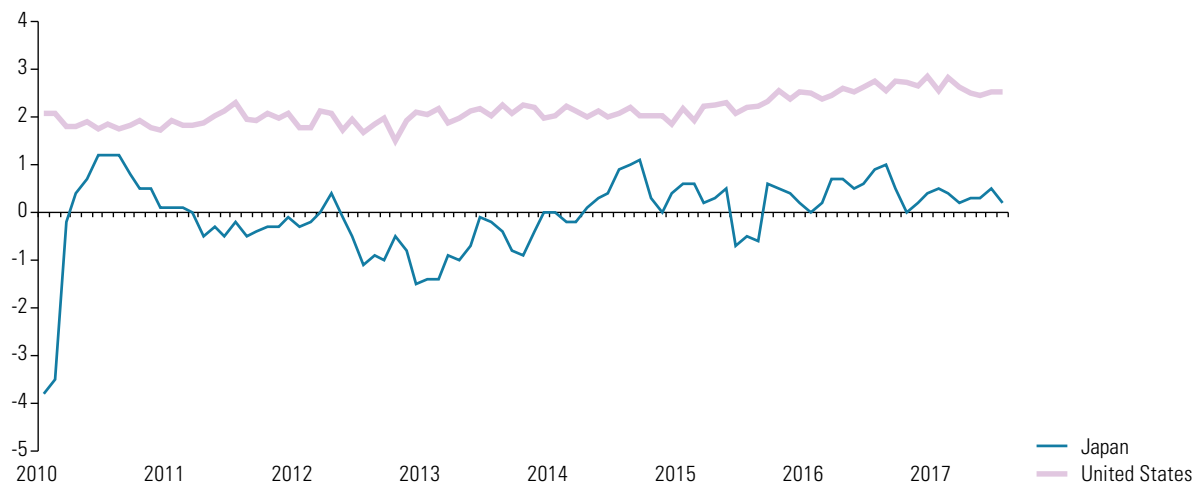
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF) and Haver Analytics.
[a] Growth in average annual income.

The quantitative easing programmes adopted by the advanced economies in the aftermath of the crisis sought to stimulate growth by expanding the monetary base and accelerating inflation.[7] That would cause a drop in long-term interest rates, which would drive aggregate demand. Despite those monetary stimulus policies, however, the recessionary bias of the global economy lasted longer than anticipated, which heightened social tensions and fuelled doubts about globalization and the traditional economic model (ECLAC, 2016).

The failure of inflation to react to low levels of unemployment and to economic expansion, particularly in the United States and Japan, suggests a weakening in the relationship between those variables and calls into question the validity of certain traditional economic models. The fact that certain key variables have not responded as those models suggest raises doubts about the assumption that the world economy was finally escaping the trap of low growth. It is also clear that the relationship between economic growth, employment and inflation is not as stable as traditionally believed.

In the United States, the Federal Reserve has indicated its intention to begin reducing its balance sheet and to gradually adjust interest rates, with the prospect of a possible intervention in the event of change in the path of growth.[8] The Chair of the Federal Reserve System has expressed optimism about the future response of inflation to economic growth and low unemployment, but on a number of occasions she has admitted the poor understanding that central banks have regarding the determining factors behind inflation and unemployment rates.[9] On the other hand, the European Central Bank is confident about the stability of growth and the resurgence of inflationary dynamics.[10] The Bank of Japan has stated that the economic situation and low inflation rate do not warrant an interruption of its quantitative easing monetary policies.[11] In that context, a lively debate exists regarding those economies' macroeconomic prospects.

These developed countries' macroeconomic authorities interpret the low responsiveness of inflation to labour market dynamics and economic growth as a temporary phenomenon and expect a return to the normal situation. They argue that temporary factors are at play, constraining inflationary pressures, and that at some point they will dissipate, reviving growth in productive investment. The return to pre-crisis levels could take between 15 and 20 years. That is the time frame required for the deleverage of the central banks' balance sheets, especially since there is no certainty about their desirable structure and size.

In addition, the high level of public and private debt in many countries, the large credit expansion in the Chinese economy and strong risk taking in financial markets could also put a brake on the recovery of nominal demand, and monetary policy alone would not be effective to drive consumption and investment.[12] Accordingly, the two largest central banks, the Federal Reserve and the European Central Bank, have maintained a considerable degree of flexibility in the policies they are to follow in the short and medium terms.

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[7] Quantitative easing is a non-conventional expansionary monetary policy adopted in light of the ineffectiveness of traditional monetary policy to stimulate economic growth. An increase in the monetary base —through purchases of public debt and other financial instruments— entails an increase in the amount of currency in circulation. This would reduce its value and encourage price hikes. Quantitative easing was adopted in Japan in the 1990s, in the United States in late 2008, in the United Kingdom in 2009, and in the eurozone in 2011 and on successive occasions since then.

[8] See: Breuninger and Campo (2017) and Federal Reserve Bank of New York (2017).

[9] See: J. Yellen, "Inflation, uncertainty, and monetary policy", Washington, D.C., Federal Reserve Board, 26 September 2017 [online] https://www.federalreserve.gov/newsevents/speech/yellen20170926a.htm.

[10] European Central Bank, "Monetary policy decisions", Frankfurt, 7 September 2017 [online] https://www.ecb.europa.eu/press/pr/date/2017/html/ecb.mp170907.es.html.

[11] See: Bank of Japan (2017a).

[12] Total debt in the global economy amounted to 220% of GDP in March 2017 (BIS, 2017).

Another view maintains that the forces involved are more structural and long-term, and that economic and monetary policy instruments should take those forces and their effects on board in order to restore predictability.[13] It argues that the age-old forces that operate in the economic system and that are felt through positive supply shocks could have permanent effects in determining macroeconomic variables. From that point of view, it is naive to expect globalization and the technological revolution not to affect the determination of wages and prices. Globalization constrains inflationary pressures, keeping the prices of goods and services imported from China and other emerging markets low. Furthermore, the entry of a growing number of workers into the world market and the weakening of trade unionization have reduced workers' bargaining power. So, although structural unemployment is low, wage compression remains in place. The technological revolution and the possibility of job automation reinforce those processes. The Internet revolution and e-commerce help constrain inflationary pressures by lowering the prices of consumer goods and enabling consumers to compare prices more easily.

In a slowly recovering global economy, there is a vital need for certainty that growth will be sufficiently stable and will cease to depend on the monetary stimulus resulting from quantitative easing policies. Examining the causes for the weak response of inflation to economic growth, for the slow dynamics in productivity and for wage stagnation is essential in preventing a shift in central bank policies from slowing down growth or generating new recessionary forces.

2. Heightened tensions in the governance of global trade

A combination of factors have brought pressure to bear on the actors and institutions behind globalization and the governance of the process. They include the slow recovery of the global economy following the financial crisis, the digital revolution, the rise of China and, more recently, the emergence of populist political movements in some developed countries.

Over the past decade, a combination of factors have brought pressure to bear on the actors and institutions behind globalization and the governance of the process. They include the slow recovery of the global economy following the financial crisis, the digital revolution, the rise of China and, more recently, the emergence of populist political movements in some developed countries. Those pressures coexist at a time when the United States, Europe and China are deploying strategies to assume leadership over the technologies of the future and thus ensure their dominance in the global arena.

The digital revolution is creating new patterns of consumption, production and business in all sectors of the economy (ECLAC, 2016), and those patterns have the potential for a significant impact on employment (see section B.3). While traditional trade and investment flows slowed notably in the wake of the financial crisis, digital flows —measured by the use of cross-border broadband— increased 45-fold between 2005 and 2014 and are expected to increase by a factor of nine over the next five years (Manyika and others, 2016). In that context, e-commerce (that is, trade in which the Internet and technology play a major role in the consumption, production and delivery of goods and services) is of growing importance. The Internet plays a dual role in the consumption and delivery of goods and services: first, it facilitates the exchange of traditional goods and services (using digital platforms such as Alibaba, Amazon, Flipkart and Skype) and, second, it serves as a platform for goods and services that are entirely digital, such as music, books and software (Fefer, Ilias and Morrison, 2017). As regards production, the Internet and technology facilitate communications, shorten value chains through additive manufacturing and redefine the traditional boundaries between goods and services. Accordingly, global trade in the twenty-first century covers physical goods and services that are conveyed through traditional channels, physical goods and services that are produced, consumed and delivered by means of digital platforms and goods and services that are by nature entirely digital and intangible.

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[13] See Auer, Borio and Filardo (2017).

The digital revolution poses unprecedented challenges for the regulation of global trade. The trade agreements of the 1990s are not up to the task of governing today's exponentially expanding cross-border digital flows. While the leeway for formulating traditional industrial policy has been sharply reduced as a result of WTO agreements and North-South trade and investment arrangements, the digital economy remains largely unregulated. This means that governments have room to implement measures such as blocking specific Internet sites, imposing network location server requirements or compelling foreign providers to reveal the source code of their software. In this context, actors such as China, the United States and the European Union are competing to influence the regulation of global digital trade, with widely divergent visions and models.

Megaregional agreements —in particular, the TPP, the TTIP and the Regional Comprehensive Economic Partnership (RCEP)— were one first response to the emergence of the digital economy and e-commerce. These multilateral agreements are characterized by their significant economic and demographic weight, their reduction of non-tariff barriers through regulatory harmonization and their adoption of new standards to govern digital commerce (ECLAC, 2016). These initiatives are in addition to the negotiations for the Trade in Services Agreement, which involve 23 WTO members —including the European Union acting together as one— that account for 70% of the global trade in services (European Commission, 2017). In addition to establishing binding rules for the countries involved, these agreements could create de facto global standards for the new issues of the twenty-first century, particularly e-commerce. Indeed, one of the hallmarks of the TPP was its emphasis on the regulation of the digital economy, in response to the interest of the United States in preserving its position of leadership over emerging competitors: particularly China, which in recent years has deployed an aggressive digital industrial policy (Azmeh and Foster, 2016).

The election of Donald Trump as President of the United States in November 2016 and his new "America First" trade policy has increased uncertainty regarding the governance of world trade, at a time when it was already undergoing comprehensive restructuring. The country's new trade policy is characterized by openly protectionist rhetoric, a shift from multilateralism to bilateralism, a focus on reducing trade deficits and efforts to bring about the reshoring of industries and jobs. In that context, the new Administration withdrew the United States from the TPP and the Trade in Services Agreement, indefinitely suspended the TTIP negotiations, has been openly critical of WTO and has embarked on negotiations to modernize NAFTA. It has also intimated that the agreements with Chile, Colombia, Panama, Peru and the Central America countries and the Dominican Republic could be renegotiated once the NAFTA negotiations are concluded (*Inside U.S. Trade*, 2017).

Unlike the United States, other key players in world trade —including China, Japan and the European Union— have publicly reiterated their commitment to openness and multilateralism. In Asia, for example, negotiations for the Regional Comprehensive Economic Partnership remain ongoing between the member countries of the Association of Southeast Asian Nations (ASEAN), Australia, China, India, Japan, New Zealand and the Republic of Korea. This process is expected to conclude in 2018, creating a free trade area with a membership covering half of the world's population, 38% of its GDP (measured in purchasing power parity), 31% of world goods exports and 26% of imports. Likewise, in 2013 China announced its "One Belt, One Road" initiative, an ambitious infrastructure project that seeks to establish global overland, maritime, air and digital connectivity to foster economic integration and balanced development.

In turn, the European Union has continued with its intense trade negotiations agenda, announcing in July 2017 an agreement in principle with Japan on the contents of an ambitious free trade agreement. In addition to reducing barriers to trade and establishing

effective regulations, one central objective of the agreement is to unequivocally signal that two of the world's largest economies reject protectionism (European Commission, 2017). This agreement would join the negotiations that the European Union has already completed with Canada (the Comprehensive Economic and Trade Agreement, or CETA), Singapore and Viet Nam and the ongoing negotiations with Indonesia, the Southern Common Market (MERCOSUR) and Mexico (in the last case, to update the existing agreement in force since 2000). At the same time, the European Union and China are negotiating an agreement on investment that would replace the 26 bilateral agreements that the members of the European Union have signed individually with China.

Following the withdrawal of the United States from the TPP, the agreement's other 11 signatories have continued to meet to assess the prospects for an agreement among them, to be called the "TPP 11" (ICTSD, 2017). Were this to crystallize, the agreement's economic weight would be much smaller than originally planned, but it would still be a powerful political signal of their commitment to open trade and to the standards agreed on in the negotiations that ended in 2016. Finally, despite the difficulties it has faced in recent years, the World Trade Organization has finalized two agreements —the expansion of the Information Technology Agreement (ITA) and the Trade Facilitation Agreement— that could give a major boost to both traditional and digital trade flows.

To summarize, after being the leading advocate of trade liberalization for seven decades, the United States has set out in a radically different direction. While undeniably disruptive, that shift does not yet appear to mark a turning point in the process of trade liberalization that the world has undergone over the past three decades. In this context, the European Union has assumed de facto international leadership in the governance of trade and investment: for instance, through its proposal to replace the heavily criticized system for investor-state arbitration that currently exists with a system of permanent tribunals. Its recent agreements with Canada and Singapore include such a mechanism, as well as the parties' commitment to work for the creation of a multilateral investment court. Those agreements also include several provisions that seek to guarantee the right of host States to regulate in the public interest. More generally, the European Union has set itself the goal of ensuring that its trade and investment agreements make a greater contribution to sustainable development, including the implementation of the 2030 Agenda for Sustainable Development and efforts to combat climate change.

3.   Additional uncertainty from the digital revolution

> The uncertainty in the digital arena is the result of its success. The development of new technologies has accelerated and the impact of this has expanded across the economy and society.

The world of technology also entails a strong degree of uncertainty regarding both its own dynamics and its impact on analogue activities. However, in contrast to the macroeconomic reality, where the uncertainty is the result of a decade of slow growth and doubts about the validity of the interpretative model on which policies are based, the uncertainty in the digital arena is the result of its success. The development of new technologies has accelerated and the impact of this has expanded across the economy and society.

The acceleration of technological change can be seen by considering the installed capacity for cross-border broadband flows. That capacity has been growing exponentially since 2007, at a time when international flows of goods and services, foreign direct investment and financing were fluctuating wildly, most notably in the wake of the global financial crisis. The digital expansion, expressed through increased data processing, transmission and storage capacities, was not affected by the problems that impacted capital formation, growth and aggregate employment.

The speed of change can also be seen in numerous other indicators, including those related to Internet access and the use of mobile technologies. In 2017, nearly five billion people use mobile phones and almost half of humanity uses the Internet. The pace of expansion in software use has accelerated, and the time needed to reach 100 million users has been reduced from years to as little as one month in the most dynamic cases. As a result, it is increasingly difficult to predict what type of software will be used in the medium term (for example, five years hence) and, accordingly, to foresee what hardware and skills will be necessary to handle them effectively.

The most advanced technologies are also registering remarkable levels of dynamism. In less than a decade, technology packages for cloud computing and the analysis of big data have been launched and massively taken up by consumers and businesses, especially medium-sized and large-scale companies. Likewise, in less than two years, new fields of action have opened up in the areas of robotics and artificial intelligence which, although they have been in development for decades, have now become commonplace in policy discussions on account of their potential impact.

The uncertainty resulting from those technological developments is compounded by a radical reconfiguration of business structures. The world is seeing the consolidation of global digital platforms that, in addition to dominating the online universe, are also having an increasing impact on the analogue economy. These platforms, which developed over the past 15 years, have a strong presence throughout the world but belong mostly to companies from the United States (Apple, Google, Facebook, Amazon, Microsoft) and China (Baidu, Alibaba, Tencent). It is still too early to predict the dynamics of this new business structure and how governments will respond regarding regulatory issues (safety, privacy) and fiscal matters. This increases the overall uncertainty, as these platforms are the most dynamic actors in investments for digital goods and services and in supplying them.

The repercussions of this progress in the digital economy and society are manifold, but three are of particular interest for policymaking. First, the expansion of digital technologies has eroded the distinction between sectors that produce goods and those that provide services. The proliferation of "smart, connected products" makes it increasingly difficult to separate the costs and benefits of physical production and use and those of their digital equivalents. Traditional cost-based competitive advantages have become more difficult to identify and build on as the use of physical products increasingly depends on their connection to the "product cloud". A similar phenomenon can be seen in the growing number of businesses using online-to-offline (O2O) strategies: for example, to manage idle capacity in the provision of services. The second repercussion is the renewed discussion of Solow's productivity paradox ("You can see the computer age everywhere but in the productivity statistics"). Debates about the impact of the platform economy on productivity have intensified and are far from reaching a conclusion. In particular, attention has been drawn to problems arising from measurement errors and from delays in implementing and creating the necessary complementarities (McAfee and Brynjolfsson, 2017).

The third impact is by far the most relevant for policy decisions and is possibly the most uncertain. The impact of new technologies —particularly robotics and artificial intelligence— on the level and quality of employment can be seen in areas ranging from compensatory mechanisms for affected sectors to the design of new education plans. Estimates made from 2013 onwards reach very different conclusions (see table I.1). In all cases, however, the repercussions are substantial, especially in contexts characterized by slow employment growth or a rapidly expanding working age population.

Table I.1
Expected impacts
of automation in
employment

Automation will have major repercussions for employment

Frey and Osborne (2013)

47% of jobs in the United States face a serious threat of automation.

Citigroup/Oxford University (2016)

57% of jobs in the countries of the Organization for Economic Cooperation and Development (OECD)
are susceptible to automation.

Arntz, Gregory and Zierahn (2016)

Only 9% of jobs in 21 OECD countries could be automated.

World Economic Forum (2016)

5.1 million jobs could be lost in 15 large economies between 2015 and 2020, as a result of a net loss of 7.1 million
jobs and a gross creation of 2 million.

McKinsey Global Institute (2017)

60% of all occupations have at least 30% of constituent activities that could be automated.

Source: McKinsey Global Institute, *A future that Works: Automation, employment, and productivity*, January 2017; C. Frey and
M. Osborne, "The future of employment: how susceptible are jobs to computerisation?", Oxford, University of Oxford,
17 September 2013; Citigroup/University of Oxford, *Technology at Work v2.0: the future is not what it used to be*, Oxford,
January 2016; M. Arntz, T. Gregory and U. Zierahn, "The risk of automation for jobs in OECD countries: A comparative
analysis", *OECD Social, Employment and Migration Working Paper*, No. 189, Paris, May 2016; World Economic Forum, "The
future of jobs: employment, skills, and workforce strategy for the fourth industrial revolution", *Global Challenge Insight
Report*, Cologny, January 2016.

In short, the high levels of uncertainty seen in the macroeconomic, technological
and geopolitical spheres further complicate assessments of whether the current growth
will be sustained in the medium term. In any case, they have an overall negative
impact on policies to promote investment and productive diversification. Uncertainty
hampers economic calculations and, if all other factors remain constant, it reduces
expected rates of return, with negative repercussions for investment. Difficulties
in designing sector-wide policies increase as technological dynamism fuels greater
doubts about patterns of specialization and employment generation, even in the
medium term. Finally, the growing conflict between the dynamics of growth, usage
and consumption in the digital and analogue universes raises questions about the
productive structure that will be resolved only with the passage of time.

C. Regional foreign trade recovers after four years of decline

1. First half of 2017 marks a turning point

Since late 2016, trade in goods and services in Latin America and the Caribbean has
been showing signs of recovery (see figure I.4). In particular, the region's trade in
goods appears to have left behind the negative performance of the 2012-2016 period.
In the first half of 2017, the value of goods exports rose by 12.1% over the result for
the corresponding period in 2016, while import value grew by 7.3%. Both increases
are attributable mainly to the rising prices of the respective baskets. This is in contrast
to what happened in the developed economies, China and the rest of Asia over the
same period, where the increase in export value was mainly on account of larger
export volumes (see table I.2). This situation reflects the continued existence in the
region —particularly in South America— of an export structure heavy on primary
commodities, which have highly volatile prices.

The figures available for the evolution of trade in services in a group of developed and developing countries also show a recovery in their value in the first half of 2017 (see table I.3). The largest increase in global exports occurred in the transport sector (4% for the group of countries selected in table I.3), exceeding the increases of 1.4% in travel and 2% in "other services"[14] In Latin America and the Caribbean, as was the case with goods, exports of service rose more than imports.

Figure I.4
Latin America and the Caribbean: variations in trade in goods and services by value, 2006-2017
(Percentages with respect to the year-earlier period)

Regional trade in goods and services has been recovering since the end of 2016

A. Goods (monthly)
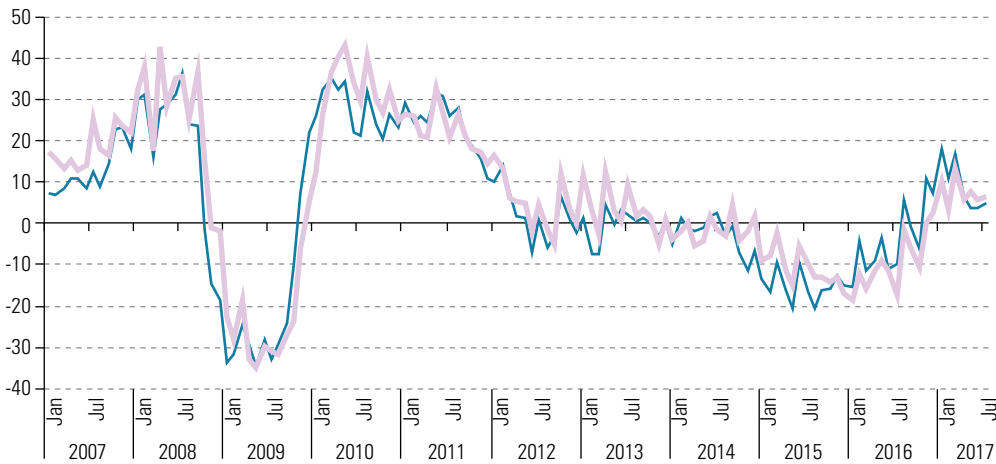
B. Services (quarterly)
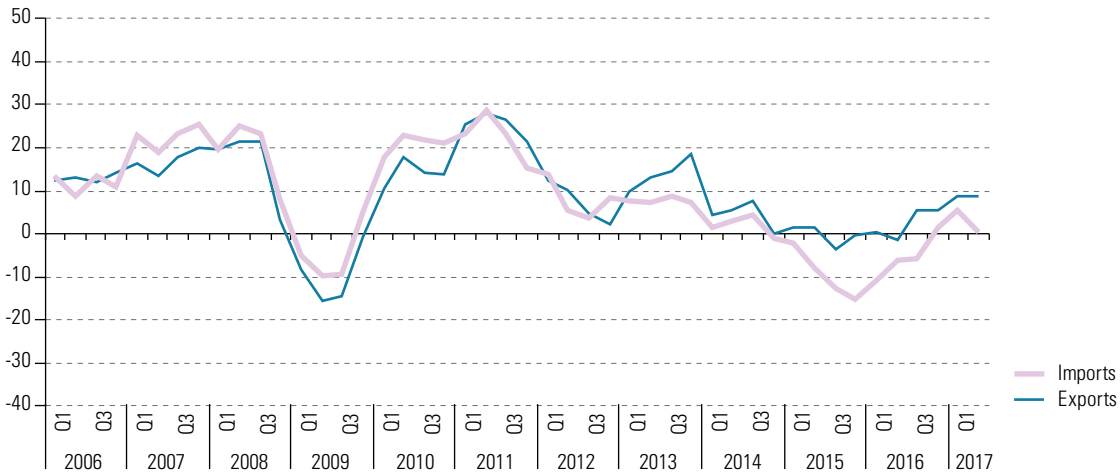
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO) and official data from the countries' central banks and national institutes of statistics.

[14]   At the global level, the World Tourism Organization anticipates an increase in tourism of between 3% and 4% (UNWTO, 2017).

Table I.2
World, selected regions and countries: variation in trade in goods, January to June 2017
compared with January to June 2016
(Percentages)

The recovery in the region's goods trade is stronger in exports and can mainly be explained
by higher prices

	Exports			Imports		
	Volume	Price	Value	Volume	Price	Value
World	4.9	3.7	8.6	4.4	5.3	9.7
United States	4.3	2.5	6.7	3.8	3.4	7.2
European Union	3.1	1.7	4.8	1.0	4.0	5.0
Asia and the Pacific	7.8	3.5	11.3	9.0	7.5	16.6
Japan	5.8	3.1	8.8	2.0	9.7	11.7
China	5.1	3.4	8.5	11.8	7.1	18.9
Rest of Asia	10.2	3.6	13.8	9.4	7.0	16.4
Latin America and the Caribbean	**3.1**	**9.0**	**12.1**	**1.7**	**5.6**	**7.3**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO) and official data from the countries' central banks and national institutes of statistics.

Table I.3
World (selected countries): variation in trade in services by value, January to June 2017
compared with January to June 2016
(Percentages with respect to the year-earlier period)

Regional trade in services is also recovering, led by exports

Countries/regions	Exports		Imports	
	January to June 2016	January to June 2017	January to June 2016	January to June 2017
World (selected countries)	**-2.1**	**2.5**	**0.2**	**4.9**
European Union	-2.1	1.7	1.1	1.7
United States	-0.8	3.2	2.2	4.7
Asia and the Pacific	-3.9	1.1	0.9	7.7
Australia	2.4	9.5	-4.4	2.3
India	-3.2	3.9	1.6	1.7
Japan	5.5	6.2	-1.6	5.9
China	-10.1	-0.2	3.2	10.3
Republic of Korea	-6.2	-10.1	-4.4	6.1
Latin America and the Caribbean	**-0.4**	**8.2**	**-8.6**	**2.8**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO) and official data from the countries' central banks and national institutes of statistics.

It can be expected that as the global trade in goods recovers during the second semester, services will also increase, owing to the high correlation between imports of goods and the rising demand for maritime cargo transport. Around August 2017, some shipping operators announced a strong recovery in the market for dry bulk, particularly in China, driven by its high demand for iron ore, copper and coking coal (Roussanoglou, 2017).

The recovery in the value of the region's goods shipments during the first half of 2017 was particularly pronounced in the mining and oil industries (35%), on account of the higher prices commanded by several of that sector's products. Among goods imports, recovery was reported in all categories with the exception of capital goods (see table I.4). The largest increase in service exports during the first half of 2017 took place in the transport category (12%), which was closely linked to the dynamism of the goods trade. On the import side, the greatest growth occurred under travel, with a decline in the "other services" category. Since this accounts for 48% of the region's total service imports, its fall in the first half of 2017 had a marked impact on the lower growth in service imports as a whole during the period (5.7%).

Exports from the mining and oil sector and of transport services recorded the most growth in the first half of 2017

Table I.4
Latin America and the Caribbean: variations in exports of goods and services by value, first half of 2016 and first half of 2017[a]
(Percentages with respect to the year-earlier period)

	January to June 2016	January to June 2017
Exports of goods and services	**-7.0**	**12.5**
Goods	**-9.0**	**12.1**
Agricultural products	1.9	3.3
Mining and oil	-28.8	36.0
Manufacturing	-3.3	9.8
Services	**-0.4**	**8.2**
Transport	-3.1	8.6
Travel	6.4	8.3
Other services	-7.0	8.0
Imports of goods and services	**-12.4**	**7.0**
Goods	**-13.1**	**7.3**
Capital goods	-12.0	-2.6
Intermediate inputs	-10.6	7.3
Consumer goods	-11.2	8.7
Fuel	-32.1	31.1
Services	**-8.6**	**2.8**
Transport	-12.5	9.8
Travel	-7.7	15.5
Other services	-6.9	-7.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the countries' central banks, customs offices and national institutes of statistics.

[a] Variations in services calculated from full balance of payments information for the first half of 2017 from Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay (which account for 93% of the region's trade in services) and from estimates for the second quarter from the Dominican Republic, Venezuela (Bolivarian Republic of) and the Eastern Caribbean economies.

Particularly notable during the first half of the year was the strong growth in the value of the region's goods exports to Asia (24%), which almost doubles the rise in its total worldwide exports (see table I.5). Within Asia, the most dynamic destinations were China and the ASEAN countries, which significantly increased their purchases of copper, iron ore, coking coal, agricultural products (soybean, wheat and others) and fish meal. In contrast, shipments to the European Union were much less dynamic than the region's total exports to the world.

Table I.5
Latin America and the Caribbean: variation in trade in goods by value and trading partners,
January to June 2016 compared with January to June 2017
(Percentages with respect to the year-earlier period)

Exports to Asia grew the most in the first half of 2017

Countries/regions	Exports		Imports	
	January to June 2016	January to June 2017	January to June 2016	January to June 2017
World	**-9.0**	**12.1**	**-13.1**	**7.3**
United States	-7.2	11.3	-11.0	8.7
European Union	-5.6	2.5	-2.3	6.2
Asia	**-8.0**	**21.5**	**-11.6**	**6.1**
China	-2.6	26.5	-12.5	4.3
Japan	-3.9	15.3	-8.5	4.2
Republic of Korea	-0.2	5.3	-13.8	2.6
Rest of Asia	-13.2	26.9	-17.3	17.8
Latin America and the Caribbean	**-16.4**	**11.5**	**-15.3**	**8.5**
Rest of world	-10.6	10.3	-34.1	5.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the countries' central banks, customs offices and national institutes of statistics.

Along with the greater dynamism of aggregate demand in some of its major trading partners, other factors that contributed to the rebound of trade in Latin America and the Caribbean included the recovery of growth in the region itself and the dismantling of tariff and non-tariff measures in certain countries. In 2017, the region's GDP is projected to grow by 1%, after recording negative results in 2015 and 2016 (-0.4% and -1%, respectively). In South America, the GDPs of three countries (Argentina, Brazil and Ecuador) that fell in 2016 will report increases in 2017. Because of the size of its economy, Brazil's growth recovery is of particular importance, given that it drives imports from its partners in the Southern Common Market (MERCOSUR) and other countries in the region. In the Caribbean subregion, the 2017 GDPs of Belize, Cuba, Suriname and Trinidad and Tobago will also reverse the drops recorded in 2016.

Since late 2015, Argentina has lifted several non-tariff restrictions from its imports (minimum prices and non-automatic licensing, among others) and has reduced its tariffs for certain products such as electric and hybrid automobiles. During the first half of 2017, Ecuador gradually withdrew the balance of payments safeguards in force since March 2015, whereby tariff surcharges of between 5% and 45% were applied to nearly 3,000 tariff lines (38% of the total). Safeguarding was dismantled on 1 June 2017.[15]

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[15]   See World Trade Organization (WTO), "Ecuador confirms final removal of import surcharges", 21 July 2017 [online] https://www.wto.org/english/news_e/news17_e/bop_24jul17_e.htm.

2.   Prices of oil, minerals and metals recover, while the prices of some agricultural and agroindustrial products fall

Consensus estimates of how the prices of the major commodity groups exported by the region will evolve during 2017 show signs of increase across the board after declining for half a decade. The biggest increases are expected for minerals and metals and energy products (see figure I.5). It should be noted that during the commodities boom that began in the early 2000s, the weight of commodities and their manufactures in total output —measured in current values— increased in several of the region's countries (see box I.1).

Figure I.5
World prices for selected commodities, 2000-2017[a]
(Index: 2005=100)

In 2017, commodity prices recover
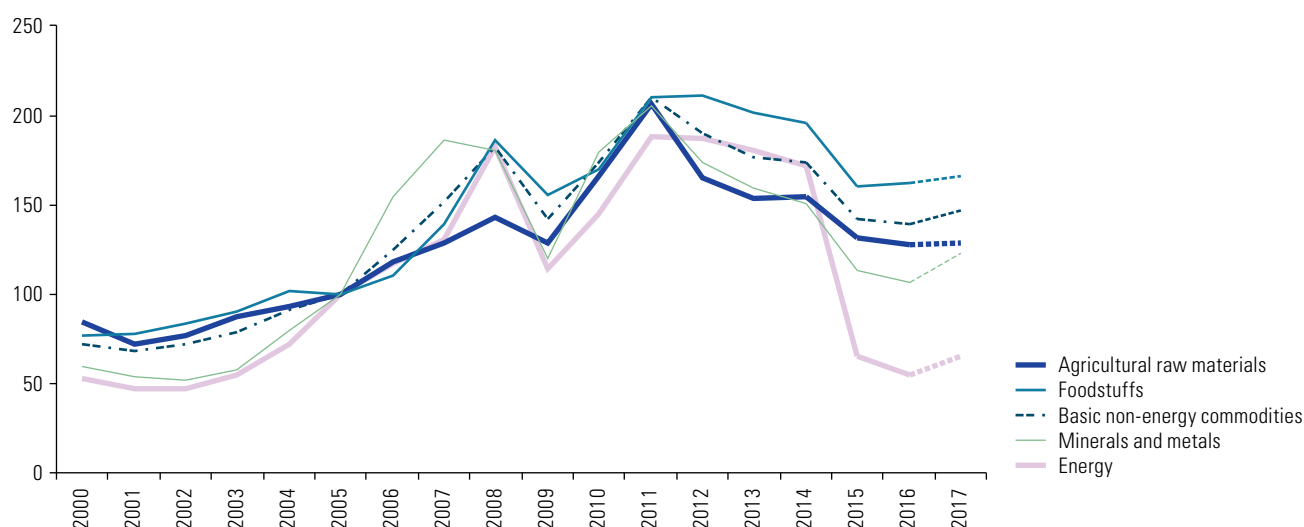
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, Economist Intelligence Unit (EIU) and International Monetary Fund (IMF).
[a] Figures for 2017 are projections.

In the period from January to April 2017, a recovery in the prices of an important range of products was first recorded —mainly oil, gas and metals— together with falls in the prices of agricultural products (rice, maize, wheat, bananas) and agroindustrial products (especially fishmeal). Further analysis of the period from January to August 2017 reveals additional drops in the prices for agricultural and agroindustrial products and continued increases in the prices of oil and minerals, albeit more slowly than during the first quarter (see table I.6). Estimates for the full year point to steeper increases in energy and minerals (including metals). Thus, the composite price index of the region's main commodities would post an increase of 8.9% in 2017, well below the record double-digit growth rates registered between 2003-2008 and 2010-2012.

Box I.1
The impact of trade on the region's productive structure, 2000-2011

In the early 2000s, commodity prices began to rise rapidly (with a partial reversal in the second half of 2008, as a result of the global economic crisis), driven largely by demand from China and other emerging economies. As a result, exports from Latin America and the Caribbean rose sharply, with commodities and their manufactures accounting for a growing share of their value (ECLAC, 2012). On account of this phenomenon, there was talk of Latin America's export structure returning to a dependency on commodities.

Following the decline recorded over the past four years, the value of the region's exports is expected to rise again this year, thanks to the recovery of commodity prices. This has served to revive the discussion about the impact that increased revenues from exports of commodities and their manufactures have on countries' productive structures, as a result of their encouraging specialization on commodities to the detriment of services and manufactured goods with higher levels of processing. Booms in commodity prices and their impact on real exchange rates tend to reduce the relative prices of manufactured exports and industrial production for the domestic market. In turn, changes in relative prices drive investment decisions that lead to changes in the productive structure, to the detriment of manufacturing and services (Ocampo, 2011a and 2011b).

An analysis of the sectoral structures for exports and for domestic final demand reveals how each of those components of demand contributes to changes in a country's productive structure. This analysis indicates that an increase in a sector's exports generates, in addition to a direct impact on the sector itself, an induced demand that has expansionary effects on other sectors of the economy that supply it, either directly or indirectly, with intermediate inputs. Similarly, an increase in domestic final demand (household consumption, public sector spending or investment) directed towards a specific sector generates an expansive effect on other sectors with which, directly or indirectly, it has upstream links. Input-output matrices allow each sector of the economy's production for exports and for domestic final demand to be calculated by taking into account the cross-sectoral linkages. Thus, the sectoral structure of the production associated with each component of final demand (i.e. foreign demand and domestic market demand) can be analysed, by considering both the production of the sector towards which demand is directed and the production induced in those domestic sectors that provide it with inputs.

Figures from seven Latin American countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru) show that, with the exception of Costa Rica, the weight of commodities and their manufactures within total production rose in current values between 2000 and 2011. In contrast, there was a drop in the share commanded by services and other manufactured goods. In Peru, for example, commodities and their manufactures increased their share of total output by 8.3 percentage points (from 26% to about 34%), while the relative weight of other manufactured goods and services fell (by 1.8 percentage points and 6.4 percentage points, respectively). Likewise, in Argentina, the increase in the share of commodities and their manufactures (6.6 percentage points) was higher than that of other manufactured goods (1.9 percentage points) and the counterpart to this was a drop in the relative weight of services (8.5 percentage points).

This disaggregation of the components of demand shows that production for exports (particularly exports sold outside the region) explains the bulk of the change experienced in the share of commodities and their manufactures in the productive structures of the countries under examination. Moreover, with the exception of Argentina, the remaining countries' production for domestic demand partly offset the effect of exports, thereby contributing to the reduction of the sector's weight in total production.

Latin America (selected countries): breakdown of the variation in the weight of components of demand in total production, in current values, 2000-2011[a]
(Percentage points)

A. Commodities and their manufactures
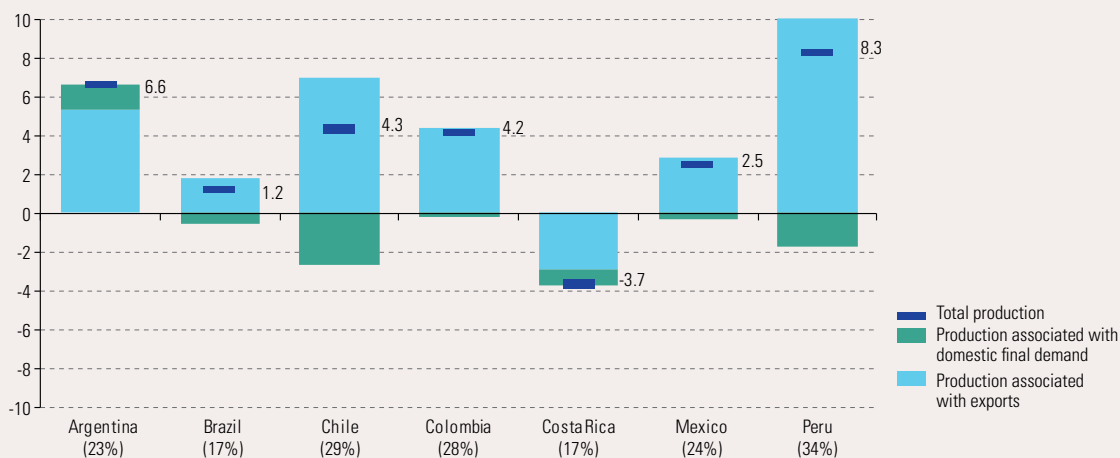
Box I.1 (concluded)

B. Other manufactured goods
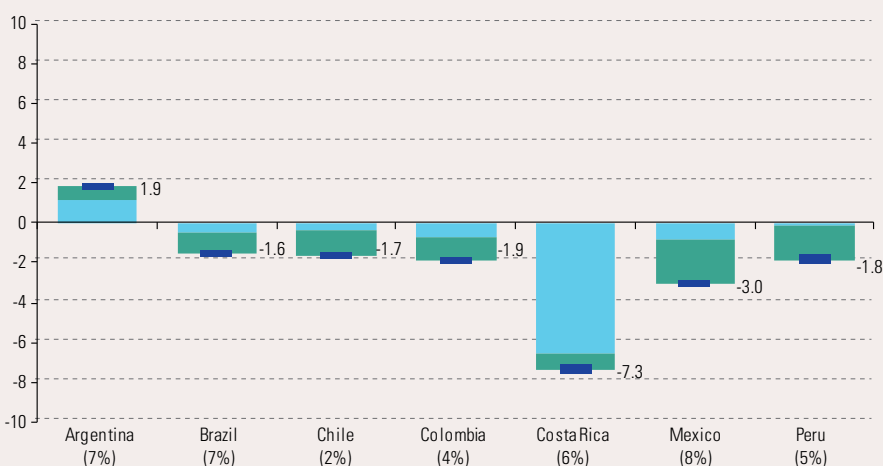
C. Services
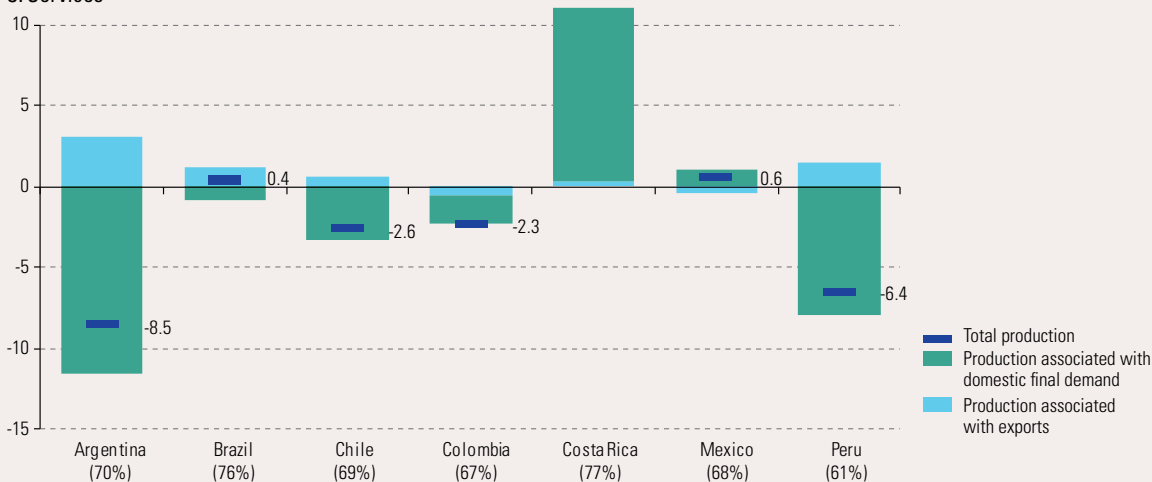
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), Trade in Value Added (TiVA) database, 2016 [online] http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.
a Percentages in parentheses alongside country names indicate the participation of the sector (commodities and their manufactures, other manufactured goods or services, as appropriate) in the country's total production (value added) in 2011.

The results presented in the figure do not imply that the production volume of commodities and their manufactures increased its share in the total output of the countries in question. In fact, constant-price figures for Colombia and Mexico (the only countries for which this information is available) show there was a drop in that share between 2000 and 2011 (by 3.4 and 5.8 percentage points, respectively). In Colombia, the production of commodities and their manufactures for export marginally increased its weight in the productive structure (by 0.2 percentage points), but the fall in the share of production associated with domestic demand (3.6 percentage points) offset that increase. In Mexico, in contrast, both components of final demand contributed to the reduction in the weight of commodities and their manufactures in total output, although the drop in production associated with domestic demand was twice that of production associated with exports.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), *Latin America and the Caribbean in the World Economy 2011-2012: continuing crisis in the centre and new opportunities for developing economies* (LC/G.2547-P), Santiago, September 2012; J. Ocampo, "Macroeconomy for development: countercyclical policies and production sector transformation", *CEPAL Review*, No. 104 (LC/G.2498-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), August 2011; "El auge de los precios de productos básicos y el riesgo de enfermedad holandesa en América Latina", *Boletín Informativo Techint*, No. 336, Buenos Aires, Techint Group, 2011.

Steeper increases in energy and mineral prices forecast for 2017

Commodity	Share of total exports	Variation		Projection
		January to April 2017	January to August 2017	2017
Crude oil	6.9	52.1	27.3	20.9
Petroleum derivatives	1.7	20.0	12.2	12.0
Coal	0.5	63.5	52.9	27.6
Natural gas	0.9	28.1	38.9	24.4
Coffee	1.3	23.7	7.5	1.6
Fish meal	2.3	-9.1	-11.9	-11.3
Prawns and shellfish	0.7	11.7	12.7	9.4
Soybeans	3.4	9.4	-1.6	-6.2
Soybean oil	0.8	8.8	6.2	2.0
Maize	1.0	-0.9	-4.1	-3.0
Rice	0.1	-4.2	-1.2	2.1
Wheat	0.3	-12.5	6.6	-2.0
Banana	2.4	-7.6	4.8	7.3
Beef	2.2	9.0	10.2	11.6
Sugar	1.6	12.7	1.1	-10.0
Wood and wood pulp	1.3	-6.3	-24.9	-38.3
Copper	2.5	22.8	22.0	19.1
Aluminium	0.3	22.2	20.4	18.7
Iron	1.7	76.0	49.2	32.6
Steel products	1.0	76.0	44.9	24.2
Base metals	4.1	24.6	16.6	12.0
Composite index[b]	**37.0**	**23.4**	**14.1**	**8.9**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade
    and Development (UNCTAD), World Bank, Economist Intelligence Unit (EIU) and International Monetary Fund (IMF).
[a] Figures for 2017 reflect a consensus of the various projections made by the institutions indicated in the source.
[b] Composite index for the 21 products and product groups listed.

The member countries of the Organization of Petroleum Exporting Countries (OPEC) have been making efforts to reduce crude oil output in order to stabilize prices. As of mid-2017, they had more or less met the projected cuts; even the Russian Federation, which is not an OPEC member, had assumed its commitments, and Saudi Arabia had made deeper cuts to offset the non-compliance of others.[16] Thus, they succeeded in stabilizing the price at around US$ 51 a barrel. It is expected that at the end of the year, the average cost will be US$ 52, an increase of 21% over its 2016 level, and for 2018 is projected to remain at around US$ 50 a barrel. However, if the reduction of some 1.8 million barrels a day is not maintained, oversupply could pull prices down below their current levels, possibly to as low as US$ 30 a barrel. Another factor that could affect prices is increased shale oil production in the United States.

The recovery in the demand for copper, aluminium, iron ore, coking coal and other metals in Asia (mainly in China, which accounts for 50% of global consumption of those products) has caused their prices to rise. Among the factors driving the demand for minerals and metals is the depletion of stocks of steel bars and rods and other related products, which have become scarce in China as a result of production embargoes intended to reduce pollution and the closure of factories operating without official

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[16]   In June, the Russian Federation cut its production by 280,000 barrels a day, thus fully complying with its commitment towards OPEC.

permits. Despite the factory closures, the China Iron and Steel Association recently estimated that steel production in China will increase by between 3% and 5% in 2017 (Xu and Mason, 2017), which would directly impact the price of iron ore and coal, keeping them at comparatively high levels. Likewise, the demand for construction materials has increased, which has also driven the production of steel, cables, batteries and electrical supplies. By the end of 2017, the prices of all those products are expected to record double-digit rates of growth.

Agricultural products are the commodities where prices have performed less promisingly. Among these, rice and maize suffered slight falls. Similarly, the prices of soybeans, soy meal, soy oils and soybean by-products rose by less than those of other agricultural products, such as bananas and beef.

At the end of the first semester, coffee prices —which rose by more than 15% between January and April— began to fall as a result of the weakening Brazilian real and the increase in global production. Among the major producers, Côte d'Ivoire, Ghana and Nigeria increased their output. Brazil, Colombia, Honduras and Peru also increased the total area of their coffee plantations. Accordingly, further price drops are expected during the final months of 2017. An annual price increase of only 1.6% is therefore expected.

The price of sugar, which also rose significantly over the first four months of the year (13%), fell between May and August; as a result, the price increase for the first eight months of the year was below 2%. Prices are expected to continue falling until the end of the year, for a total annual drop of 10%. The main reason for this is increased in global production (World Bank, 2016).

In spite of high demand in China, fish meal prices fell sharply during the second half of 2016. This drop was mainly on account of increased supply from Peru, the world's largest producer. For 2017, the authorities set quotas on anchovy fishing, in order to stabilize the price. By January 2017, however, 98% of the total quota amount had already been caught. Prices therefore remained low, and no upturns are expected until the end of 2017, as Peru's Ministry of Production authorized a second fishing season for anchovy.

3.   Trade projections for 2017 are positive

According to data on goods trade from January to August 2017 and on the prices of the main export commodities, the value of regional goods exports is forecast to increase by 10% in 2017. This increase includes a 6.5% rise in prices and 3.5% growth in volumes. Thus, the region leaves behind five years of falling export basket prices and weak export volume growth. Regional imports have also risen after four years of declines in value. An increase of 7.0% is projected for 2017 as a whole. This expansion derives mainly from a 5.0% rise in import basket prices and a slight increase (2.0%) in import volumes (see figure I.6).

Central America and South America are expected to post the strongest increases in export value (13.1%, in each case). In the case of Central America the increase is due mainly to a sharp hike in export volumes, whereas the improvement in exports in South America and the Caribbean is forecast to stem mainly from higher prices for their respective export baskets, although growth in goods export volumes for Brazil and Uruguay has outstripped that of prices. The stronger volumes in Brazil derive from trends in iron ore, petroleum oils and soybeans (see figure I.7). Mexico, like all Central American countries, is expected to see a stronger increase in export volumes than in export prices.

The region leaves behind five years of falling export basket prices and weak export volume growth. Regional imports have also risen after four years of declines in value.

Figure I.6
Annual changes in goods trade by volume, price and value, 2000-2017[a]
(Percentages)

Regional exports and imports are projected to increase by 10% and 6.8%, respectively, in 2017

A. Exports
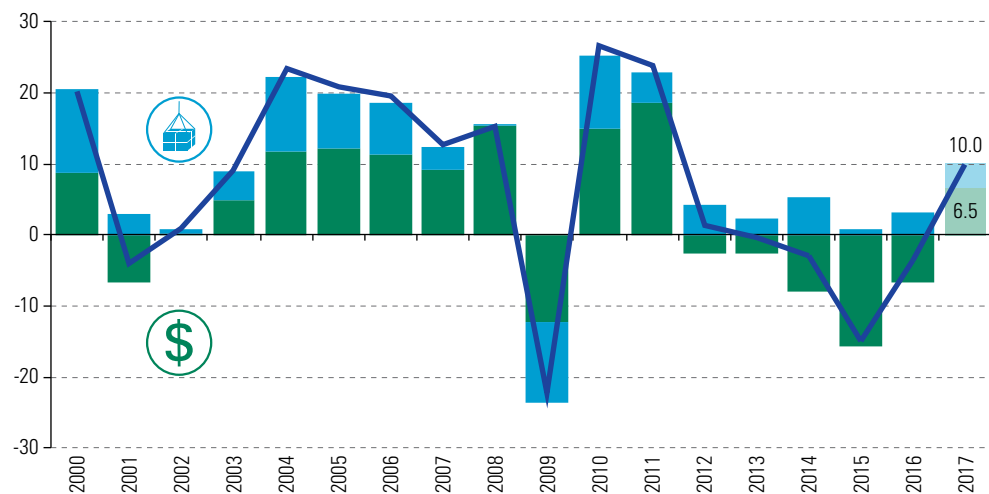
B. Imports
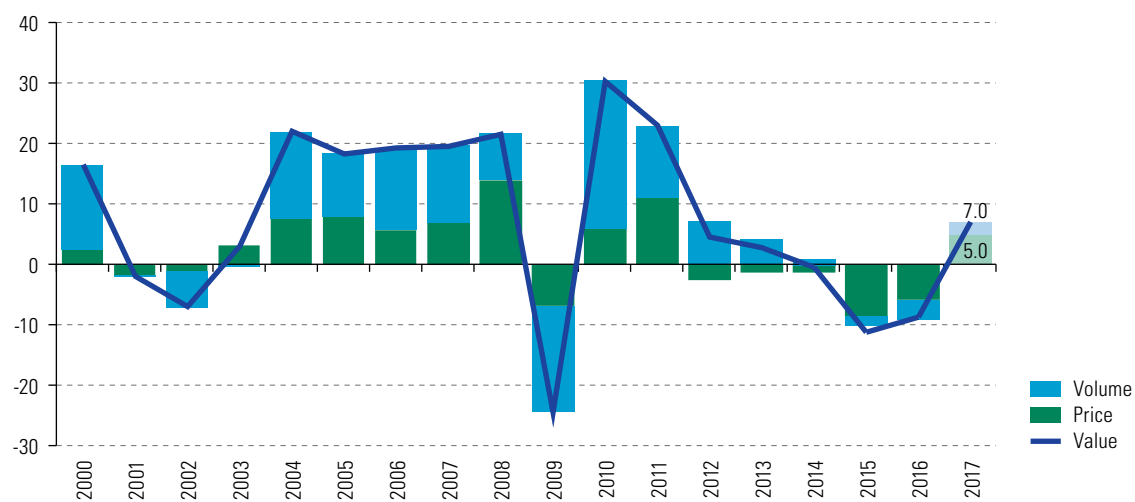
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.
[a] The figures for 2017 are projections.

Latin America and the Caribbean (subregions and Mexico): projected variations in exports by volume, price and value, 2017
(Percentages)

The improvement in exports is expected to be driven by better prices in South America and by better volumes in Central America and Mexico
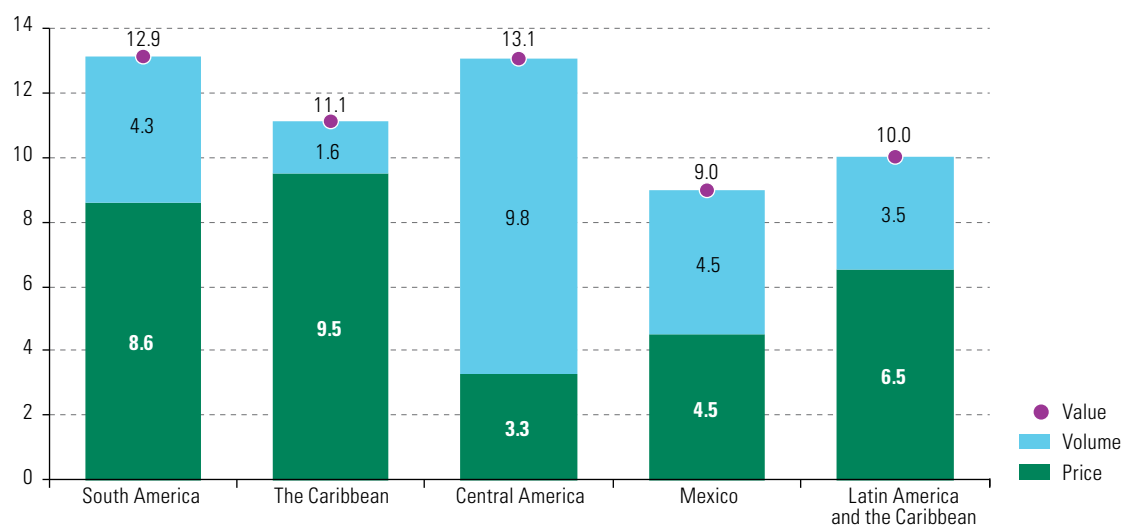
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

South American countries are projected to post the strongest increases in prices owing to the greater weight of petroleum, minerals and metals in their export baskets, particularly those of Andean countries (see table I.7). Colombia is expected to post the strongest increases in prices as its main export products include petroleum and coal. Within the same subregion, the Bolivarian Republic of Venezuela is forecast to post a sharp decline in export volumes, which is expected to be more than offset by a sharp jump in the oil price. Nonetheless, production by the State-owned Petróleos de Venezuela S.A. (PDVSA) has fallen to historical lows, and as a result the ongoing volatility and possible future fluctuations in the oil price could sharply reduce that country's main source of foreign exchange and lead to a drop in export value.

Growth in Central American export prices is expected to be weaker than the regional average in 2017, owing to the greater weight of agricultural, agroindustrial and manufacturing goods in the subregion's export basket. Meanwhile, export volumes are set to rise sharply, especially for Nicaragua and Honduras (by roughly 30%). Between January and June 2017, export volumes for Nicaragua rose by 81% for bananas, 250% for coffee and 17% for sugar (Central Bank of Nicaragua, 2017), pointing to an overall increase of slightly more than 40% in the first half of the year. Stronger export volumes in Honduras were driven by agroindustrial products, which accounted for 61% of total exports. For example, exports of coffee, sugar, melon and watermelon, and prepared fruits jumped by 60%, 51%, 42% and 12%, respectively, in the first half of 2017. With respect to mining products, exports of iron ore and its manufactured derivatives climbed by 25% (Central Bank of Honduras, 2017). Costa Rica, El Salvador and Guatemala also posted sharp increases in export volumes, mainly thanks to agricultural and agroindustrial products (coffee, bananas, vegetable fats, and food and beverages), which were accompanied by price rises as well.

Table I.7
Latin America and the Caribbean (selected groupings and countries): projected variations in foreign trade by price, volume and value, 2017
(Percentages)

Few countries will see declines in goods export and import growth in 2017

Country/region	Exports			Imports		
	Price	Volume	Value	Price	Volume	Value
Latin America and the Caribbean	**6.5**	**3.5**	**10.0**	**5.0**	**2.0**	**7.0**
Latin America	**6.5**	**4.6**	**11.2**	**4.6**	**2.5**	**7.1**
South America	**8.6**	**4.3**	**12.9**	**5.1**	**4.0**	**9.1**
Southern Common Market (MERCOSUR)	**7.4**	**5.7**	**13.1**	**4.9**	**4.4**	**9.3**
Argentina	4.9	-3.1	1.8	4.4	17.0	21.3
Brazil	7.0	11.0	18.0	5.0	3.3	8.3
Paraguay	3.8	5.4	9.2	4.9	14.7	19.6
Uruguay	4.5	19.3	14.0	5.1	-8.3	-3.2
Venezuela (Bolivarian Republic of)	17.0	-12.1	4.9	5.2	-27.0	-21.8
Andean Community	**10.5**	**3.3**	**13.8**	**5.4**	**2.2**	**7.7**
Bolivia (Plurinational State of)	10.2	-2.1	8.1	5.3	0.4	5.7
Colombia	12.0	4.5	16.5	5.0	0.2	5.2
Ecuador	10.0	0.8	10.8	6.5	14.6	21.1
Peru	9.5	4.5	14.0	5.5	-0.4	5.1
Chile	11.4	-1.1	10.3	5.4	5.5	10.9
Central America	**3.3**	**9.8**	**13.1**	**5.0**	**-0.5**	**4.5**
Costa Rica	3.6	5.7	9.3	4.0	-2.3	1.7
El Salvador	3.7	2.8	6.5	6.0	0.6	6.6
Guatemala	2.0	3.8	5.8	4.5	1.2	5.7
Honduras	3.9	25.7	29.6	5.6	1.1	6.7
Nicaragua	3.4	20.1	23.5	4.9	-3.2	1.7
Panama	7.8	-4.7	3.1	5.9	-1.9	4.0
Mexico	4.5	4.5	9.0	4.0	2.2	6.2
Dominican Republic	1.2	1.8	3.0	5.2	-3.2	2.1
Cuba	2.5	1.6	4.1	4.7	-12.3	-7.7
Caribbean Community (CARICOM)	**9.5**	**1.6**	**11.1**	**5.1**	**2.9**	**8.0**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

In the Caribbean, the increase in export value was driven by better export basket prices, thanks in particular to sharp hikes in oil, gas, bauxite, rice and sugar prices (Bank of Guyana, 2017). Trinidad and Tobago, Jamaica and Suriname received a positive price shock in energy and mining products. In all cases, prices were accompanied by increases in volume. Unlike larger countries in the subregion, for which export value is expected to increase, in some Eastern Caribbean countries export volume will decline (Dominica, Grenada, Saint Lucia) and prices are expected to compensate only in the case of Santa Lucia (Eastern Caribbean Central Bank, 2017).

Exports for Cuba and the Dominican Republic are projected to increase by 4.1% and 3.0%, respectively. Although Cuba was expected to post a 40% increase in sugar cane export volumes between 2016 and 2017, from 1,500 to 2,100 metric tons (Rodríguez, 2017), and a considerable improvement in trade in the second half of the year, the effects of Hurricane Irma are now forecast to weigh on growth expectations. In the Dominican Republic, figures for the first half of the year show a 6% increase in the value of exports, mainly in the industrial sector, where electrical, tobacco and textile products grew by 23%, 13% and 2%, respectively, in value terms (Central Bank of the Dominican Republic, 2017). However, as in the case of Cuba, Hurricane Irma has reduced the export capacity of the sugar, rice and banana sectors.

The passage of hurricanes Irma and Maria in the Caribbean in September 2017 caused varying levels of damage depending on the intensity with which they struck each island. These natural phenomena, to which the subregion is vulnerable, will affect trade projections for Dominica, Haiti and Saint Kitts and Nevis (within CARICOM), and for Cuba and the Dominican Republic, as mentioned previously. The biggest impact will be felt in the shrinkage of the affected countries' export volumes (see figure I.8).

> The passage of hurricanes Irma and Maria in the Caribbean in September 2017 caused varying levels of damage depending on the intensity with which they struck each island. These natural phenomena, to which the subregion is vulnerable, will affect trade projections.

Figure I.8
Caribbean Community (CARICOM): effect of hurricanes on external trade, 2017
(Percentages)

Some countries' exports were negatively affected by hurricanes Irma and Maria
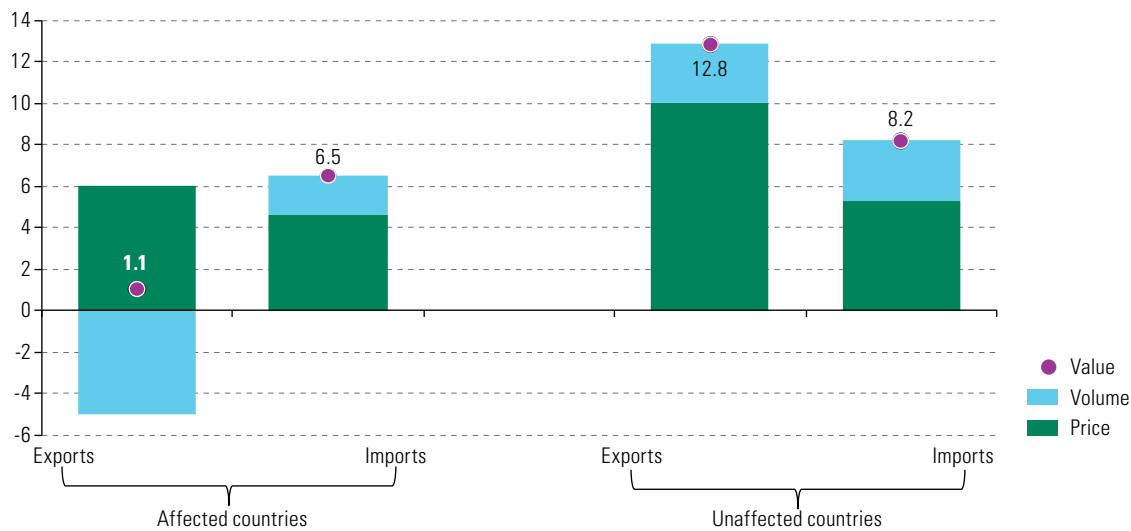
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

Dominica was hit the hardest by the immense destructive force of Hurricane Maria, while Haiti and Saint Kitts and Nevis were the most affected by Hurricane Irma. Dominica is expected to see the largest negative impact, with a projected decline of roughly 23% in exports owing to the considerable weight of its agriculture and livestock sector, which accounts for 41% of exports. Meanwhile, Haiti and Saint Kitts and Nevis are expected to see a more limited negative impact thanks to the greater diversification of their export structures, with agriculture representing just 5% and 3% of exports, respectively, resulting in a smaller impact (see table I.8). Overall, the agricultural sectors in each country, mainly sugar and banana plantations and livestock, were hit hardest.

Imports are expected to decline in September and October, then to rise again owing to purchases of materials for reconstruction. Imports are forecast to increase by 6.5% for all the affected countries, in line with the import trend for CARICOM countries as a whole.

Caribbean Community (CARICOM): projected variations in external trade, 2017[a]
(Percentages)

CARICOM is also expected to post a broad improvement in trade in 2017, with a few exceptions

Subregion/country	Exports			Imports		
	Price	Volume	Value	Price	Volume	Value
Caribbean Community	**9.5**	**1.6**	**11.1**	**5.1**	**2.9**	**8.0**
Antigua and Barbuda	2.2	7.8	10.0	4.2	4.7	8.9
Bahamas	4.0	1.3	5.3	5.3	14.8	20.1
Barbados	3.3	0.2	3.5	5.8	-5.4	0.4
Belize	2.0	-0.9	1.1	4.4	-3.6	0.8
Dominica	4.5	-20.0	-15.5	4.6	-0.1	4.5
Grenada	1.9	0.7	2.6	3.7	2.1	5.8
Guyana	-0.1	1.9	1.8	4.3	8.1	12.4
Haiti	6.3	-5.3	1.0	4.8	3.0	7.8
Jamaica	12.9	1.4	14.3	5.0	2.3	7.4
Saint Kitts and Nevis	2.2	5.7	7.8	3.2	-0.4	2.8
Saint Lucia	9.7	-7.8	1.8	13.9	-6.3	7.6
Saint Vincent and the Grenadines	1.9	0.6	2.5	3.0	0.1	3.1
Suriname	9.5	8.9	18.4	4.2	4.8	9.0
Trinidad and Tobago	12.0	0.9	12.9	5.5	0.5	6.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.
[a] Estimates are based on data corresponding to the first half of the year.

With respect to regional goods imports for 2017, prices are expected to rise more than volumes in almost all subregions. Central America is the exception, as its import volumes are projected to fall by 0.5% owing to weaker consumption of fuels, especially in Honduras where import volumes for diesel, kerosene and bunker fuel fell by 34%, 36% and 5%, respectively, in the first quarter (see figure I.9). The 6% increase in gasoline import volumes was not enough to offset these declines. Fuel imports in other Central American countries reflected a similar pattern, with higher bills owing to higher prices but with lower volumes. In El Salvador, through August there was a big decrease in the volume of consumption, capital, intermediate and maquila goods imported (Central Bank of El Salvador, 2017).

Despite the overall increase in the region's imports, projections point to a decline in their value in some countries (Bolivarian Republic of Venezuela, Cuba, Panama and Uruguay). The Bolivarian Republic of Venezuela is forecast to post the largest decline in imports in 2017 (down 22% in value terms), owing to the ongoing recession and scarcity of foreign exchange, and despite the decline in corn, wheat, rice and cereal production in recent years, which has increased dependence on imports. Authorities in Cuba have warned of the need to reduce imports in light of a lack of financing. In 2016, commercial loans were used to fund 85% of Cuban imports. Up to May 2017, the country had only secured loans for 41% of its import bill (*Diario de Cuba*, 2017). Meanwhile, the decline in oil imports from the Bolivarian Republic of Venezuela curbed oil, fuel and steel consumption. The factors behind the decline in imports for Panama and Uruguay were of a more short-term nature. Panama reduced its oil imports, mainly from the Bolivarian Republic of Venezuela, and in Uruguay, the closure of the refinery in La Teja for maintenance also led to a decrease in oil import volumes.

Projections for regional external trade by trading partner point to a considerable increase in exports to Asia, particularly China. Exports to that country are expected to climb by 23% in 2017, more than doubling the increase in total exports from Latin

America and the Caribbean to the world. Exports to the United States and the Latin American and Caribbean region are forecast to post near-average growth, while exports to the European Union are expected to be the least dynamic (see figure I.10). The stronger performance in exports to Asia is closely linked to higher metal and mineral prices, which account for a significant portion of those exports. Imports are expected to post the strongest growth within the Americas.

The increase in imports will be driven by higher prices in almost all subregions
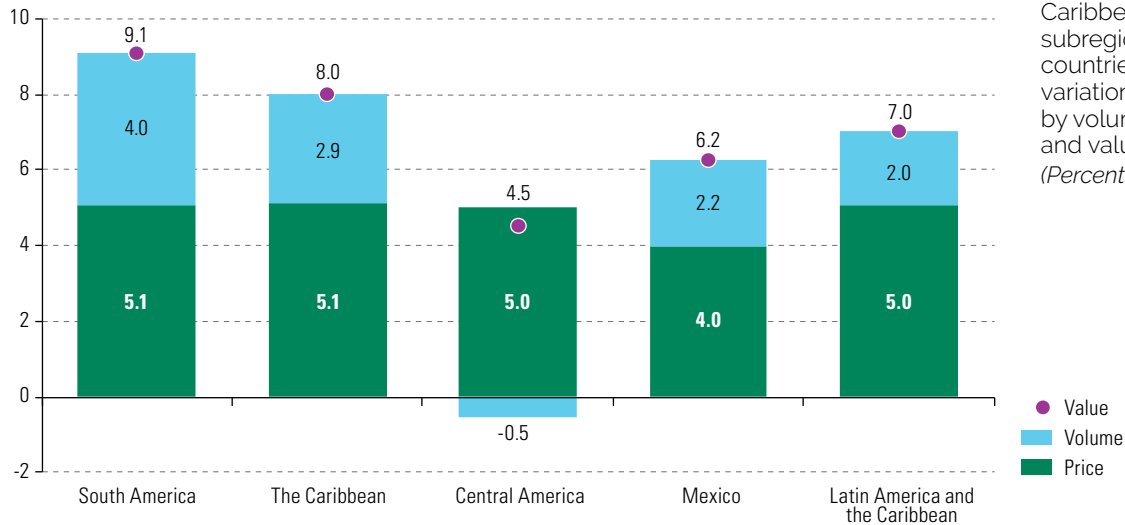
Figure I.9
Latin America and the Caribbean (selected subregions and countries): projected variations in imports by volume, price and value 2017
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

Figure I.10
Latin America and the Caribbean: variations in the value of goods trade by origin and destination, 2016 and 2017[a]
(Percentages)

Exports to China and imports from within the region and the United States will post the strongest growth in 2017

A. Exports
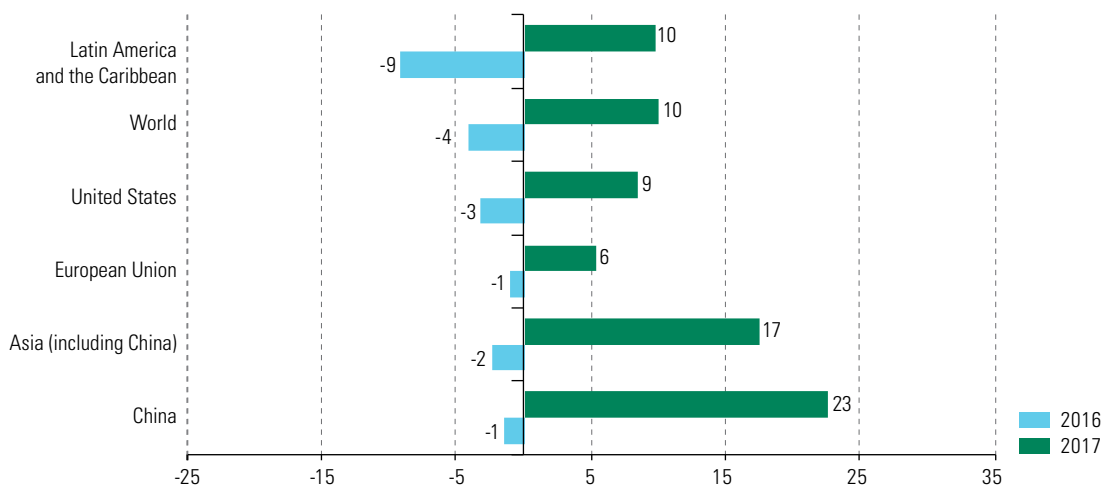
Figure I.10 (concluded)
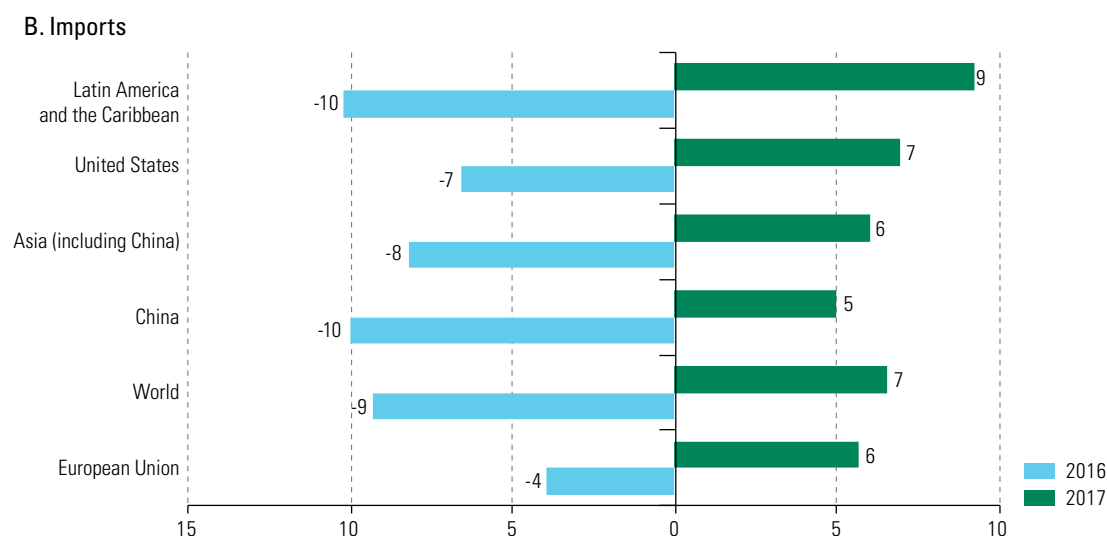
B. Imports

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes of statistics for the countries.

[a] The figures for 2017 are projections.

4.   Intraregional trade is also improving

In the first half of 2017, all intraregional trade circuits posted increases, with a particularly favourable improvement in South America (see figure I.11). A comparison of intraregional and extraregional trade shows an identical trend, which confirms the procyclical nature of intraregional trade flows (see figure I.12). In the first half of 2017, intraregional trade coefficients (measured by exports) were slightly lower than the levels seen in the first half of 2016, which could stem from the fact that in that period the increase in the value of intraregional exports (11%) was slightly lower than that of total exports (12.5%) (see figure I.13).

In the first half of 2017, the sharpest increases in intraregional trade were seen in oil and mining (30%), automobiles (26%), and agriculture, hunting and fishing (11%) (see table I.9). Among the other manufacturing sectors, there was a notable increase in intraregional exports of chemicals, rubber and plastic, non-metal minerals, and metals and their derivatives. The automotive sector expanded considerably in MERCOSUR countries (28%), but contracted in the Andean Community. The latter trend is expected to reverse in the second half of the year, following the elimination of balance-of-payments safeguards in Ecuador. Within MERCOSUR, there were increases in exports of machinery and equipment, metals and their derivatives, and the automotive sector, which together accounted for 47% of the group's intraregional imports.

Mexico's exports to the rest of Latin America and the Caribbean represented 5% of the 2016 export total. A similar level is expected to be maintained in 2017, as Mexican exports to the region and to the rest of the world grew by roughly 10% in the first half of the year. With respect to exports among integration schemes, the strongest trends in the first half of the year were seen in oil and mining, chemicals and pharmaceuticals, automobiles, and food, beverages and tobacco.

Figure I.11
Latin America and the Caribbean: variation in value of intraregional exports by integration scheme,
January-June 2017 compared with the year-earlier period
(Percentages)

Intraregional trade improved in all groupings and subregions
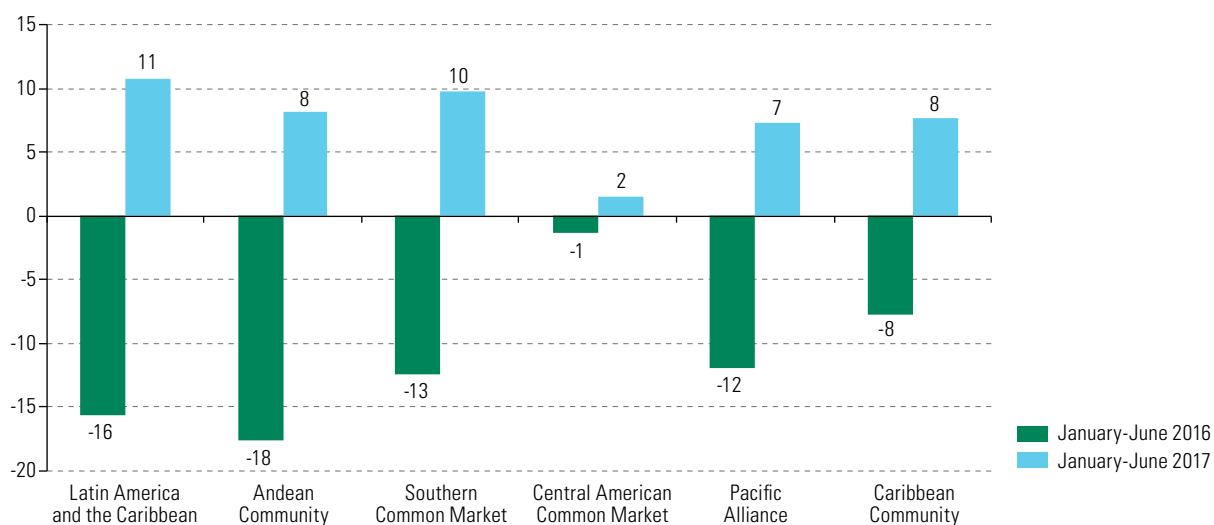
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes
of statistics for the countries.

Figure I.12
Latin America and the Caribbean: annual variations in intraregional and extraregional exports by value, 2007-2017[a]
(Percentages)

Intraregional and extraregional trade reflect similar trends
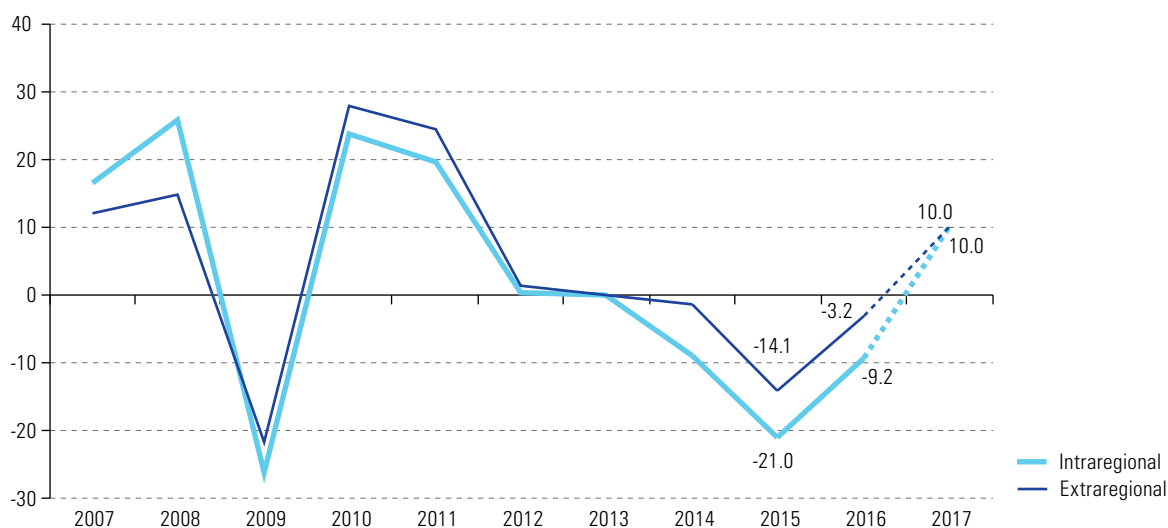
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes
of statistics for the countries.
[a] The figures for 2017 are projections.

Latin America and the Caribbean (selected integration schemes): intraregional trade coefficients,
by exports, January-June 2016 and January-June 2017
(Percentages of total goods exports)

Intraregional trade coefficients reflect slight declines throughout the region
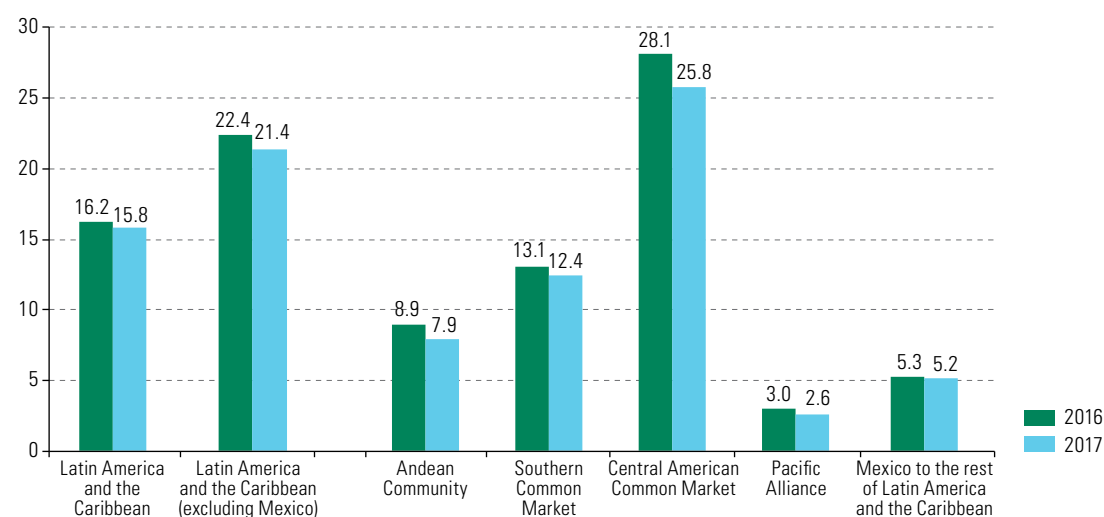
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from central banks, customs offices and national institutes
       of statistics for the countries.

Latin America and the Caribbean: variation in value of intraregional and intrasubregional exports,
by sector and by integration scheme, January-June 2017 compared with the year-earlier period
(Percentages)

Intraregional trade posted double-digit growth in several sectors in the first half of 2017

	Southern Common Market	Andean Community	Pacific Alliance	Central American Common Market	Caribbean Community[a]	Latin America and the Caribbean
All products	**9.8**	**8.2**	**7.3**	**1.5**	**7.7**	**11.5**
Agriculture, hunting and fishing	9.4	-20.9	14.3	4.8	0.5	11.1
Oil and mining	20.1	64.8	4.5	-14.7	39.9	29.8
Food, beverages and tobacco	0.8	1.3	19.3	8.3	-1.5	10.2
Wood, pulp and paper	-8.3	12.3	10.4	1.2	…	-2.9
Textiles, apparel and footwear	19.7	6.5	21.0	-15.0	…	3.4
Chemicals and pharmaceuticals	-5.2	-1.3	1.3	-6.4	-10.2	6.0
Rubber and plastic	0.0	-5.0	7.9	3.3	…	0.5
Non-metal minerals	-9.3	-7.6	-15.0	10.0	…	-10.0
Metals and derivatives	17.6	20.0	15.8	8.0	…	10.0
Machinery and equipment	11.2	7.9	11.4	2.8	8.7	4.8
Automobiles	27.5	-17.4	12.8	0.3	…	26.4
Other manufactures	**-1.1**	**-46.8**	**-30.2**	**2.2**	**5.8**	**-10.7**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UN Comtrade-International Trade Statistics Database (COMTRADE) and official
       data from the countries' central banks, customs offices and national institutes of statistics.
[a] Data for CARICOM are calculated on the basis of information from the Central Bank of Belize, Bank of Jamaica and mirror statistics for the other members of the group.

5.   The importance of deepening regional economic integration

Although intraregional trade is forecast to improve in 2017, the weight of intraregional exports is much smaller than the peak level of almost 22% seen in 1994. For 2017 these exports are expected to account for 16.8%, much lower than the levels seen in the European Union (62%) and in East and South-East Asia (roughly 50%) (see figure I.14). In the region, the Central American Common Market and CARICOM account for the highest levels of intrasubregional trade (meaning among their members), measured as a percentage of total exports to the world. Similarly, the Andean Community and CARICOM account for the largest proportion of total exports to other trading partners in Latin America and the Caribbean (see figure I.15).

Empirical evidence shows that intraregional trade is characterized by a model favourable to production diversification. The regional market is the destination of the largest number of products (see figure I.16). Similarly, for many countries in the region, this market absorbs the largest percentage of total manufacture exports (see figure I.17). The region is also the natural market for SME export expansion.

Figure I.14
Latin America and the Caribbean: intraregional goods exports, 1991-2017
(Billions of dollars and percentages of total exports)

The weight of intraregional trade remains much lower than the peak level
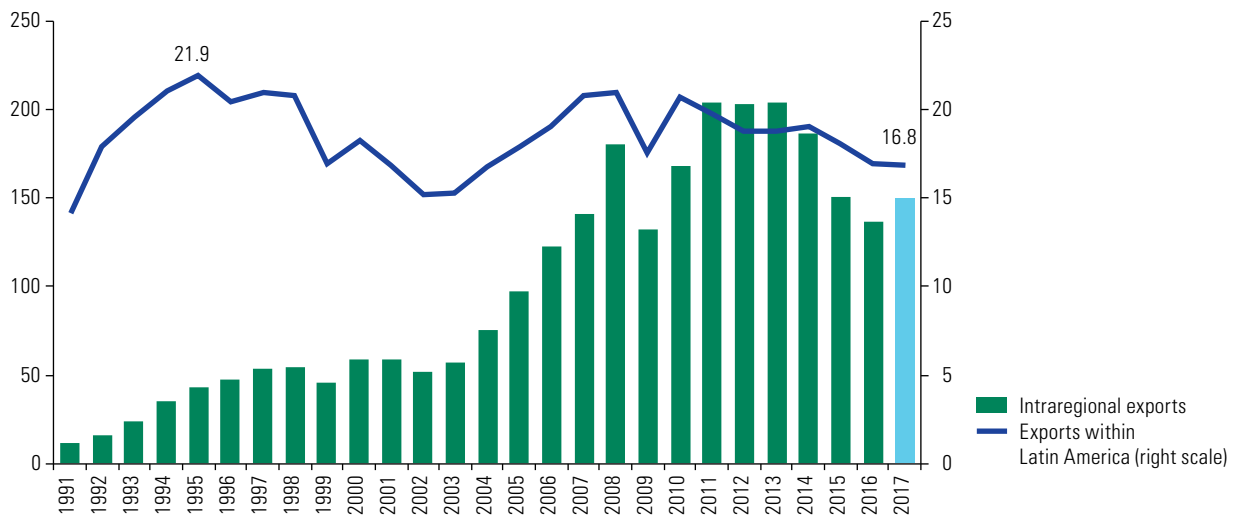
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UN Comtrade-International Trade Statistics Database (COMTRADE) and official data from the countries' central banks.

Figure I.15
Latin America and the Caribbean (selected integration schemes): intrasubregional exports
and exports to other countries of the region as a percentage of total exports, 2016
(Percentages)

The Caribbean and Central America reflect the highest relative levels of intraregional trade
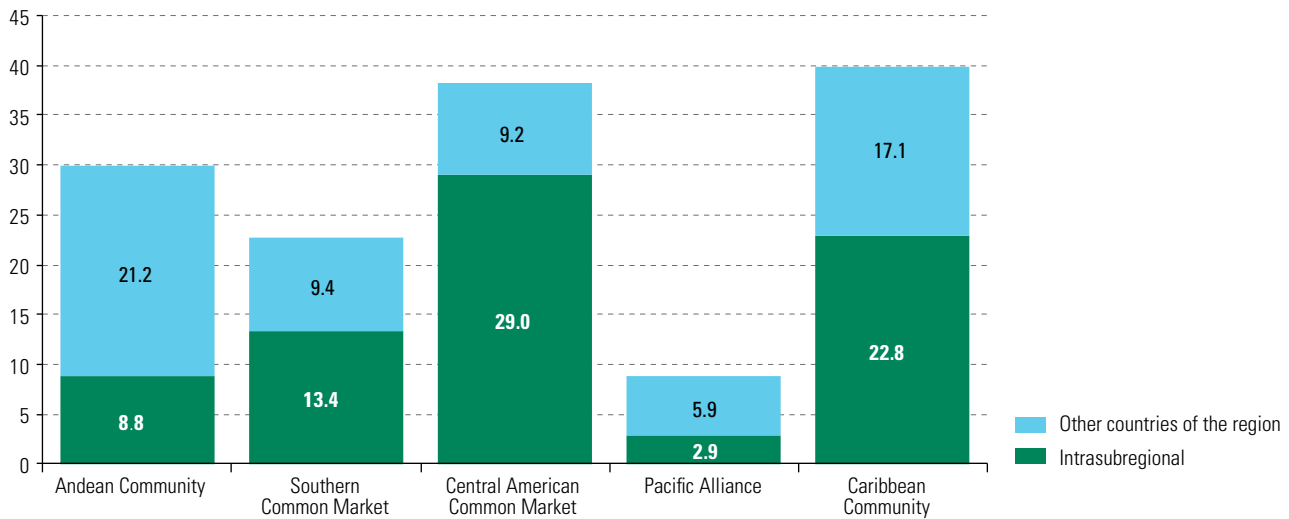
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UN Comtrade-International Trade Statistics Database (COMTRADE) and official
        data from the countries' central banks, customs offices and national institutes of statistics.

Figure I.16
Latin America and the Caribbean: products exported to selected destinations, 2016
(At the six-digit level of the Harmonized Commodity Description and Coding System)

The largest number of products is exported to the regional market
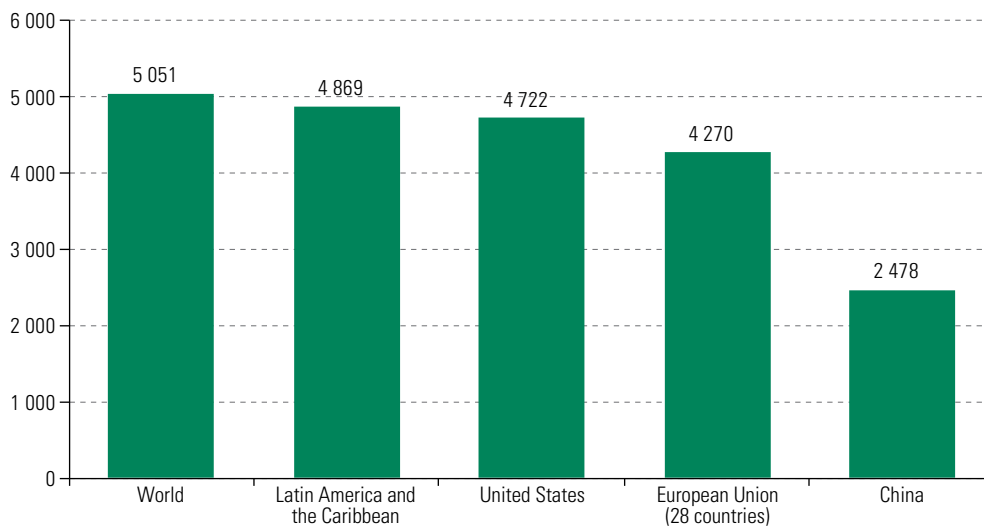
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).

Figure I.17
Latin America and the Caribbean (20 countries): share of total manufacture exports, 2016[a]
(Percentages)

The regional market is the main destination of many countries' manufacture exports
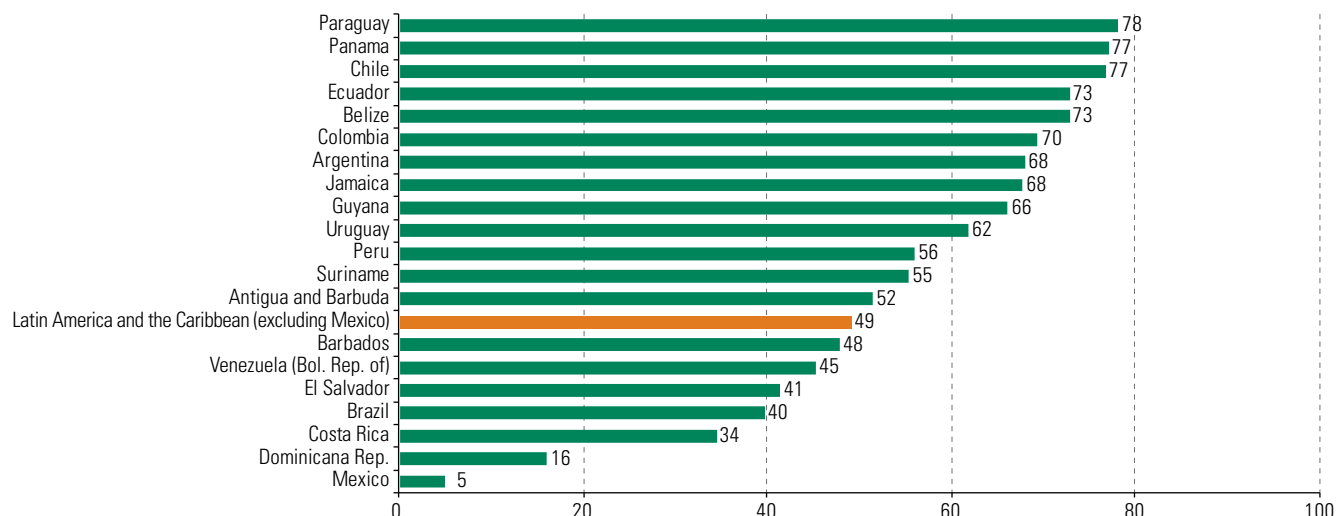
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Statistics Database (COMTRADE).
[a] Includes low-, medium- and high-tech manufactures.

Through a number of bilateral and multilateral agreements, the region's countries have made significant progress in eliminating trade tariffs. However, there are still important trade relationships between countries and groupings in the region that are not subject to preferential tariffs and are thus subject to most-favoured-nation treatment. Mexico is the clearest example: 59% of its imports from the rest of the region are subject to most-favoured-nation tariffs (see figure I.18). Exceptions are its trade with Central America, with its Pacific Alliance partners (Chile, Colombia and Peru) and with Uruguay, and its automobile imports from MERCOSUR.

Figure I.18
Latin America and the Caribbean (selected groupings and countries): proportion of intraregional imports with and without preferential tariffs, 2002-2011
(Percentages)

Almost 60% of Mexican imports from the rest of the region are not subject to preferential tariffs

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of UN Comtrade-International Trade Statistics Database (COMTRADE) and data from trade agreements signed by individual countries and organizations.

According to estimates by Grübler, Ghodsi and Stehrer (2016) for 98 countries, the ad valorem equivalents of non-tariff measures are higher than the average of tariffs applied in all regions of the world (see figure I.19). Some of these measures (for example, sanitary, phytosanitary and technical regulations) are adopted to achieve legitimate public policy objectives, such as those geared towards consumer protection, public health and the environment. However, other measures have a clearly restrictive effect on trade, such as quotas, non-automatic import licences and several types of informal restrictions. At the global level, the highest non-tariff barriers are evident in sugar, dairy, coffee and fish production (in the agricultural and agroindustrial sector) and in sectors such as plastics, basic chemicals, hides and skins, paper and paperboard, iron ore and steel and copper goods (among manufactures). The trend in Latin American and Caribbean countries is consistent with the global pattern: Grübler, Ghodsi and Stehrer (2016) estimate that the effect of non-tariff measures applied in the region are equivalent to a tariff of 25.3%, on average. For example, until 2015, the majority of non-tariff barriers between MERCOSUR countries corresponded to quotas and licences in sectors such as vehicles, machinery and equipment, paper and paperboard and agroindustrial products (UNCTAD, 2017). Although some restrictions have been lifted since 2015, others remain in effect, both in MERCOSUR and in the rest of the region.

Figure I.19
Selected global regions: tariffs and ad valorem equivalents of non-tariff measures applied to imports, 2002-2011[a]
(Percentages)

Non-tariff barriers are much higher than the value of applied tariffs
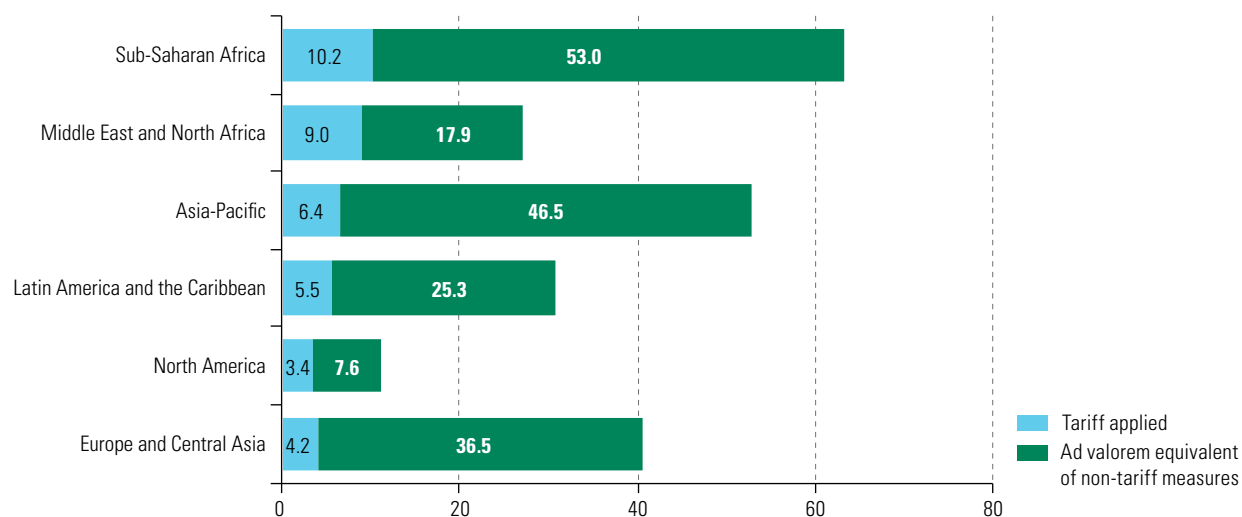
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Grübler, M. Ghodsi and R. Stehrer, "Estimating importer-specific ad valorem equivalents of non-tariff measures", Working Paper, No. 129, Vienna, Vienna Institute for International Economic Studies, September 2016.
[a] Estimates were made by the authors cited for countries and products for the entire 2002-2011 period, using the data on tariffs applied to products for the same period to calculate ad valorem equivalents of non-tariff measures.

As a result of the multiple agreements in effect, tariffs applied to intraregional trade are generally fairly limited (2.9% on average for the region as a whole). Nonetheless, non-tariff measures such as those previously mentioned represent a considerable additional cost for exporters, which is much higher than the value of tariffs. This is revealed through a comparison of ad valorem equivalent estimates of non-tariff measures applied in the region. According to Grübler, Ghodsi and Stehrer (2016), these ad valorem equivalents are particularly high in the Andean Community, MERCOSUR and CARICOM.

In addition to tariffs and non-tariff measures, there are costs associated with customs processes (reflected in export and import times) which, according to ECLAC estimates, are equivalent to an additional tariff of 20%, on average (see table I.10).

Some case studies on Paraguay, Peru and Uruguay regarding NTMs developed by the International Trade Centre (ITC) showed that in general, small and medium enterprises (SMEs) have a higher propensity to face NTMs in export markets, especially in agricultural sectors where there is greater competition from national firms in destination countries. The larger enterprises export more products and have more resources to comply with regulations. For countries like Paraguay, Peru and Uruguay, NTMs faced by SMEs are higher in the intraregional market (MERCOSUR and Andean Community) than in extraregional markets[17] (ITC, 2012; ITC, 2013a and 2013b). Moreover, If there are excessive administrative and bureaucratic requirements in the exporting country (e.g. registration, multiple compliance procedures), the probability of achieving high export volumes is lower. For that reason, it is imperative to focus on trade facilitation measures and to reduce NTMs to support intraregional trade.

Table I.10
Latin America and the Caribbean (selected groupings and Mexico): tariff protection and tariff equivalents of non-tariff and administrative barriers applicable to intraregional imports, 2002-2011
(Percentages)

Non-tariff barriers and customs procedures are greater barriers to intraregional trade than tariffs

	Tariff applied[a] (1)	Estimated ad valorem equivalent due to non-tariff barriers[b] (2)	Tariff and non-tariff protection (3)=(1+2)	Weight of non-tariff barriers in total protection (4)=(2/3)*100	Estimated ad valorem equivalent due to administrative trade barriers[c] (4)
Andean Community	0.8	58.1	58.9	98.6	19.4
Southern Common Market	2.5	53.4	55.9	95.5	21.3
Central American Common Market	1.4	0.3	1.7	19.5	20.1
Pacific Alliance	1.4	5.1	6.5	77.8	17.7
Caribbean Community	5.0	35.0	40.0	87.5	23.0
Mexico	5.3	13.8	19.1	72.3	17.2
Latin America and the Caribbean	**2.9**	**25.3**	**28.2**	**89.8**	**20.0**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), "Tariffs" [online database] https://www.wto.org/english/tratop_e/tariffs_e/tariff_data_e.htm; official information from bilateral and subregional agreements; J. Grübler, M. Ghodsi and R. Stehrer, "Estimating importer-specific ad valorem equivalents of non-tariff measures", *Working Paper*, No. 129, Vienna, Vienna Institute for International Economic Studies, September 2016.
[a] Weighted averages which consider preferences granted by each country to its partners, as well as the level of most-favoured-nation tariffs applied to intraregional partners with no current intraregional trade agreements.
[b] Weighted averages of non-tariff measures by each member country of each grouping, according to Grübler, Ghodsi and Stehrer (2016). These include sanitary and phytosanitary measures, technical standards, antidumping and countervailing duties, quotas, licences and other related measures. Weightings determined on the basis of import figures for 2011.
[c] Estimates prepared using an extended gravity model, which calculates an elasticity associated with the time needed to export and import. Tariff equivalents at the bilateral and sectoral levels among the countries of the region were obtained from these elasticity values. The following table shows the average values by subregion.

ECLAC, together with the Latin American Integration Association (LAIA), the Secretariat for Central American Economic Integration (SIECA) and the Inter-American Development Bank (IDB), is conducting an exercise to measure the impact of a possible regional trade agreement in Latin America and the Caribbean. This exercise considers the complete removal of tariff and non-tariff barriers in intraregional trade, and seeks to determine the macroeconomic, trade and social impact of policy measures that foster those aims, in order to guide the actions of decision makers in the region. Below is a preview of this exercise, focusing solely on the removal of tariff barriers, and an assessment of the potential impact of a renegotiated North American Free Trade Agreement (NAFTA) for Mexico and the region. Three scenarios were modelled on the basis of these guidelines:

[17]   This was also confirmed by another study conducted by ECLAC in Ecuador and Colombia (Durán, Cracau and Saeteros, 2017).

- **Scenario 1** is based on the assumption that all the countries of the region remove tariffs on imports from the rest of the region, which would be equivalent to simulating a broad Latin American trade agreement.[18]

- **Scenario 2** is based on the assumption that the NAFTA renegotiation is unsuccessful, leading to the termination of the agreement. As a result, trade between Mexico and the United States is conducted on the most-favoured-nation (MFN) basis. The purpose of this extreme scenario is to capture indirectly the potential opportunities for intraregional trade. This scenario would have a profound effect on agroindustrial and heavy manufacturing exporters, mainly those of automobiles, machinery and electrical equipment in both countries (see table I.11).

- **Scenario 3** is based on the assumption that a broad regional agreement comes into effect in Latin America at the same time that tariff preferences between Mexico and the United States in the framework of NAFTA come to an end (i.e. a combination of scenarios 1 and 2).

Table I.11
Mexico and the United States: existing preferences under the North American Free Trade Agreement (NAFTA) and tariffs applied in a scenario of denunciation of the agreement
(Percentages)

Terminating NAFTA would lead to much higher tariffs in Mexico than in the United States

| Selected sectors	Mexico			United States		
	Breakdown of imports from the United States	Current tariff under NAFTA[a]	Most-favoured-nation tariff	Breakdown of imports from Mexico	Current tariff under NAFTA[a]	Most-favoured-nation tariff
Agriculture	2.4	0.6	7.7	4.2	0.00	3.0
Livestock and fisheries	0.5	4.1	8.5	0.4	0.00	0.2
Oil and mining	0.5	0.0	0.0	1.1	0.00	1.2
Agroindustry	4.1	1.2	18.1	4.3	0.10	5.0
Light manufacturing	5.5	0.3	8.3	2.9	0.00	7.7
Heavy manufacturing	87.0	0.1	3.2	87.1	0.00	3.3
Vehicles	9.9	0.1	8.2	26.1	0.00	8.3
Machinery and equipment	32.2	0.0	2.5	25.6	0.00	0.2
Electrical equipment	11.4	0.2	4.2	16.4	0.00	0.6
Total	**100.0**	**0.2**	**4.2**	**100.0**	**0.01**	**3.5**

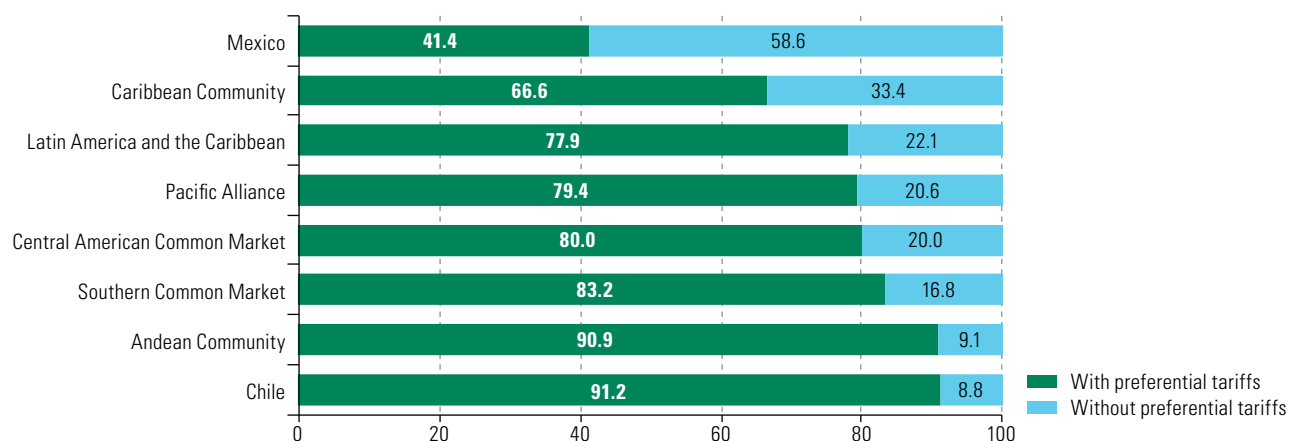**Source**: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of UN Comtrade - International Trade Statistics Database (Comtrade) and World Trade Organization (WTO) tariff data.
[a] Tariffs were estimated using a weighted average of the preferences and the breakdown of imports, in the case of agreements that remain in force.

Common to the three scenarios is an attempt to identify the importance of the expanded market beyond the existing integration mechanisms and trade agreements, that is, considering the proportion of trade not covered by regional agreements. The exercise focuses on changes in Mexico's market, as it is currently the market with the greatest level of protection in the region, especially in the agriculture,

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[18]   Some of these results were obtained in the framework of the technical assistance provided by ECLAC at the request of the member countries of the Latin American Integration Association (LAIA), for the purpose of estimating the potential impact of a regional trade agreement.

livestock and agroindustrial sectors. The average MFN tariffs applied by Mexico in these sectors to the countries with which it has no current agreements stand at 8%, 9% and 18%, respectively, whereas it applies much lower duties to the United States and Canada. The United States accounted for 70%, 73% and 83% of Mexico's total imports in those sectors. The analysis focuses specifically on changes in the Mexican market share of the United States and Latin America and the Caribbean, under the three scenarios.

In the event that NAFTA is terminated (scenario 2), Mexico's GDP would fall by 1.9%. The fall would be slightly lower (-1.6%) if a Latin American trade agreement entered into force at the same time (scenario 3). Under scenario 1, the region (excluding Mexico) would see GDP growth of 0.3% (see figure I.20). Should NAFTA be terminated, the best option for Mexico would be to deepen its integration with the rest of the region and thus cushion the adverse impact of the end of its preferential treatment with the United States. Meanwhile, a comprehensive regional agreement would enable the region's countries, especially in South America, to expand their trade with Mexico, even in the absence of additional liberalization between Mexico and those South American countries with which it has not signed wide-ranging agreements. The positive impact of a Latin American trade agreement on the region's GDP would be slightly greater if it were to coincide with the termination of NAFTA (scenario 3), as a result of the foreseeable shift in the composition of Mexican imports from United States suppliers to those of other countries in the region. These simulations do not consider the removal of non-tariff barriers, which would further increase output and well-being.

Figure I.20
Mexico and Latin America and the Caribbean (excluding Mexico): variations in gross domestic product in three different scenarios
(Percentage changes from baseline values)

Scenarios that include a regional agreement are more favourable to Mexico
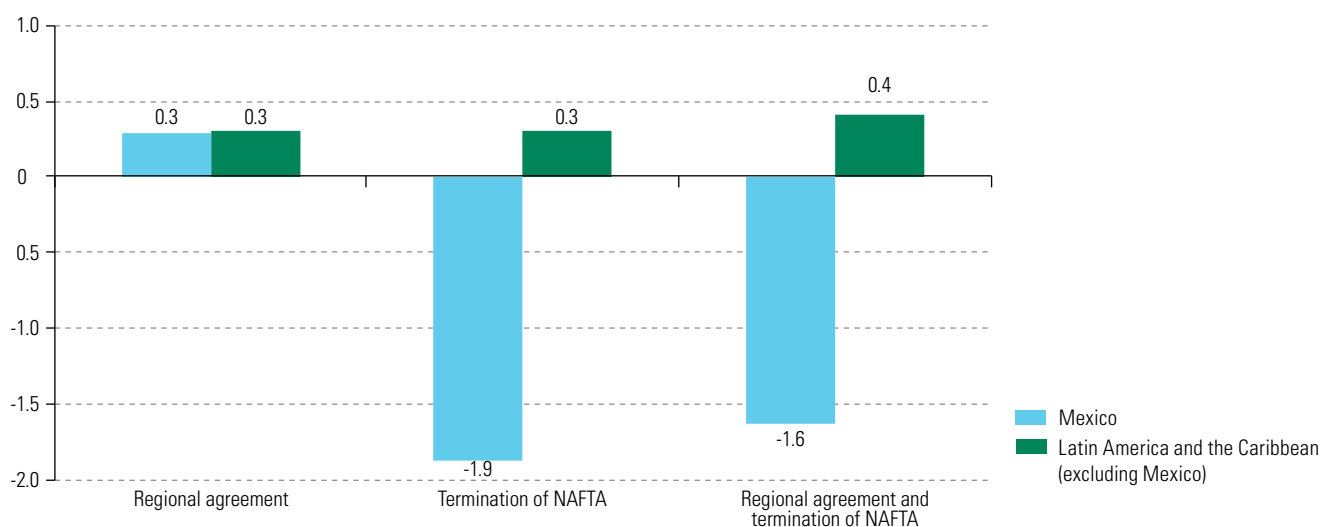
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of General Equilibrium Model simulations using Purdue University, Global Trade Analysis Project (GTAP 9) database, 2017 [online] https://www.gtap.agecon.purdue.edu/databases/v9/.

Under the extreme scenario where NAFTA is terminated, the impact on Mexican imports from the United States, compared to those of Latin America and the Caribbean, shows how sharply Mexican imports would fall. This scenario also illustrates the enormous opportunity that a market the size of Mexico's offers to the rest of the region, especially in the agriculture, livestock, agroindustrial and automotive sectors (see table I.12). In the agroindustrial sector alone, the United States' market share of total Mexican imports would contract from 70% to 49%, opening up a large space for South American exports, mainly from Brazil, Colombia and Argentina (see table I.A1.2 of the annex). Mexican imports from the European Union, China and the rest of Asia would also have room to grow.

Total Mexican exports to the United States would fall by 8% under the NAFTA termination scenario, while shipments of motor vehicles, textiles, apparel and footwear, and agroindustrial products would post double-digit falls. In contrast, under this scenario, Mexico's exports to Latin America and the Caribbean would jump by 6.3%, mainly in the automotive, machinery and equipment, and agroindustrial sectors.

Table I.12
Mexico: variations in imports from the United States and the rest of Latin America and the Caribbean in three alternative scenarios
(Percentage changes from baseline values)

Terminating NAFTA would greatly reduce Mexican imports from the United States

Sectors	United States			Latin America and the Caribbean		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Goods	**-0.9**	**-12.2**	**-12.6**	**48.3**	**6.3**	**56.8**
Commodities	**-0.2**	**-3.4**	**-3.4**	**20.3**	**1.4**	**33.4**
Agricultural products	-0.4	-4.4	-4.4	33.7	2.8	56.5
Livestock	0.1	-7.9	-7.9	4.3	0.0	17.5
Forestry	2.6	0.6	0.6	47.6	0.0	45.2
Fishery	-2.1	-8.4	-8.4	4.5	0.0	4.0
Mining	0.3	-0.2	-0.2	1.1	1.2	0.4
Manufactured products	**-1.0**	**-13.3**	**-13.3**	**54.8**	**6.7**	**63.6**
Agroindustry	-5.3	-33.2	-33.2	93.2	3.1	83.0
Textiles, apparel, leather articles and footwear	-14.7	-46.4	-46.4	157.1	3.7	176.6
Paper and wood	0.8	-8.7	-8.7	7.1	6.3	21.3
Chemicals and petrochemicals	0.4	-6.4	-6.4	15.3	6.0	27.5
Non-metallic minerals	0.5	-17.1	-17.1	5.0	11.1	12.6
Iron and steel	0.3	-9.7	-9.7	16.1	7.4	16.7
Metal products	0.0	-12.9	-12.9	48.8	10.1	60.8
Vehicles	-3.1	-25.5	-25.5	75.6	3.1	93.2
Transport equipment	-0.3	-8.3	-8.3	148.6	13.0	138.3
Electrical equipment	0.2	-11.9	-11.9	22.6	10.9	28.7
Machinery and equipment	0.0	-7.1	-7.1	31.5	10.0	37.0
Other manufactures	2.0	-15.5	-15.5	60.5	9.6	62.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of General Equilibrium Model simulations using Purdue University, Global Trade Analysis Project (GTAP 9) database, 2017 [online] https://www.gtap.agecon.purdue.edu/databases/v9/.

These results illustrate the need to make progress in identifying the impact of removing existing non-tariff barriers to intraregional trade, and in promoting trade facilitation programmes that improve the competitiveness of intraregional exports and stimulate regional value chains, which so far have been rather limited in scope.

D.   Conclusions

Global output and trade are showing signs of a rebound in 2017, after several years of sluggish growth. However, there are still doubts about the sustainability of this upturn, given the considerable macroeconomic, technological and geopolitical uncertainty that exists. In this context, the value of regional exports has started to rise again in 2017, after falling for four years. Yet, this recovery is underpinned more by exogenous factors (the increase in prices of several commodities) than by domestic growth. In fact, commodities (oil, metals and some agricultural products) and natural resource-based manufactures (especially agribusiness products) continue to dominate the export patterns of much of the region.

Intraregional trade offers great potential for exports of manufactured goods and more processed products in general, underscoring the urgent need for deeper regional integration, especially with the recent shift in the United States' trade policy. The simulations presented in this chapter indicate that signing a regional trade agreement would produce considerable gains, which would be greater if the agreement were not limited to reducing tariffs, but also included the removal of non-tariff barriers and the harmonization or mutual recognition of technical, sanitary and phytosanitary standards. In that connection, appropriate cumulation of origin mechanisms should be adopted at the subregional and regional level to promote production integration and the formation of regional value chains.

Trade facilitation is another major component of deeper regional integration, which could help to raise the current low levels of intraregional trade, to promote the internationalization of small and medium-sized enterprises (SMEs) and to strengthen intraregional production chains (ECLAC, 2015b). A survey on the implementation of trade facilitation measures in 21 countries of the region, carried out by ECLAC in the first half of 2017, reveals that most of the countries have made significant progress, but that they also face major obstacles in the area of coordination. For example, implementation rates for the cross-border digital exchange of certificates of origin and sanitary and phytosanitary certificates are only 38% and 19%, respectively (ECLAC, 2017).

The progress made by the various countries at the national level will have a greater impact if that progress is coordinated at the regional level or at least the subregional level. For example, if the aim is to ease the operations of regional value chains, it would be preferable for a number of countries to agree among themselves on the criteria a firm has to meet to be considered an authorized economic operator. In this context, the cases of the Central American Common Market and the Pacific Alliance are noteworthy. The Central American countries use a single customs form that also serves as a common certificate of preferential origin and is exchanged electronically. These countries are also moving towards a common electronic phytosanitary certificate. Members of the Pacific Alliance exchange electronic phytosanitary certificates and certificates of origin through their respective single windows for foreign trade, and they are making progress towards the mutual recognition of their respective authorized economic operator programmes. Another noteworthy initiative in this area is the digital certification of origin being developed by the 13 members of the Latin American Integration Association (LAIA).

In April 2017, the Pacific Alliance and MERCOSUR agreed on a road map to deepen their cooperation on various matters related to trade facilitation (digital certification of origin, customs cooperation and linking their members' single windows for foreign trade). Given the economic size of both groups, this agenda offers great potential for boosting intraregional trade and production integration.

> Intraregional trade offers great potential for exports of manufactured goods and more processed products in general, underscoring the urgent need for deeper regional integration. The simulations presented in this chapter indicate that signing a regional trade agreement would produce considerable gains.

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Annex I.A1

Table I.A1.1
Latin America and the Caribbean (selected groupings and countries): variations in the value of services trade, first half of 2017 relative to the same period in 2016
(Percentages)

Countries/regions	Exports		Imports	
	January to June 2016	January to June 2017	January to June 2016	January to June 2017
Latin America and the Caribbean	**-0.8**	**8.7**	**-4.1**	**1.8**
Latin America	**-1.3**	**9.1**	**-4.0**	**2.0**
South America	**-4.2**	**9.9**	**-7.5**	**-0.1**
Southern Common Market (MERCOSUR)	**-6.6**	**9.2**	**-11.9**	**-0.8**
Argentina	-6.2	14.2	13.6	15.7
Brazil	-5.6	6.8	-17.5	-6.8
Paraguay	0.3	0.1	-5.8	11.2
Uruguay	-14.0	21.1	-20.4	0.4
Venezuela (Bolivarian Republic of)	-10.7	-13.3	-13.8	0.0
Andean Community	**1.9**	**10.5**	**-0.5**	**-0.9**
Bolivia (Plurinational State of)	2.0	15.5	20.1	1.5
Colombia	4.9	6.5	-5.0	-3.1
Ecuador	-10.9	2.8	-0.1	1.2
Peru	0.7	20.7	0.1	0.7
Chile	-5.0	12.8	-3.2	4.2
Central America	**4.1**	**7.1**	**2.3**	**3.3**
Costa Rica	14.6	4.9	14.5	9.9
El Salvador	2.4	-0.9	10.3	0.5
Guatemala	0.5	2.2	-3.0	3.7
Honduras	8.6	2.2	2.7	0.9
Nicaragua	15.3	19.0	12.4	-13.7
Panama	-1.8	10.0	-7.0	4.2
Mexico	-0.6	8.6	2.7	6.5
Dominican Republic	8.6	9.9	4.3	5.5
Cuba	…		…	
Caribbean Community (CARICOM)	**4.1**	**4.6**	**-4.4**	**-3.4**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries' central banks and national institutes of statistics.

Table I.A1.2
Mexico: variation in the market share of imports from the United States and Latin America
and the Caribbean in three scenarios
(Millions of dollars and percentages of total imported from the world in each scenario)

Sectors	Total imports	United States			Latin America and the Caribbean		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Goods	**321 637**	**55.7**	**51.7**	**49.4**	**4.4**	**9.6**	**7.0**
Commodities	**19 965**	**68.1**	**64.5**	**64.5**	**7.0**	**9.4**	**9.1**
Agricultural products	12 805	75.9	70.2	70.2	6.3	2.0	9.6
Livestock	556	86.8	83.9	83.9	3.8	1.4	4.7
Forestry	54	63.7	62.0	62.0	7.8	4.3	11.0
Fishery	40	23.9	21.5	21.5	44.3	0.5	45.2
Mining	6 511	51.6	51.5	51.5	8.4	25.2	8.4
Manufactured products	**283 327**	**58.4**	**51.4**	**51.4**	**4.3**	**9.9**	**7.1**
Agroindustry	**16 049**	**70.0**	**48.9**	**48.9**	**10.8**	**8.5**	**20.7**
Textiles, apparel and footwear	11 542	42.3	21.8	21.8	12.2	5.5	32.5
Paper and wood	10 665	71.9	66.7	66.7	6.8	6.5	8.4
Chemicals and petrochemicals	76 874	73.8	69.7	69.7	3.4	9.0	4.4
Non-metallic minerals	11 715	55.1	47.7	47.7	9.2	11.9	10.9
Iron and steel	9 258	46.6	42.9	42.9	6.2	16.2	7.4
Metal products	9 919	65.2	58.8	58.8	2.1	8.5	3.5
Vehicles	35 888	61.8	49.5	49.5	5.4	20.8	11.2
Transport equipment	3 970	35.4	32.9	32.9	0.9	3.2	2.2
Electrical equipment	30 153	29.7	26.0	26.0	0.8	13.1	1.0
Machinery and equipment	63 922	53.1	49.3	49.3	2.1	5.0	2.9
Other manufactures	3 373	37.0	31.1	31.1	2.5	5.4	4.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of General Equilibrium Model simulations using Purdue University, Global Trade Analysis Project (GTAP 9) database, 2017 [online] https://www.gtap.agecon.purdue.edu/databases/v9/.

Table I.A1.3
Latin America and the Caribbean: value of exports and imports, 2015-2017
(Millions of dollars)

Countries/regions	Exports			Imports		
	2015	2016	2017	2015	2016	2017
Latin America and the Caribbean	**919 908**	**889 136**	**986 270**	**981 650**	**897 078**	**959 639**
Latin America	**902 032**	**872 850**	**968 179**	**953 249**	**870 753**	**931 204**
South America	**466 846**	**445 057**	**501 640**	**463 950**	**391 581**	**424 842**
Southern Common Market (MERCOSUR)	**304 251**	**289 647**	**327 022**	**286 150**	**234 208**	**253 597**
Argentina	56 813	57 784	58 831	57 176	53 243	64 593
Brazil	190 092	184 453	217 470	172 422	139 416	150 967
Paraguay	10 898	11 155	12 178	10 317	9 789	11 711
Uruguay	9 091	8 387	9 561	9 334	8 037	7 780
Venezuela (Bolivarian Republic of)	37 357	27 868	28 983	36 901	23 724	18 546
Andean Community (CAN)	**100 411**	**94 812**	**107 779**	**119 082**	**102 032**	**109 861**
Bolivia (Plurinational State of)	8 673	6 986	7 552	9 004	7 803	8 251
Colombia	38 275	33 381	38 722	52 050	43 239	45 490
Ecuador	19 049	17 425	19 299	20 699	15 858	19 197
Peru	34 414	37 020	42 206	37 331	35 132	36 923
Chile	**62 183**	**60 597**	**66 847**	**58 718**	**55 341**	**61 384**
Central America	**37 373**	**37 240**	**42 298**	**70 921**	**68 815**	**71 861**
Costa Rica	9 432	10 166	11 113	14 059	14 686	14 931
El Salvador	4 381	4 186	4 460	9 384	8 823	9 408
Guatemala	10 824	10 580	11 191	16 381	15 764	16 666
Honduras	8 188	7 841	10 161	11 097	10 559	11 268
Nicaragua	3 859	3 772	4 657	6 405	6 384	6 490
Panama (excludes re-exports from the Colón Free Zone)	689	695	716	13 596	12 599	13 098
Panama	12 783	11 705	11 857	22 492	20 490	21 822
Mexico	**380 976**	**374 296**	**407 796**	**395 573**	**387 369**	**411 571**
The Caribbean	**34 713**	**32 543**	**34 911**	**51 205**	**49 313**	**51 365**
Caribbean Community (CARICOM)	**17 876**	**16 286**	**18 090**	**28 401**	**26 325**	**28 435**
Bahamas	527	523	551	2 953	2 786	3 347
Barbados	483	517	535	1 537	1 540	1 547
Belize	538	519	525	961	930	937
Guyana	1 170	1 123	1 143	1 475	1 444	1 623
Haiti	1 024	995	1 005	3 449	3 183	3 433
Jamaica	1 255	1 195	1 366	4 449	4 169	4 477
Suriname	1 652	2 149	2 545	2 028	1 966	2 143
Trinidad and Tobago	10 804	8 859	10 002	9 474	8 125	8 613
Organisation of Eastern Caribbean States (OECS)	**424**	**406**	**412**	**2 075**	**2 182**	**2 316**
Antigua and Barbuda	66	78	86	460	503	548
Dominica	34	26	22	188	188	197
Grenada	41	38	39	327	315	333
Saint Kitts and Nevis	49	51	55	302	308	317
Saint Lucia	187	166	169	502	576	620
Saint Vincent and the Grenadines	46	47	48	295	292	301
Cuba	**7 395**	**6 397**	**6 661**	**5 898**	**5 504**	**5 083**
Dominican Republic	**9 442**	**9 860**	**10 159**	**16 907**	**17 484**	**17 848**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official balance-of-payments from the countries and on official figures from their central banks and national institutes of statistics.

Table I.A1.4
Latin America and the Caribbean: variations in exports to selected destinations by value, 2016 and 2017
(Percentages)

Countries/regions	European Union		United States		China		Rest of Asia		Latin America and the Caribbean	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Latin America and the Caribbean	**-0.9**	**5.8**	**-3.2**	**8.5**	**-1.4**	**22.6**	**1.3**	**15.9**	**-9.2**	**9.9**
Argentina	2.9	7.5	30.2	10.8	-19.2	-8.0	22.6	-10.9	-9.4	2.9
Bolivia (Plurinational State of)	3.0	12.4	-8.8	-35.1	2.2	-16.8	10.9	69.3	-34.1	10.2
Brazil	-1.8	4.0	-4.0	14.8	-1.3	36.8	-2.6	20.1	-2.5	17.8
Chile	-8.3	8.8	2.9	20.4	5.0	-0.4	-8.5	13.7	-5.9	13.5
Colombia	-16.1	19.1	1.0	7.3	-48.8	59.5	-17.7	12.7	-14.6	21.8
Costa Rica	14.8	3.9	4.3	11.9	-43.5	171.4	-14.0	23.2	-2.4	6.8
Cuba	-17.3	8.4	…	…	-37.4	-47.4	9.1	105.7	-13.8	34.9
Dominican Republic	18.7	-6.9	3.3	2.2	-3.1	-11.9	6.6	-5.7	-12.2	17.3
Ecuador	2.1	14.4	-25.1	16.2	-11.5	13.6	11.2	22.2	-1.9	-4.1
El Salvador	4.4	12.7	-1.2	1.5	-86.1	925.2	-12.4	63.4	-3.3	5.6
Guatemala	14.2	1.5	-6.9	10.9	-62.4	-16.3	7.3	8.1	-0.8	2.3
Honduras	13.1	85.0	6.1	12.9	-41.6	38.2	33.2	11.0	-5.6	-8.4
Mexico	6.1	20.0	-2.0	8.1	10.7	25.0	16.3	13.6	-11.9	8.8
Nicaragua	-10.5	81.3	4.3	15.9	…	…	-2.0	101.3	-18.8	-0.7
Panama	-0.7	-9.4	-1.3	18.1	-23.4	49.2	-0.8	-12.9	-21.0	1.7
Paraguay	-24.8	5.5	-0.8	-9.1	-31.5	48.8	21.0	50.1	17.7	12.4
Peru	2.2	11.6	22.8	-2.3	15.3	25.8	27.6	58.0	-5.2	15.0
Uruguay	3.4	-1.5	-14.9	1.1	-16.5	13.3	-7.2	2.4	-2.5	7.8
Venezuela (República Bolivariana de)	-43.4	9.8	-29.5	1.7	-12.2	-2.2	-26.6	-2.7	-20.1	0.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries' central banks, customs offices and national institutes of statistics.

Table I.A1.5
Latin America and the Caribbean: variations in imports from selected origins by value, 2016 and 2017
(Percentages)

Countries/regions	European Union		United States		China		Rest of Asia		Latin America and the Caribbean	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Latin America and the Caribbean	**-4.0**	**5.9**	**-6.9**	**7.2**	**-10.3**	**5.0**	**-9.0**	**8.6**	**-10.3**	**9.9**
Argentina	-1.5	15.3	-9.2	14.2	-14.7	15.2	-5.7	12.3	-2.3	29.4
Bolivia (Plurinational State of)	-20.8	12.3	-20.3	-7.1	-4.2	16.2	-12.3	-5.7	-13.5	11.4
Brazil	-16.3	1.2	-10.3	3.9	-23.9	14.0	-37.6	30.4	-14.6	8.7
Chile	4.0	-4.1	-13.3	16.6	-3.3	12.0	-5.3	10.8	-8.3	18.9
Colombia	-24.6	0.3	-23.4	5.5	-14.0	4.7	-9.1	7.9	-6.9	-0.1
Costa Rica	9.8	21.1	6.8	25.3	8.3	3.2	14.9	-8.1	1.1	-53.8
Cuba	-2.7	-5.2	46.8	21.5	2.1	-3.9	78.9	33.0	-18.4	-11.6
Dominican Republic	14.6	-6.6	5.7	-9.9	0.5	6.4	-5.2	9.1	-3.3	-8.4
Ecuador	-25.3	15.5	-27.6	1.8	-23.0	3.8	-39.9	66.0	-17.2	23.8
El Salvador	-7.9	16.8	-10.6	9.4	1.3	6.4	-4.7	7.6	3.4	4.6
Guatemala	-4.4	7.7	-0.2	9.2	-2.5	5.2	-12.5	-12.0	-5.2	4.1
Honduras	-8.8	-17.0	-5.7	19.5	-15.3	-28.7	-10.6	-32.7	-0.5	15.2
Mexico	14.2	13.4	-3.9	7.7	-0.7	0.1	2.6	4.2	-1.0	9.8
Nicaragua	-12.8	6.3	12.9	12.8	…	…	6.0	-7.5	-6.5	2.5
Paraguay	-8.2	-4.7	-4.0	-0.5	-4.2	11.7	-9.0	1.3	-0.3	-3.2
Peru	-7.5	-3.6	-14.2	24.3	10.5	33.2	-15.1	43.5	-4.5	9.7
Uruguay	-8.8	-8.6	-34.0	3.1	-12.3	5.6	-33.6	2.6	-16.7	5.5
Venezuela (República Bolivariana de)	-48.7	-41.9	-37.3	-12.8	-67.1	-26.9	-57.4	-29.6	-53.7	-28.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries' central banks, customs offices and national institutes of statistics.

The region's weak performance in modern services trade

Introduction

In recent years, there has been a growing business, policy and academic interest in trade in services, which has been growing faster than trade in goods since the 1990s. This expansion is driven mostly by information and communications technologies (ICTs), which allow many services to be digitized and traded internationally. The producer and consumer therefore do not need to be in physical proximity for the service to be provided. These "modern services", as they are termed, include a large range of business, financial, information technology, insurance and pension services, as well as professional services, research and development (R&D), and telecoms. In contrast, more traditional types of services, such as construction, government services, recreational services, and transport and travel (for business and leisure), have expanded at similar rates to goods trade.

The spread of global value chains, with their high dependence on services, has been another reason for this closer interest. Services are the glue of international production networks, playing a central role in particular in the upstream (R&D and innovation) and downstream (marketing and sales) activities. It is precisely at the beginning and end of production chains where most value is created through service activities. Moreover, various services (such as accounting, information technology, other business processes and logistics) play a role in all segments of the value chain. Most of these services are not traded directly, but incorporated into the value of traded goods. New statistics based on input-output tables can decompose gross values of internationally traded goods and services into intermediate value added components. These new statistics show that services represent about half of global trade, instead of almost a quarter by the measure of gross values.

Services play an increasingly important role as a determinant of the international competitiveness of manufacturing goods, in particular within the context of the ongoing technical revolution known as "manufacturing 4.0". This revolution refers to the interaction of machinery, equipment and manufactured products able to gather, process and analyse data from the physical world and interact with each other independently. Digital technologies, the Internet of things (IoT) and large volumes of digital data ("big data") generated by sensors and processed through cloud computing are all central parts of this evolving manufacturing ecosystem. Services such as software, big data analytics and cloud computing play a key role in adding value to manufactured goods. In less technologically sophisticated manufacturing and natural resource sectors, different types of intermediate services also contribute increasingly to differentiation and value creation. In sum, services are more and more intertwined with goods production and the two need to be analysed jointly to understand their dynamics.

Within this context, this chapter has three goals. First, to assess the region's competitiveness in global services trade over the past decade. This is done using a new database of the World Trade Organization, which compiles trade in services data according to the sixth edition of the *Balance of Payments Manual* of the International Monetary Fund (IMF) for the period 2005 to 2016.[1] Second, to analyse which services are being incorporated into the exports of manufactures in a subset of Latin American countries, compared with other countries and groupings, and how this is occurring. And, third, to review some of the public-private policies being implemented by a group of countries in the region to promote exports of modern services. The following categories of trade in services statistics are part of modern services: telecommunications, computer and information services; financial services; insurance and pension services; royalties; and other business services (Loungani and others, 2017) (see diagram II.1).

> Services are the glue of international production networks, playing a central role in particular in the upstream (R&D and innovation) and downstream (marketing and sales) activities.

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[1] Data for earlier years compiled according to the fifth edition of the *Balance of Payments Manual* are not strictly comparable as these are compiled using a different methodology and classification.

Diagram II.1
Classification of traditional
and modern services

Modern services comprise a range of activities delivered mostly over the internet
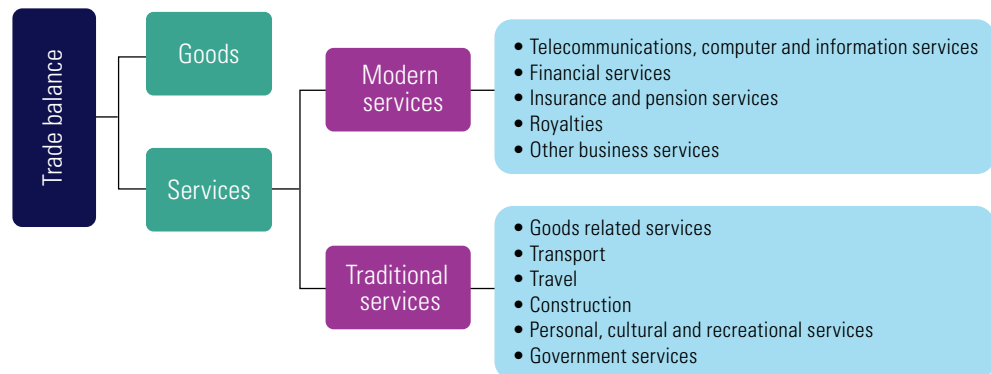
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. Loungani and others (2017), "World trade in services: evidence from a new dataset", *IMF Working Paper,* No. 17/77, Washington, D.C., International Monetary Fund (IMF), 2017.

A.   The region's services exports perform poorly in a global context

1.   Global services exports have increased faster than goods exports

From 2005 to 2016, the value of global services exports almost doubled, growing at an average annual rate of almost 6%. This expansion was not constant, however, as two growth spurts (from 2005 to 2008 and from 2010 to 2014) were each followed by stagnation, first during the global financial crisis in 2009-2010 and more recently in 2015-2016. The increase in the value of global goods exports was just under 4% on average per year for most of this period, except immediately after the global crisis. As a result, services increased their share in global goods and services exports from about a fifth to almost a quarter (see figure II.1A). Exports of modern services increased at an even faster rate (almost 7% on average per year) than those of total services, so that their share in global services exports rose from 44% to 50% (see figure II.1B).

World trade in services is highly concentrated, and trade in modern services especially so. The top 10 exporting countries of total and modern services accounted for 54% and 64% of these flows, respectively, in 2016 (see figure II.2). The United States alone represented 15.4% and 16.4% of total services and modern services exports worldwide in 2016, respectively, which was much higher than its share in global goods exports (9.4%). The United Kingdom, Germany and France are the following three largest exporters of both total and modern services, but their market shares were each less than half those of the United States.

Figure II.1
World: services in relation to total goods and services exports and modern services
in relation to total services exports, 2005-2016
(Trillions of dollars and percentages)

Modern services are the world's fastest growing category of exports

A. Total services
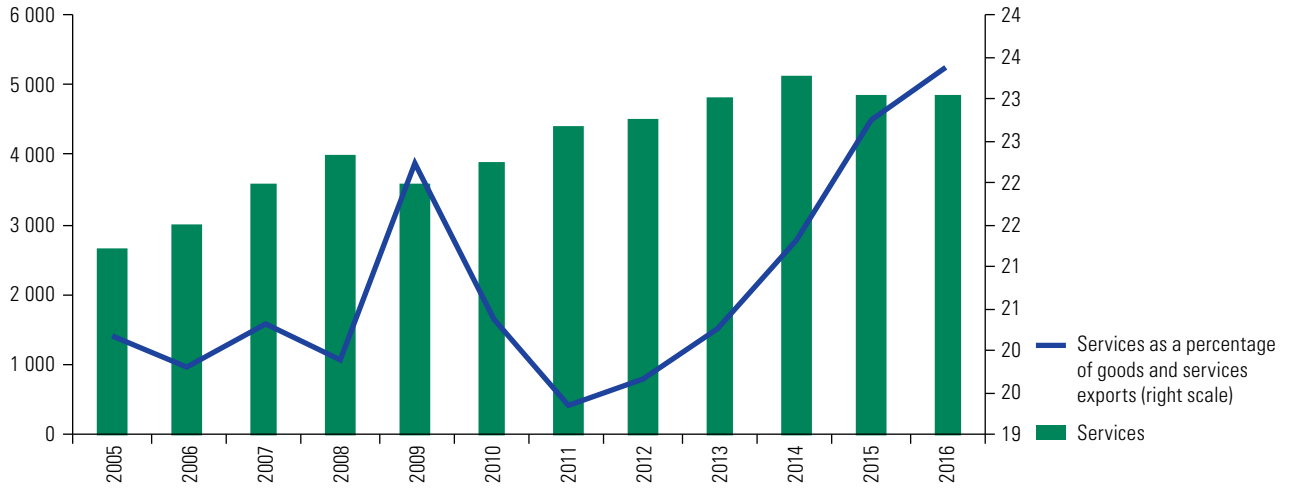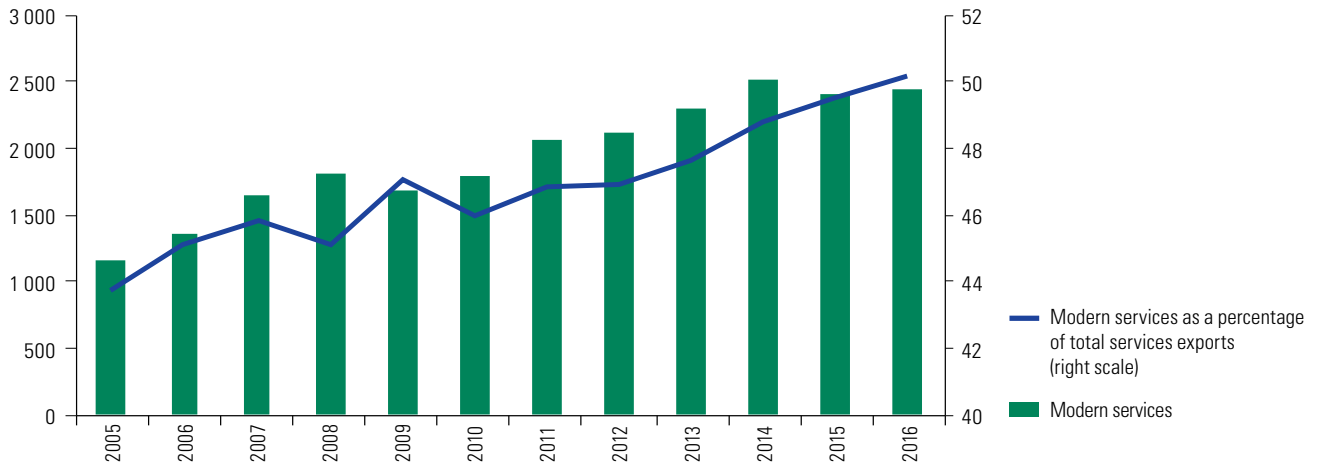
B. Modern services

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.

Figure II.2
World: top exporters and importers of total and modern services, 2005 and 2016
(Percentages)

World trade in total and modern services is highly concentrated

A. Major services exporters
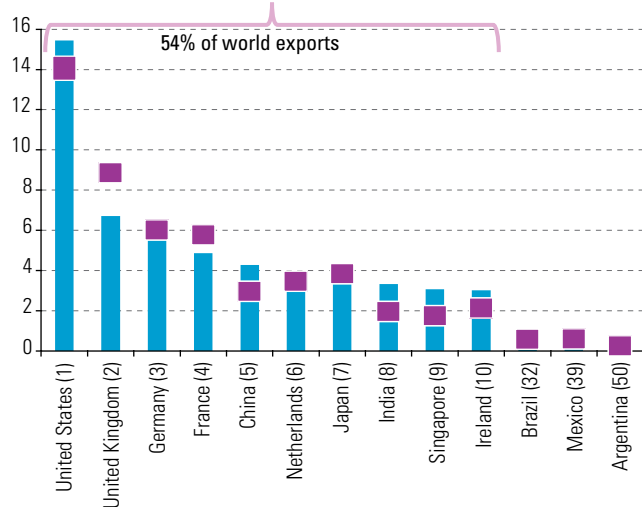
B. Major services importers
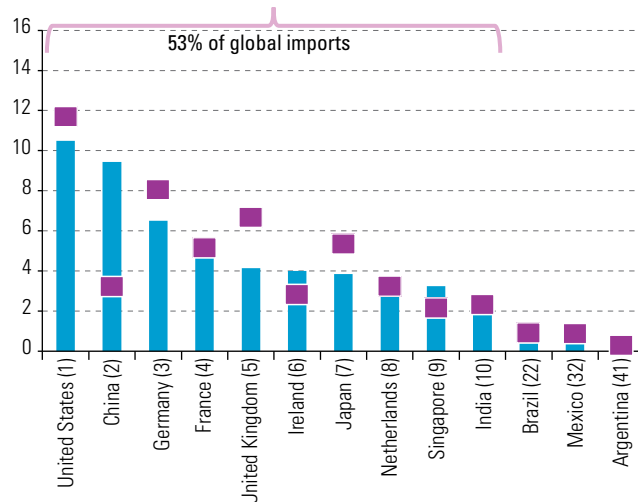
C. Major modern services exporters
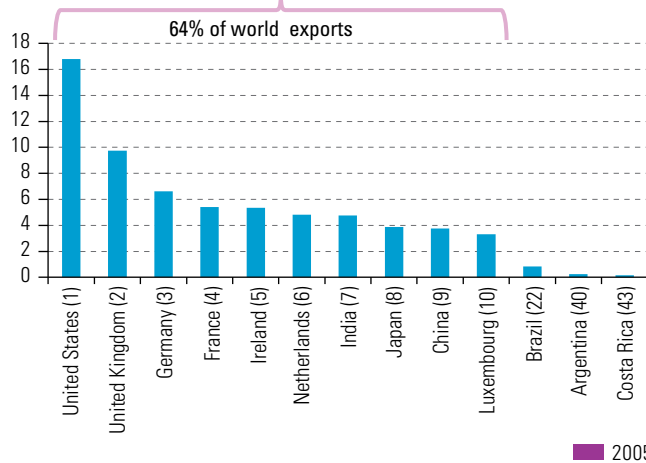
D. Major modern services importers
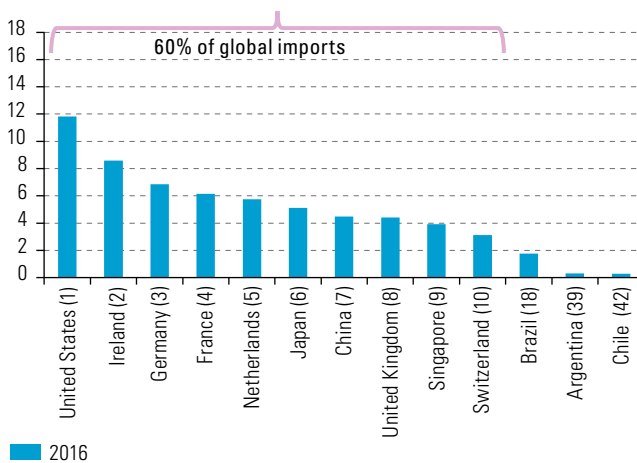
■ 2005   ■ 2016

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.
Note: The number shown in brackets after each country name refers to its position in the respective global ranking. Export and import shares for modern services in 2005 cannot be calculated, as several large countries do not report these data for that year.

The world's second largest importer differs from the second largest exporter both in total services and in modern services in 2016. The first, third and fourth exporters and importers are the same (United States, Germany and France). China is the world's second largest importer of total services, whereas the United Kingdom is the second largest exporter. China, as may be expected, is the world's largest goods and manufactures exporter. This top position requires a high volume of imports of goods, transport and various types of modern services. China is also a large importer of tourism and other traditional services, being the second largest importer in current dollar terms and the first measured at purchasing power parity. Ireland is the second largest importer of modern services. Its high rank is related to its attractiveness as a location for multinational companies' headquarters, which import many modern services.

Within the region, Brazil and Mexico are the largest traders in total services, but neither is among the top 20 exporters or importers. The third largest exporter and importer of the region is Argentina in the case of total services and Costa Rica in the case of modern services.

2. The region's export performance in modern services has stagnated

The region's market share in total world exports of services remained at between 3.0% and 3.5% from 2005 to 2016 (see figure II.3A). However, from 2005 to 2012, regional exports of modern services expanded faster than global ones. As a result, the region's global market share grew by 0.7 percentage points, from 1.5% to 2.2%. Thereafter, the region underperformed, causing its global market share to fall to 1.8%. The Latin American and Caribbean region's performance is poor compared to that of developing Asia, where the Association of South-East Asian Nations (ASEAN), China and India all increased their market shares in both total and modern services exports. The latter two countries figure among the world's top 10 exporters of total and modern services. The region has a lower market share in global modern services exports than in global total services exports, as modern services make up smaller share of total exports in the region than elsewhere (see figure II.3B). In contrast, the region's share in global exports of tourism is almost double that of modern services, fluctuating between 5% and 6%.

From 2005 to 2014, the region's total services imports expanded at a faster rate than its exports, causing its trade deficit to widen (see figure II.4). However, in 2015 and 2016 the region's imports fell more than its exports, mostly due to the stagnation of imports of transport services (related to weak goods trade) and a fall in outbound tourism. As a result, its deficit declined. Exports and imports of modern services grew faster than those of total services, so the deficit in this subcategory of services also widened, except in 2015 and 2016.

The region is strongly specialized in tourism, which accounted for almost half of its services exports, compared to only one quarter of world services exports throughout the period 2005-2016 (see figure II.5). The region's second largest export category is other business services, whose share in total exports grew from 13% in 2005 to 19% in 2016. This category represented 22% of global services exports in 2016. Transport reduced its share by 4 percentage points, in both global and regional exports over the period. The remaining categories of modern services had much smaller weights in regional than global exports, in particular finance (2% versus 9%), telecommunications (5% versus 10%) and intellectual property rights (1% versus 6%). The regional structure of services imports is much more similar to the global pattern, with transport, travel and other business services each accounting for between 21% and 28% of the total.

Figure II.3
World and Latin America and the Caribbean: region's share in global services exports and global modern services exports in relation to total global services exports, 2005-2016
(Percentages)

The region's share in global total and modern services exports has stagnated over the past decade

A. Share of Latin America and the Caribbean in world total and modern services exports
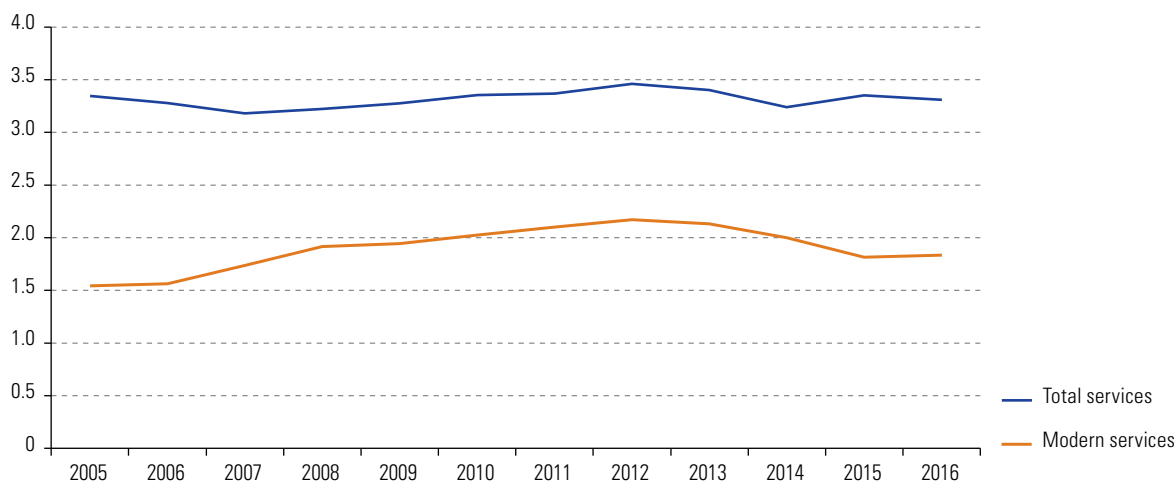
B. Share of modern services in total services exports
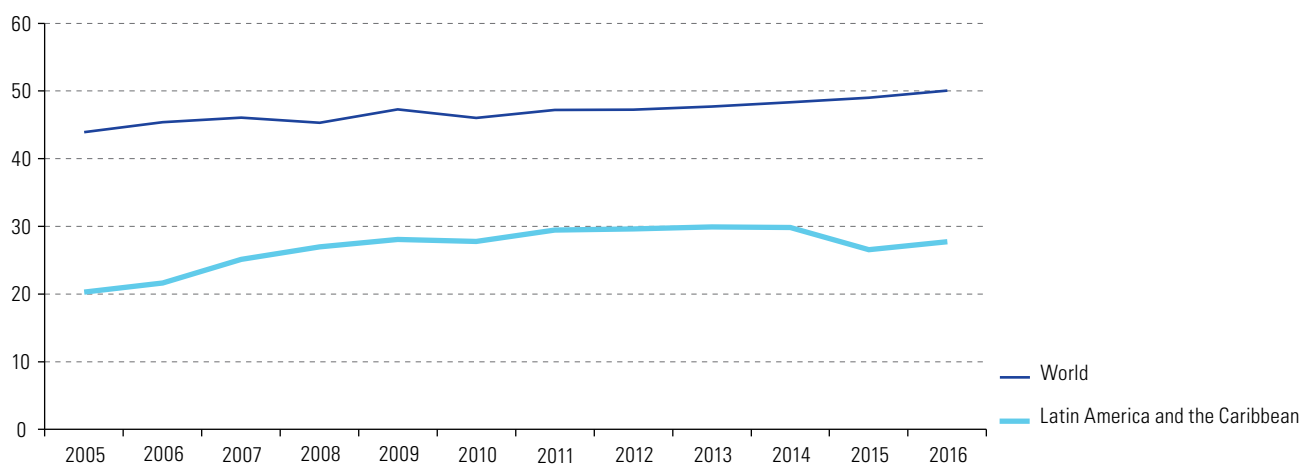
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.org/Home/WSDBHome.aspx.

Figure II.4
Latin America and the Caribbean: trade balance in total and modern services, 2005-2016
(Billions of dollars)

**The recent reduction in regional trade deficits in total and modern services
is due mainly to lower imports**

A. Total services

B. Modern services

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto.
org/Home/WSDBHome.aspx.

Figure II.5
World and Latin America and the Caribbean: main categories of services exports, 2005 and 2016[a]
(Percentages)

Modern services accounted for only 30% of exports from the region compared to 50% worldwide

A. World exports
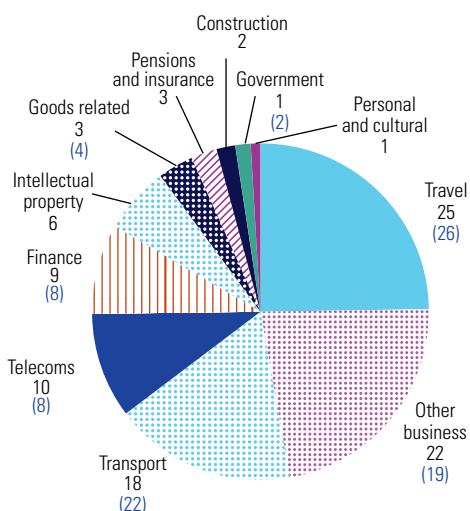
B. Latin American and Caribbean exports
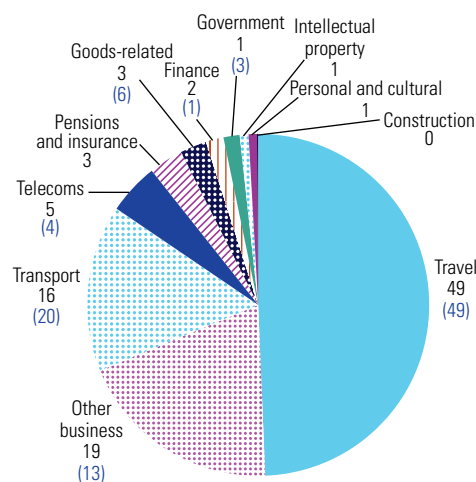
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database [online] http://stat.wto. org/Home/WSDBHome.aspx.

[a] The first percentage shown after each category refers to the respective share in 2016; the second, shown in brackets, corresponds to the share of in 2005. Where there is no figure in brackets, no 2005 data were available for the respective category.

3.   South America accounts of three quarters of the region's modern services exports

South America represented 46% of the region's total services exports and 74% of its modern services exports in 2015-2016, slightly higher than its respective shares in 2005-2006 (see figure II.6). Central America and the Caribbean come next in total services exports (22% each), followed by Mexico (18%). These three accounted for only minor shares of the region's modern services exports, except for Central America (16%), reflecting their specialization in traditional services, in particular tourism.

On the import side, the concentration in South America is even greater, since this subregion accounts for two thirds of total services imports and four fifths of modern services imports (see figure II.6). Mexico also has a higher share in the region's imports than in its exports. In contrast, Central America has smaller shares in both the region's total and modern services imports than in total exports of both categories.

South America ran a persistent deficit in trade in services in recent years, while the rest of the region ran a trade surplus.

South America ran a persistent deficit in trade in services in recent years, while the rest of the region ran a trade surplus. South America's trade deficit in total and modern services increased from 2005 to 2014, but came down in 2015 and 2016, reflecting stagnating demand for tourism and transport services in some of its major economies, such as Brazil and Argentina (see figure II.7). In the Caribbean, Central

America and Mexico, the trade surplus in overall services was stable until 2012, but increased thereafter thanks to growing exports and falling imports. These subregions' surplus is strongly linked to their comparative advantage in tourism. In contrast, in modern services they have run a deficit throughout the entire period, although this has shrunk over time.

Figure II.6
Latin America and the Caribbean: geographic composition of total and modern services trade, 2005-2006 and 2015-2016
(Percentages)

South America accounts for three quarters of the region's modern services exports

A. Total and modern services exports
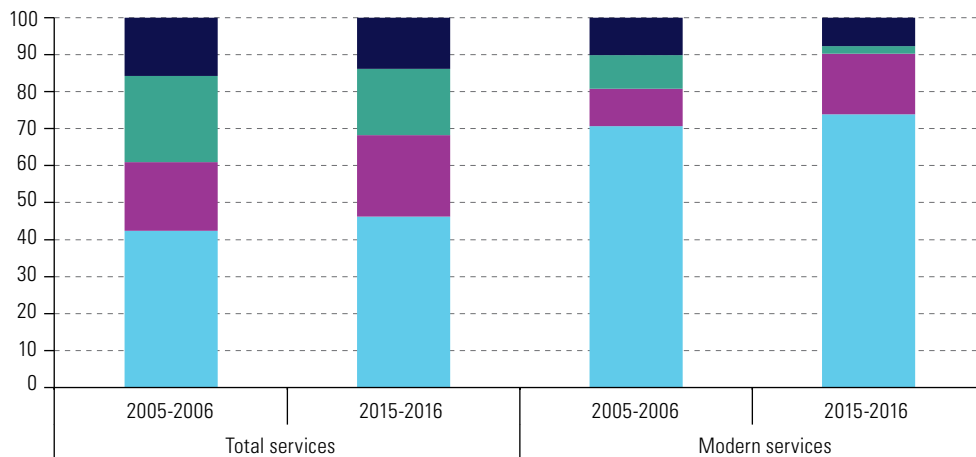
B. Total and modern services imports
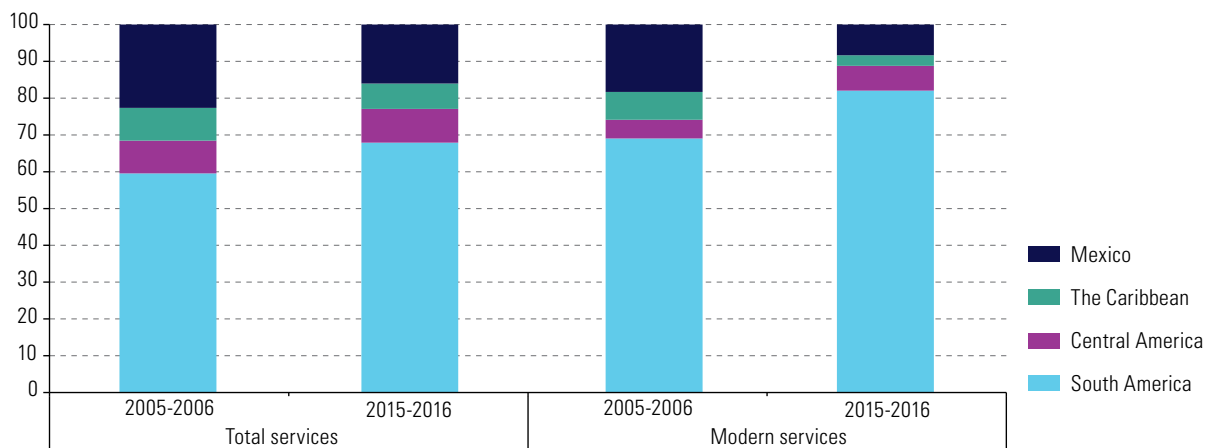
Figure II.7
Latin America and the Caribbean: trade in total and modern services by subregion, 2005-2016
(Billions of dollars)

The Caribbean, Central America and Mexico have a surplus in total services trade, but a deficit in modern services

A. South America: trade in total services
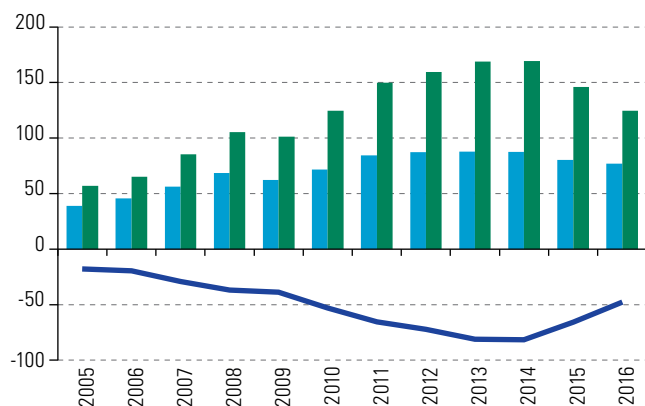
B. South America: trade in modern services
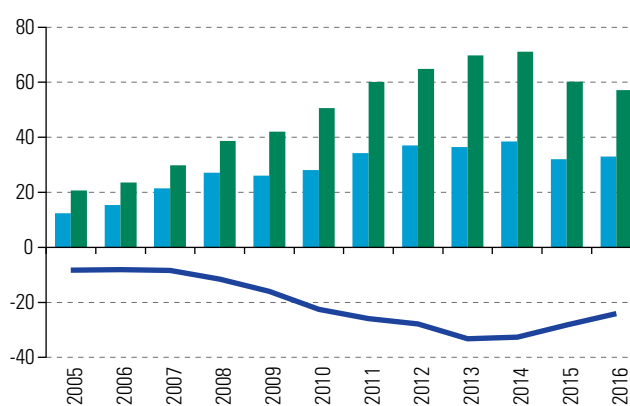
C. Caribbean, Central America and Mexico: trade in total services
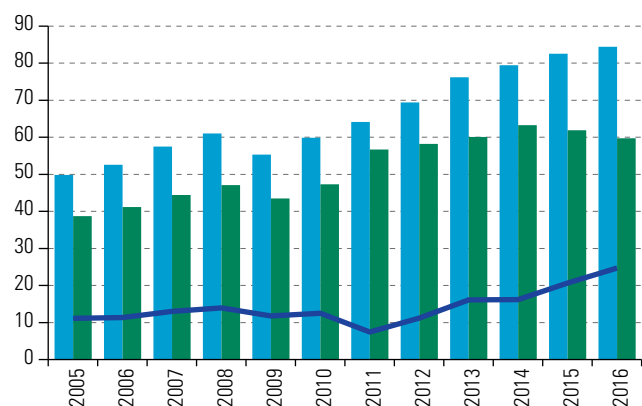
D. Caribbean, Central America and Mexico: trade in modern services
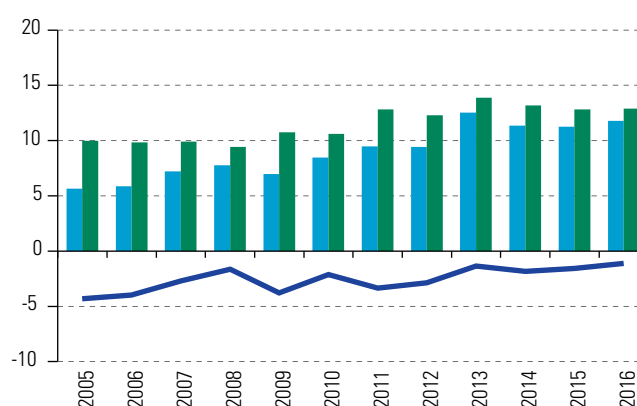
■ Exports   ■ Imports   — Balance

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database, [online] http://stat.wto.org/Home/WSDBHome.aspx.

A more disaggregated view of trade balances by different services categories confirms the concentration of trade surpluses in the Caribbean, Central America and Mexico in tourism in 2016, while South America had a trade deficit in this category (figure II.8). Each subregion's respective trade surplus or deficit in this activity widened between 2005 and 2016, as shown by the entries for the travel item in the figure. In South America, trade deficits also increased in transport, other business services and intellectual property. Central America was the only region to register and increase trade surpluses in goods-related services, other business services and telecoms.

Figure II.8
Latin America and the Caribbean: trade balances by services categories, 2005 and 2016
(Billions of dollars)

Except for South America, all the subregions show trade surpluses in travel services
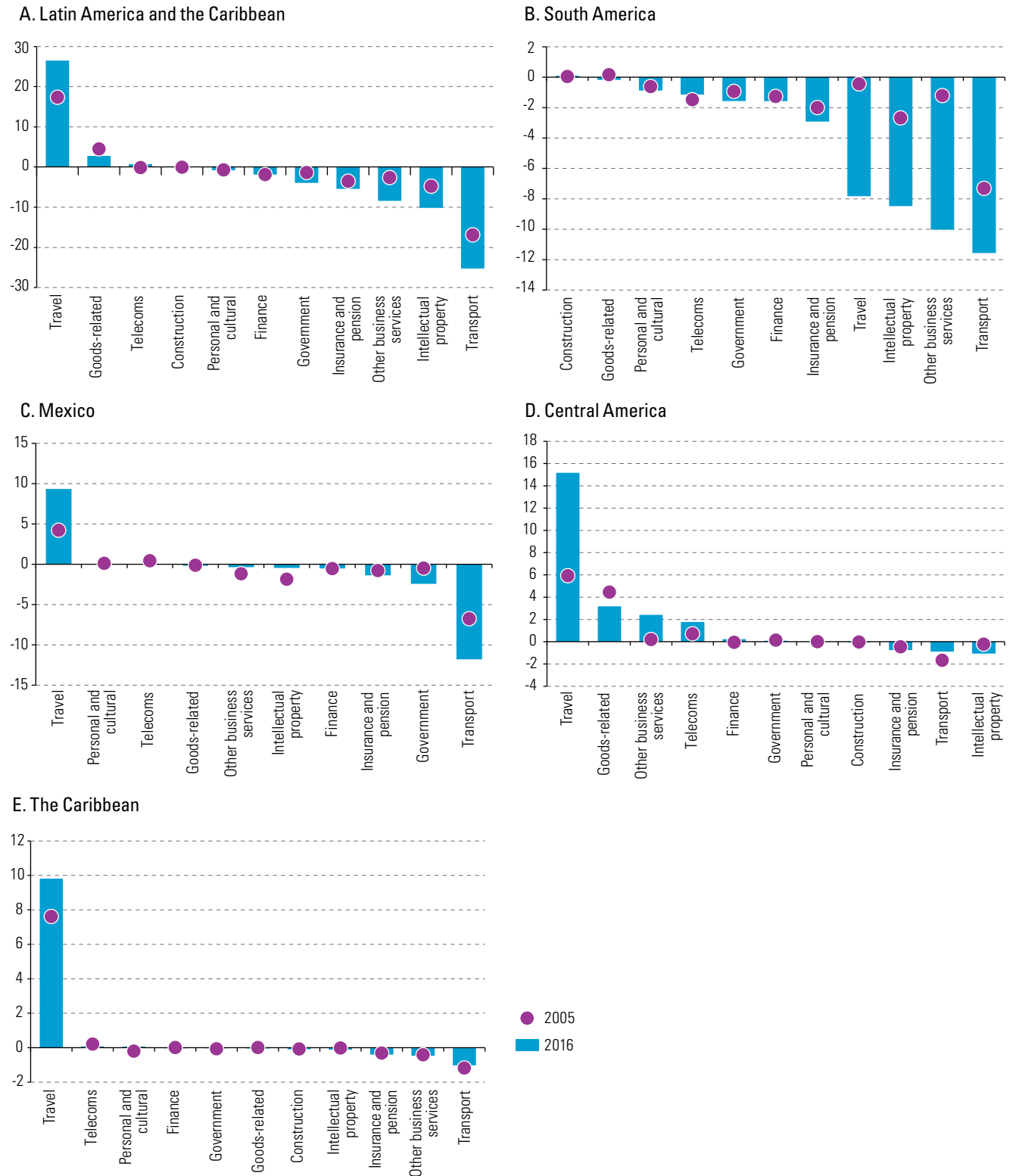
A. Latin America and the Caribbean

B. South America

C. Mexico

D. Central America

E. The Caribbean

● 2005
■ 2016

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database, [online] http://stat.wto.org/Home/WSDBHome.aspx.

4.   Few countries in the region specialize in modern services exports

Brazil, Mexico and Argentina were the first, second and third largest exporters and importers of total services, respectively, in Latin America and the Caribbean in 2016 (see figure II.9). From 2005 to 2016, Brazil was the country that most increased its share in regional imports, whereas Mexico lost market share. The countries following the region's top three show very different patterns in exports and imports. In exports, Panama, Cuba and Chile are in the fourth, fifth and sixth place, while Chile, the Bolivarian Republic of Venezuela and Colombia are fourth, fifth and sixth in imports. The region's three main modern services exporters are Brazil, Argentina and Costa Rica, while Mexico came only fifth in 2016 even though it was second in 2005. Costa Rica's impressive third position can be explained in part by its persistent efforts to develop modern services exports, mainly through the attraction of multinational companies.

As global demand for modern services has grown faster than that of other categories over recent decades, countries specialized in this category have an advantage over others specialized in tourism or transport, which expanded less over the same period. In the region, some Caribbean countries, Costa Rica, Panama, Brazil and Argentina have the highest shares of modern services in total exports of goods and services (see figure II.10). Shares of modern services in imports are higher than shares in exports, in part because most of these services are produced in developed countries.

Most countries in the region have a deficit in services trade. From 2005 to 2016, all increased their surplus or deficit; no country changed signs. The surplus countries (mostly in the Caribbean and Costa Rica) are specialized in either tourism or modern services (Costa Rica). In modern services trade, the majority of countries have either balanced trade or a large deficit (the Bolivarian Republic of Venezuela, Brazil and Mexico) (see figure II.11).

> In the region, some Caribbean countries, Costa Rica, Panama, Brazil and Argentina have the highest shares of modern services in total exports of goods and services.

Figure II.9
Latin America and the Caribbean: selected country shares in total and modern services trade, 2005 and 2016
(Percentages)

Since 2005, Costa Rica has increased its share in regional exports of modern services whereas Mexico has lost ground

A. Total services: main exporting countries
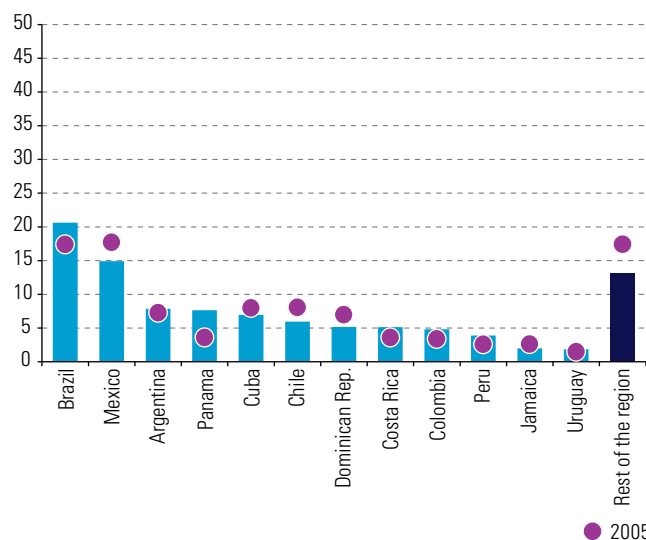
B. Total services: main importing countries

● 2005   ■ 2016
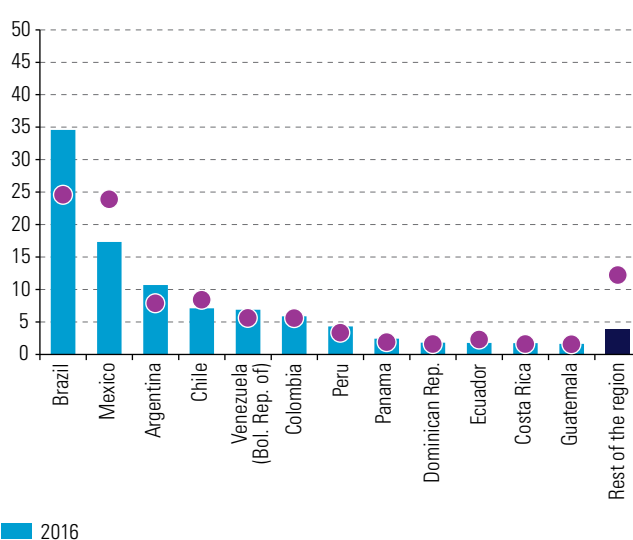
Figure II.9 (concluded)

C. Modern services: main exporting countries
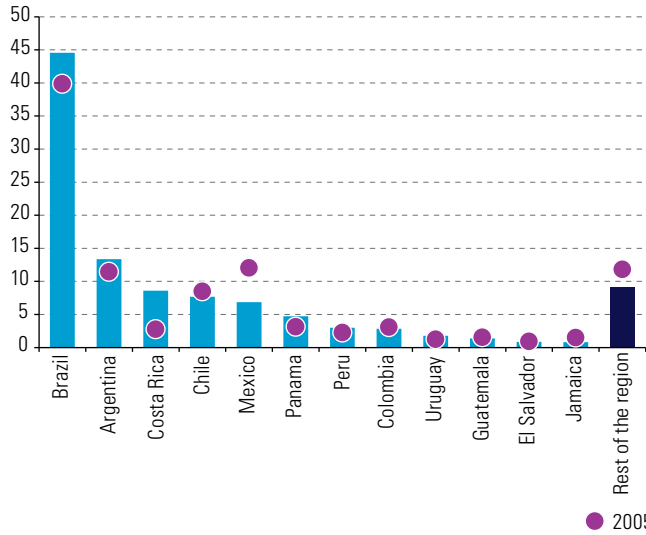
D. Modern services: main importing countries
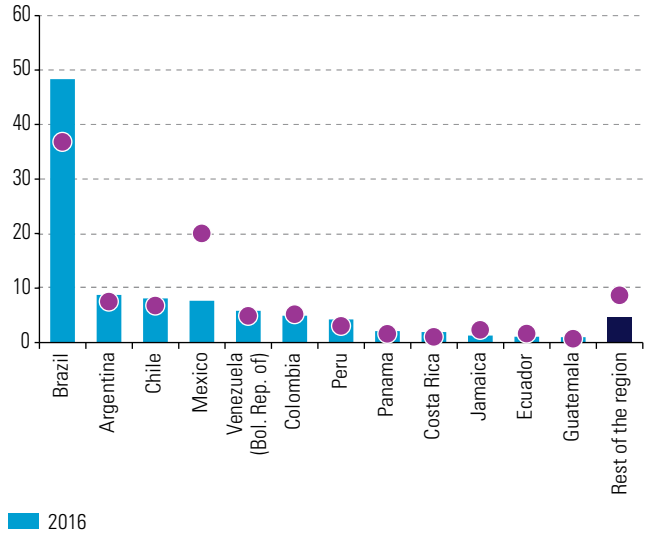
● 2005   ▬ 2016

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database, [online] http://stat.wto.org/Home/WSDBHome.aspx.

Figure II.10
Latin America and the Caribbean (28 countries): average share of different types of services
in total exports of goods and services, 2015-2016
(Percentages)

Modern services represent more than 10% of total exports only in some Caribbean countries, Costa Rica and Brazil

A. Exports

■ Modern services
■ Transport
■ Travel
■ Other services
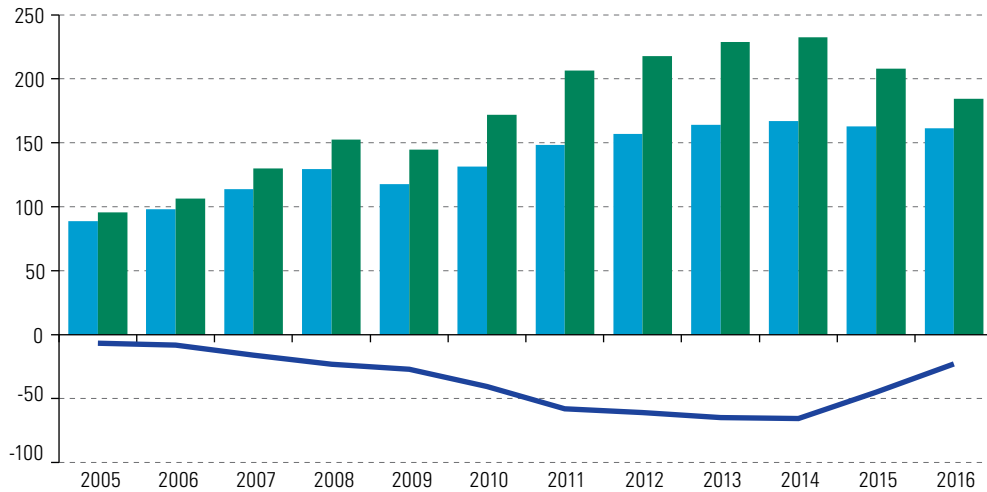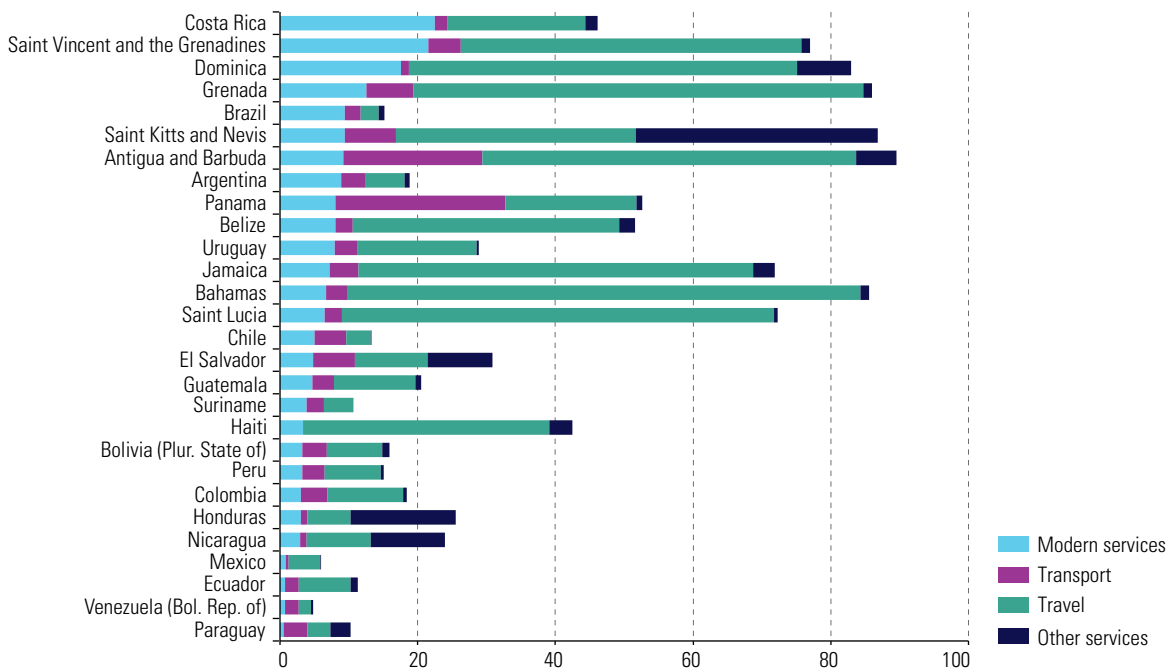
Figure II.10 (concluded)

B. Imports

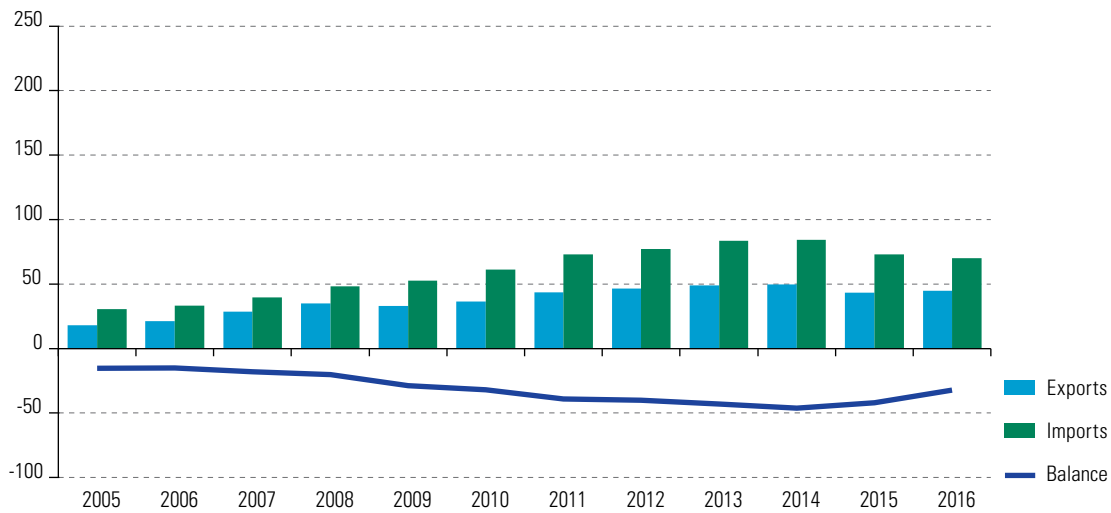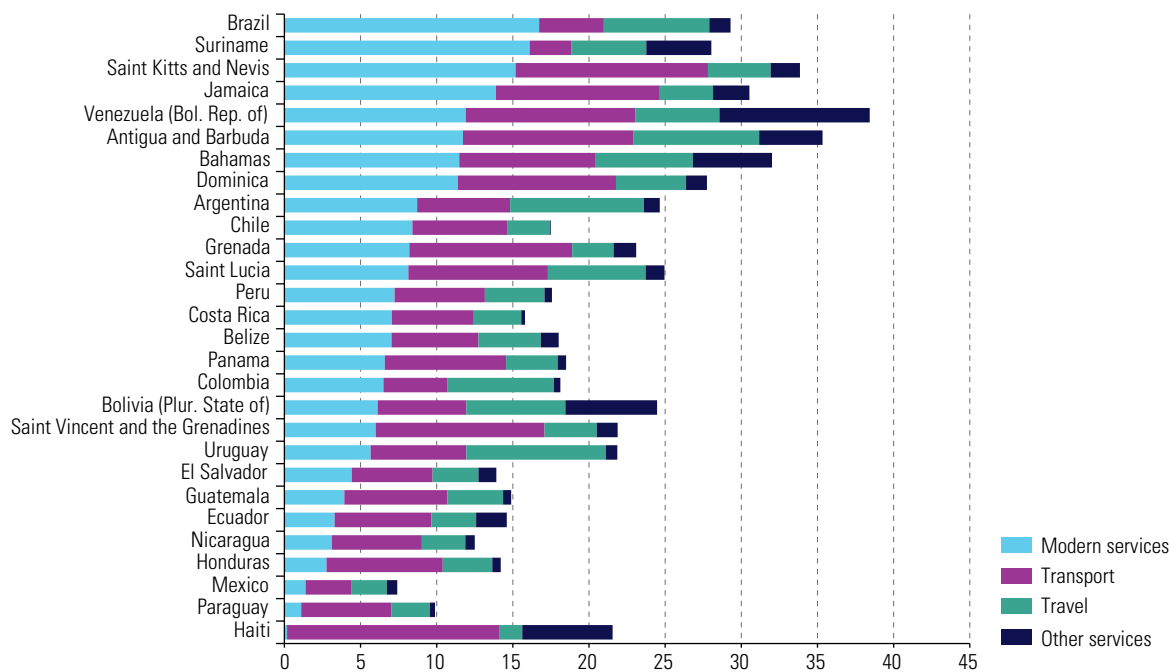**Source**: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of World Trade Organization (WTO), Statistics database, [online] http://stat.wto.org/Home/WSDBHome.aspx.

Figure II.11
Latin America and the Caribbean (33 countries): trade balance in total and modern services trade, 2005 and 2016
(Billions of dollars)

All countries increased their trade surplus or deficit over the past decade

A. Total services
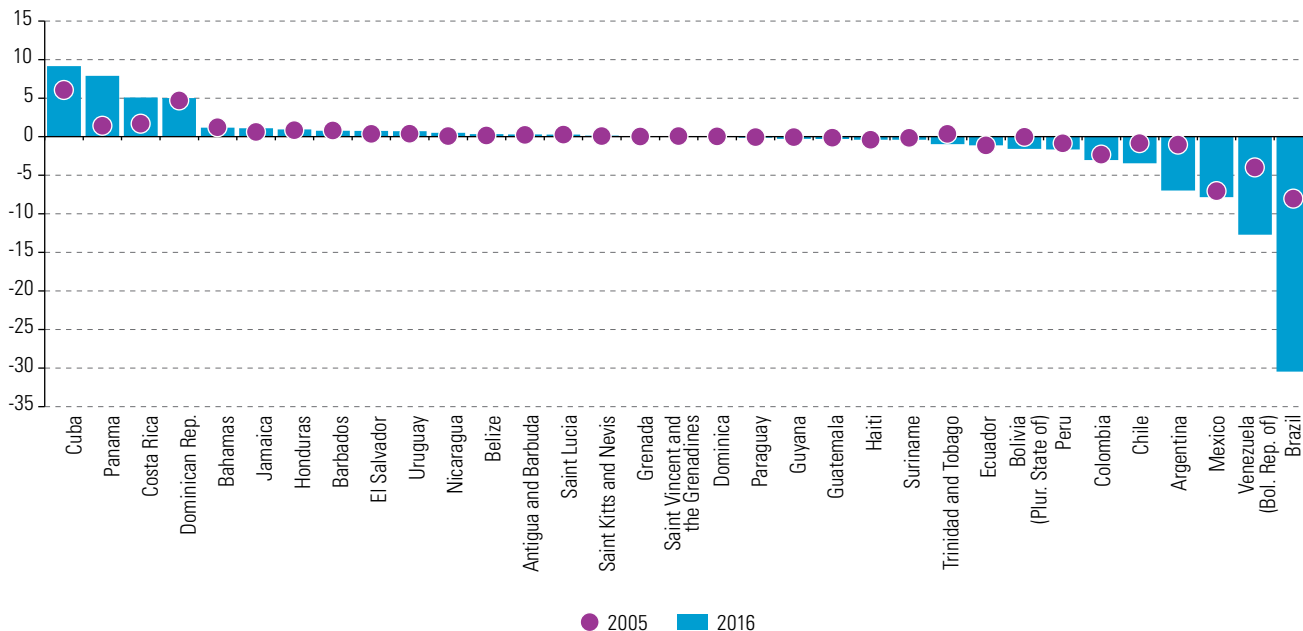
Figure II.11 (concluded)

B. Modern services
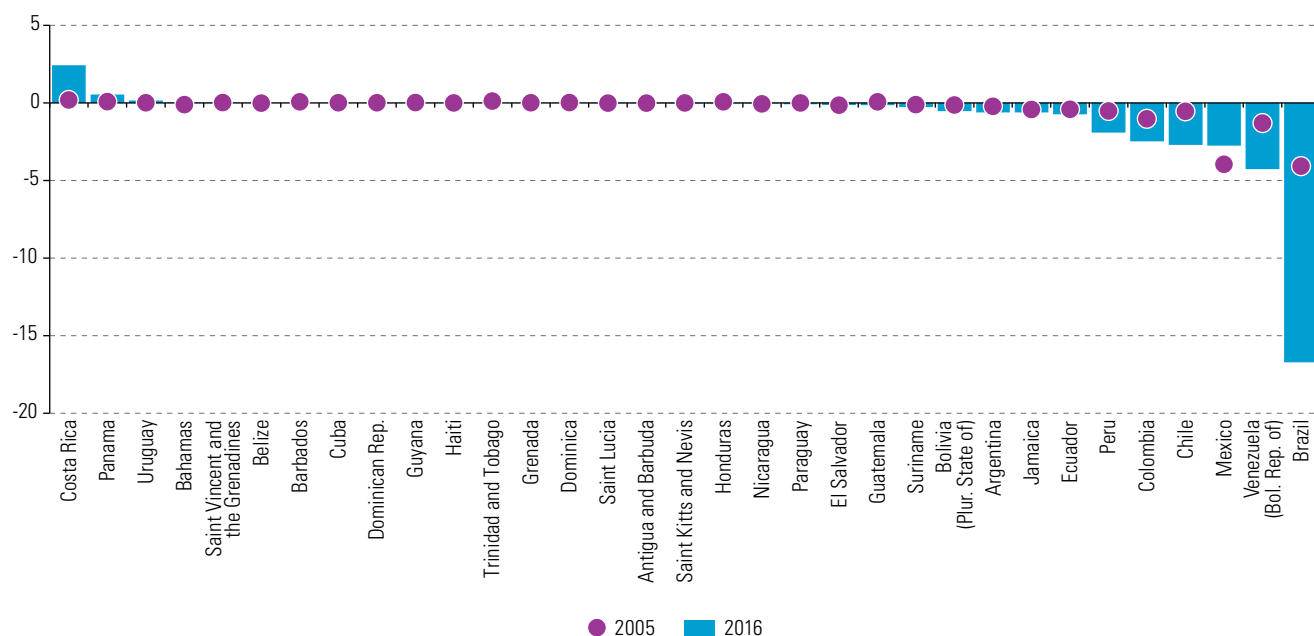
● 2005   ▬ 2016

5.   The regional market is important for modern services exports

Only three countries in the region publish trade in services statistics by trading partner, starting a few years ago. These three countries show large differences in the destination of their exports and origin of their imports. For Brazil, the European Union is the largest export market and main origin of imports, followed by the United States; less than 10% of Brazil's exports and imports of either total or modern services corresponded to the rest of the region. By contrast, Chile and Colombia export predominantly to the region, with a market share exceeding 40%. The United States is the second export destination for modern services from Chile and total and modern services from Colombia. The services imports of Chile and Colombia were more geographically spread (see figure II.12).

The above analysis of export performance is facilitated by recent improvements in the statistics on trade in services in the region. These are registered under the Extended Balance of Payments Services Classification (EBOPS) of each country. Recently, several countries in Latin America and the Caribbean have improved the compilation methods of these statistics following the guidelines of the sixth edition of the *Balance of Payments Manual* of IMF. Moreover, some countries, such as Brazil, have increased the breakdown into different categories of services provision and a few countries have started to provide information on trade by partner countries (see box II.1).

Figure II.12
Brazil, Chile and Colombia: geographic breakdown of services exports and imports, average, 2015-2016
(Percentages)

The regional market is the main destination for Chile's and Colombia's services exports

A. Exports
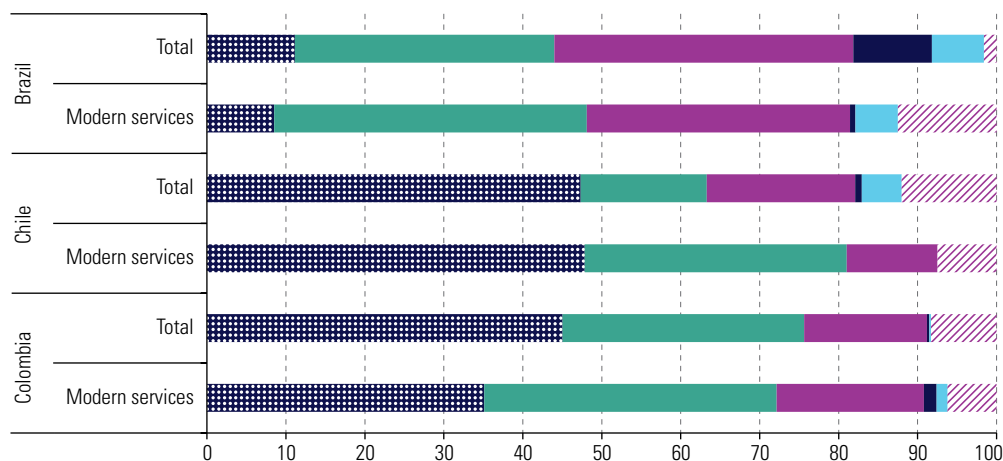
B. Imports

Legend:
- Latin America and the Caribbean
- United States
- European Union
- China
- Rest of Asia
- Rest of the world
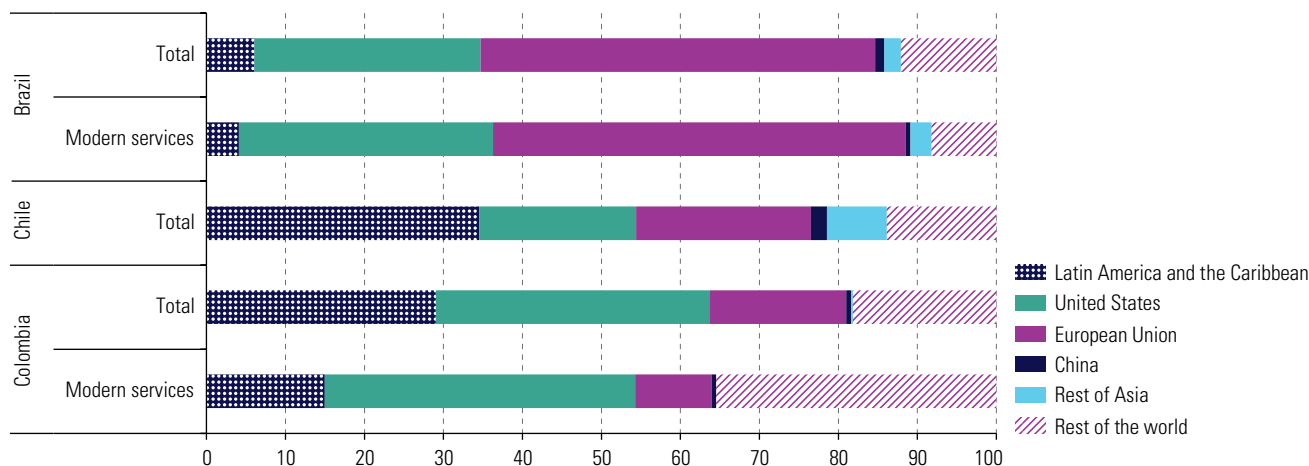
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national statistics.

Box II.1
Improvements and challenges in Latin American trade in services statistics

The Latin American Integration Association (LAIA) provides an overview of the progress made until 2016 by its members in terms of adapting trade in services statistics to the guidelines of the sixth edition of the *Balance of Payments Manual* of the International Monetary Fund (IMF). Services trade statistics are reported by the Extended Balance of Payments Services Classification (EBOPS) (see table). The LAIA service trade statistics working group, whose annual meetings have contributed to improving services trade statistics in the Association's member countries, facilitated this overview. Almost all countries have implemented the provisions of the fifth edition of the *Balance of Payments Manual*, while some have fully implemented

Box II.1 (concluded)

the sixth edition or are in the process of doing so. About half the countries are also following the guidelines of the *Manual on Statistics of International Trade in Services 2010*, which recommends countries to follow the compilation guidelines and disaggregation of services categories set forth in the fifth and sixth editions of the *Balance of Payments Manual*.

LAIA member countries: data availability on trade in services statistics, 2016

Country	Institution responsible	Use of *Balance of Payments Manual*		Use of *Manual on Statistics of International Trade in Services 2010*	Data frequency	By trading partner	By mode of delivery	Other services	
		Fifth edition	Sixth edition					Business registers	Special survey
Argentina	National Institute of Statistics and Censuses (INDEC)	Yes	Yes	Yes	Q	In process	No	Yes	Yes
Bolivia (Plurinational State of)	Central bank	Yes	No	No	Q	No	No	Yes	Yes
Brazil	Central bank and Ministry of Development, Industry and Foreign Trade	Yes	Yes	No	M	Yes	Yes	Yes	Yes
Chile	Central bank	Yes	Yes	No	Q	Yes	No	No	No
Colombia	Central bank and National Administrative Department of Statistics (DANE)	Yes	Yes	Yes	Q	Yes	Yes	Yes	Yes
Cuba	National Office of Statistics and Information (ONEI) and Central bank	No	No	Yes	A	No	No	Yes	No
Ecuador	Central bank	Yes	No	No	Q	No	No	No	No
Mexico	Central bank	Yes	In process	No	Q	No	No	No	No
Panama	National Statistics and Census Institute (INEC)	Yes	Yes	Yes	A	In process	No	Yes	Yes
Paraguay	Central bank	Yes	In process	…	Q	No	No	Yes	Yes
Peru	Central bank	Yes	2018	Yes	Q	In process	No	Yes	Yes
Uruguay	Central bank	Yes	No	….	Q	No	No	No	Yes
Venezuela (Bolivarian Republic of)	Central bank	Yes	In process	Yes	Q	No	No	No	Yes

Source: Economic Commission for Latin American and the Caribbean (ECLAC), on the basis of Latin American Integration Association (LAIA) (2016), *Estadísticas del comercio internacional de servicios: Diagnóstico sobre la compilación y difusión en los países miembros de la ALADI*, Montevideo, 2016.

Note: A = annual; Q = quarterly; M = monthly.

Most countries publish trade in services data on a quarterly basis, except for Brazil, which releases data monthly. Cuba and Panama publish data only on an annual basis. Only 3 out of 13 countries publish data by trading partner. Several countries use business registers and special surveys to estimate trade in services data. The disaggregation of services trade has also improved in most LAIA countries. In a comparison between 2000 and 2014-2015, 9 out of 14 countries provided more detail on trade in services by the second period, while only 3 reduced the level of disaggregation.

Brazil increased the breakdown of its services trade more than any other country, following the introduction of its Integrated System of Foreign Trade in Services, Intangibles and other Operations that Produce Variations in Equity (SISCOSERV) in 2012. SISCOSERV is one of the most detailed publicly available services trade databases in the world, with about 850 different categories of services and intangibles based on version 2.0 of the United Nations Central Product Classification (CPC). This database not only specifies the category of service traded, date, mode of supply, value of the transaction and currency used, but also allows the identification of cases where Brazilian firms outsource the provision of specific services to foreign firms and to which country those services are ultimately provided.

Source: Economic Commission for Latin American and the Caribbean (ECLAC), on the basis of Latin American Integration Association (LAIA), *Estadísticas del comercio internacional de servicios: diagnóstico sobre la compilación y difusión en los países miembros de la ALADI*, Montevideo, 2016.; Statistical Office of the European Union (Eurostat), "Measuring international trade in services: from BPM5 to BPM6", Luxembourg, 2016; J. Arbache, D. Rouzet and F. Spinelli, "The role of services for economic performance in Brazil", *OECD Trade Policy Papers*, No. 193, Paris, Organization for Economic Cooperation and Development (OECD), 2016; Ministry of Industry, Foreign Trade and Services, Integrated System of Foreign Trade in Services, Intangibles and Other Events that Produce Equity Variations (SISCOSERV).

6. Information technology has been a key driver of the rise of trade in modern services

The growth of global modern services trade has been driven mainly by the spread of information and communication technologies (ICTs). From the 1960s onwards, these technologies contributed to the process of outsourcing of modern services in developed countries. Firms increasingly passed the responsibility for non-core business processes such as computer processing of payrolls and customer claims to third parties, which could manage these processes more efficiently and economically, thanks to staff specialization in those areas and economies of scale achieved by providing services to a number of clients from large data centres.

In the beginning, companies almost invariably outsourced their processes to providers in the same country, but later the outsourcing model expanded to include service providers whose facilities were located in developing countries (offshore outsourcing). This was facilitated by a wave of deployment of undersea fibre-optic cables, which reached its peak between 1998 and 2002 during the "dot-com" boom (Ruddy, 2013). In a parallel development, large corporations also increasingly established specialized offshore shared services centres (SSCs) in developing countries to provide services to their offices in other countries. Another contributor to this offshoring trend was the liberalization of services trade through the WTO General Agreement on Trade in Services (GATS) of 1995 and multiple regional and bilateral free trade agreements signed afterwards.

Although earlier developments in ICTs played a key role in the growth of offshore services provision and the resulting benefits for Latin American countries, some of the latest ICT developments have the potential to diminish those benefits. The most significant of these is automation —the use of machines that are capable of carrying out tasks without direct human intervention. A particularly simple type of modern automation that can be used by offshore service providers is robotic process automation (RPA), which involves the creation of a software "robot" that automates the repetitive tasks that a human worker performs when using multiple computer applications.

However, as the tasks to be automated become less standardized and repetitive, more advanced technologies are required. These often involve the use of machine learning and other artificial intelligence (AI) techniques to analyse large amounts of information about tasks and their desired outcomes, with the AI software creating rules based on the results of this analysis which can then be used to guide activities intended to achieve those outcomes. In contrast to basic RPA, the implementation of AI-based automation requires substantial technical sophistication on the part of the individuals who carry out the analysis upon which the details of automation will be based.

The results of recent surveys have shown that cost reduction is the most important reason for businesses to outsource services, and to move existing ones abroad (Deloitte, 2015). Offshore services providers are therefore under strong pressure to control their costs, as shown by the importance that they place on locating their facilities in countries with relatively low wages. Other options available to service providers for controlling costs via employment strategies have direct implications for the types of services that

> In contrast to basic robotic process automation, the implementation of AI-based automation requires substantial technical sophistication on the part of the individuals who carry out the analysis upon which the details of automation will be based.

they can offer. Choosing to employ only low-wage workers, for instance, necessarily limits the skills that those employees can be expected to have and the complexity of activities that they can carry out without close supervision. This, in turn, limits providers to offering the most basic types of "back office" (internal) or "front office" (client-facing) business process outsourcing (BPO) services (see diagram II.2).

Diagram II.2
Offshore services and labour demand

The skill intensity of offshore services increases with their complexity

Low-level back office	Low-level front office	Higher-level back office	Knowledge and decision support	Research and development
• Data entry • Transaction processing • Document management	• Customer contact and service • Telemarketing • Debt collection	• Finance and accounting • Human resources • Purchasing • ICTs	• Client analysis • Portfolio analysis • Claims processing • Risk management	• New product design • Content development, design, and engineering

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of McKinsey Global Institute, "Offshoring: is it a win-win game?", San Francisco, 2003 [online] https://www.mckinsey.com/global-themes/employment-and-growth/offshoring-is-it-a-win-win-game.

Although companies may simply outsource low-value activities, the use of automation technologies is an interesting alternative for outsourced services providers. Not only are the activities involved relatively simple and repetitive, making them particularly suitable for automation from a technical point of view, but the lower cost of automated solutions relative to using human workers (PwC, 2016; Sethi and Gott, 2016) could enable suppliers to compete in providing these services on a more profitable basis. From the point of view of local employment, of course, such a strategy would lead to a drastic reduction in demand for lower-skilled employees.

The higher wages of more skilled workers demanded in the services value chain are an incentive for automation, but the increasing complexity of the tasks they carry out is a potential impediment to such automation. When viewed in more detail, however, it becomes apparent that some types of higher-value offshored services are more suitable for automation than others. In sum, it is difficult to make predictions about the future impacts of automation on offshore services provision in Latin America. However, it seems highly likely that demand for lower-skilled workers will decrease as providers move to business models which incorporate automation and fewer, more highly-skilled and highly-paid employees.

B.   Intermediate services in manufacturing exports are another key component of services trade

1.   Intermediate services are a key driver of manufacturing export performance

The analysis in the previous section measuring services trade in gross value terms does not provide a complete picture of countries' export performance in this sector. This is because many services are traded indirectly through their incorporation as intermediate inputs in exports of goods, a process termed the "servicification" of goods. To measure these indirect exports of services, the gross export values of those goods need to be decomposed into: (i) the value added generated in the particular goods sectors, and (ii) the value added incorporated from both domestic and imported other goods and services sectors as intermediate inputs.

Only recently has it become possible to decompose gross values into value added components, using inter-country input-output tables (IIOTs) such as the Trade in Value Added (TiVA) database of the Organization for Economic Cooperation and Development (OECD). This dataset covers 63 countries, including several developing economies from Asia and 7 countries in the region, with annual data between 1995 and 2011. Calculations using these data show that Latin American countries are very heterogeneous regarding the proportion of indirect to direct services exports, ranging from slightly more than 40% in Colombia to 160% in Mexico in 2011 (see figure II.13). In the case of Mexico, the large volume of indirectly exported services reflects their important role in the intertwining of the country's manufacturing exports with United States manufacturing; this forms part of the set-up that gave rise to the term "Factory North America". Asian developing economies showed similar differences in the proportion of indirect to direct services exports. Between 1995 and 2011, except in Chile, indirect exports became relatively more important for all the Latin American countries in the TiVA dataset, which may point to their increasing involvement in regional and global production networks —requiring higher services content— over this period.

A growing body of literature has shown that services are playing an increasing role in adding value to exports of natural resources and manufactures. There is mounting evidence of this "servicification" as a condition for successful export performance and diversification. In this chapter, the focus is on the role of services in the competitiveness of manufacturing exports.[2]

Manufacturing firms increasingly use different types of services at each stage of their value chains (see diagram II.3). This servicification has different origins (Lodefalk, 2017). First, several "cost" services are important to reduce expenditures, improve production efficiency and increase productivity (Arbache, Rouzet and Spinelli, 2016). Examples are transport and logistics, finance, ICT services, insurance, management, and renting and leasing of machinery, equipment and buildings. These services improve the coordination of the production process and save time and materials (Nordås, 2010; USITC, 2013). The importance of cost services increases with the length of supply chains. As many manufacturing firms do not consider these services part of their core competencies, they are often outsourced to specialized providers.

The data show that Latin American countries are very heterogeneous regarding the proportion of indirect to direct services exports.

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[2]   Services also play an increasingly large role in the exports of natural resources. However, large fluctuations of commodity prices over time produce strong variations in the services content, which are thus difficult to interpret.

Figure II.13
Selected countries and groupings: indirect services exports as a share of direct services exports, 1995 and 2011
(Percentages)

The region's indirect services exports match its direct services exports
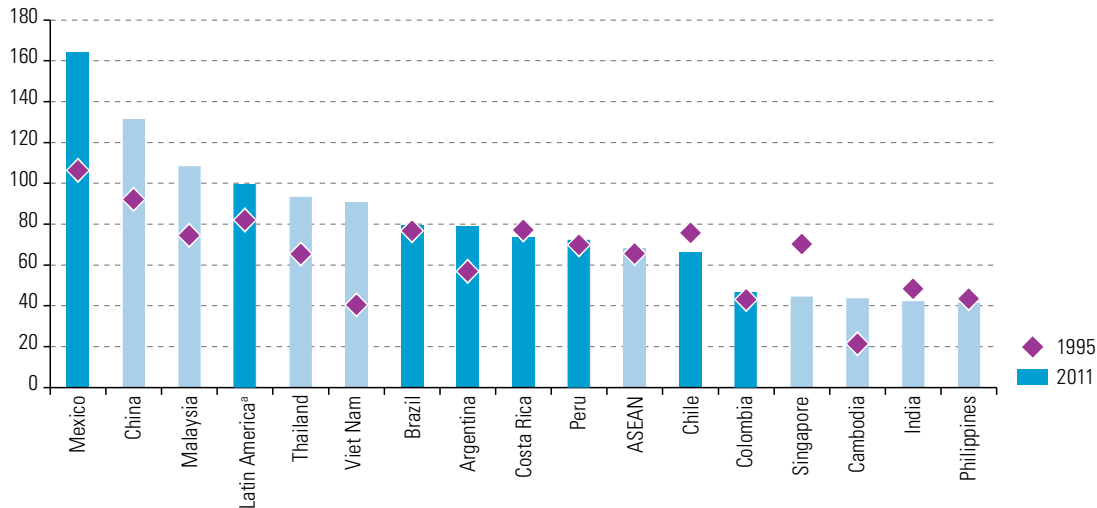
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO), Trade in Value Added (TiVA) database, 2016 [online] http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.
ᵃ Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

Diagram II.3
Role of services in manufacturing supply chains

Intermediate services play a role in all segments of global value chains

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Second, services are essential to establish and operate international production networks and global value chains (USITC, 2013). These business-to-business (B2B) and business-to-customer (B2C) services include accounting, customer relations, headquarters functions, information technology (IT) services and logistics. These greatly reduce coordination costs, levels of inventory and delivery times of intermediate and final products. In the 1980s, several countries increasingly began to specialize in different types of manufacturing and business services segments of the value chain. These trends were facilitated by technological developments in areas such as containerization and the spread of high-quality ICT infrastructure.

Third, manufacturers add services to differentiate their goods and make them more attractive to customers in a highly competitive environment. Firms also combine services with goods to adapt to changes in consumer demand. Manufacturers use wireless networks and digital technologies to build sensors and microchips into their goods to allow communication between them (Internet of things), to provide additional services and to collect information on consumer behaviour. Services can also help to limit the environmental and social impacts of goods production and consumption through repurchasing and recycling. In short, services help to produce premium products and increase customer loyalty. This category may be referred to as "value" services, and generally requires a higher content of human capital and other capabilities. The more sophisticated and differentiated products are, the larger the share of these value services (Arbache, Rouzet and Spinelli, 2016).

Fourth, firms use services to overcome barriers to foreign market entry in the form of exports or foreign direct investment (FDI) and to sustain foreign market sales (Lodefalk, 2017). Through the establishment of affiliates abroad, multinational companies provide different types of services, including distribution, maintenance, marketing, matchmaking, monitoring, repair and translation. These establishments and their local workers can help firms to improve their knowledge about local markets and networks.

Since 2008, a body of empirical studies has emerged on the role of services in manufacturing and their contribution to manufacturing performance in terms of exports and labour productivity. Most studies refer to OECD countries, while some also include developing countries. They concur that the share of services in world gross value of manufacturing exports exceeded 30% in 2011. Other findings are that services become more important in manufacturing production as the level of development increases, and that imported business services contribute positively to skilled-labour- and technology-intensive manufacturing exports (see box II.2 for a review of some studies).

Box II.2
Empirical studies show intermediate services playing a significant role
in manufacturing competitiveness

Miroudot and Cadestin (2017) show multiple stylized facts about the servicification of global manufacturing on the basis of the 2015 version of the Trade in Value Added (TiVA) database of the Organization for Economic Cooperation and Development (OECD). In 2011, the share of services value added in the world's gross value of exports was above 30% for all 16 manufacturing industries in the database, except for coke and petroleum. Distribution services accounted for about one third, whereas business services (including telecoms, computer services, research and development (R&D) and other business services) for another third. The rest was split between transport, finance and other services. From 1995 to 2011, the domestic services value added share of world gross value of manufacturing exports fell one percentage point, whereas the foreign services value added share increased by two percentage points. In many countries —but not in China or the United States— the share of services value added in manufacturing exports increased over this period. These results confirm those obtained by De Backer, Desnoyers-James and Moussiegt (2015), who analysed trends between 1995 and 2009 using the same database.

Francois and Woerz (2008) find that services become more important in production as the level of development increases. Using panel regressions, they show that increased import intensity of business services between 1994 and 2004 contributed positively to skills- and technology-intensive manufacturing exports. They also confirm that the protection of intermediate services from foreign competition has a negative impact on export performance of technology-intensive industries.

Wolfmayr (2008) looks at the determinants of export market shares of 18 manufacturing industries for 16 OECD countries from 1995 to 2000. She shows that services value added increased as a share of gross output in most countries over this period and reached over 20% in Ireland, Sweden and the United Kingdom. In addition, manufacturing sectors in these countries purchased most services at home and imported little from abroad. Using regression analysis and controlling for unit labour cost, R&D intensity and patent performance at the industry level, Wolfmayr shows that total and domestic services value added do not significantly contribute to the export market shares of manufacturing industries, whereas imported services do. Separate regressions for technology-driven industries show that total services inputs and imported services inputs significantly affect market shares, whereas domestic services have no impact. In the case of other industries, regressions show that services, whether total, domestic or imported, have no impact on market shares. Another set of regressions focused exclusively on links between export market shares and purchases of a subset of services: computer and related activities, R&D and business services, all knowledge-intensive business services (KIBS) that are more crucial for shaping international competitiveness. In this case, total and imported —but not domestic— KIBS significantly affected market shares.

Evangelista, Lucchese and Meliciani (2015) looked into the role of three types of business services (postal services and telecoms, computer services and other business services) to explain changes in export market shares between 2000 and 2007 in five European countries (France, Germany, Italy, Spain and the United Kingdom). They confirm that all three types of business services contribute significantly to each country's industrial competitiveness, controlling for unit labour cost and innovation expenditure. Separate regressions show that communication and computer-related services significantly affect market shares of both medium-high-tech sectors and medium-low-tech sectors, whereas other business services contribute to medium-high-tech manufacturing industries only.

Source: Economic Commission for Latin America and the Caribbean, on the basis of K. De Backer, I. Desnoyers-James and L. Moussiegt, "'Manufacturing or services: that is (not) the question'. The role of manufacturing and services in OECD economies", *OECD Science, Technology and Industry Policy Papers*, No. 19, Paris, Organization for Economic Cooperation and Development (OECD), 2015; R. Evangelista, M. Lucchese and V. Meliciani, "Business services and the export performances of manufacturing industries", *Journal of Evolutionary Economics*, vol. 25, No. 5, Berlin, Springer, 2015; J. Francois and J. Woerz, "Producer services, manufacturing linkages, and trade", *Journal of Industry, Competition and Trade*, vol. 8, No. 3-4, Berlin, Springer, 2008; S. Miroudot and C. Cadestin, "Services in global value chains: from inputs to value-creating activities", *OECD Trade Policy Papers*, No. 197, Paris, Organization for Economic Cooperation and Development (OECD), 2017; Y. Wolfmayr, "Producer services and competitiveness of manufacturing exports", *FIW Research Report*, No. 009, Austrian Institute of Economic Research (WIFO), Vienna, 2008.

2. Countries in the region incorporate mostly domestic services in manufacturing exports

It is import to analyse the services intensity of the region's manufacturing exports, given the low growth of their share in global manufacturing exports. This is evident in a comparison of the region with China, India and the emerging economies of the Association of South-East Asian Nations (ASEAN), using two measures from the TiVA database. The first is gross exports, which shows that Latin America's share in global manufacturing exports first increased between 1995 and 2005, but stagnated thereafter. The market share of ASEAN increased little until 2005, but rose afterwards. China's market share rose continuously over this period, as did —to a lesser extent— that of India (see figure II.14). More recent gross export statistics from the United Nations Commodity Trade Statistics Database (COMTRADE) until 2016 confirm the stagnation of Latin America's market share and the continuous rise of that of China, India and ASEAN.

The first is gross exports, which shows that Latin America's share in global manufacturing exports first increased between 1995 and 2005, but stagnated thereafter.

Figure II.14
Latin America (7 countries), ASEAN (8 countries), China and India: share in world manufacturing exports,
1995, 2005 and 2011
(Percentages)

Latin America's market share in gross global manufacturing exports stagnated between 2005 and 2011
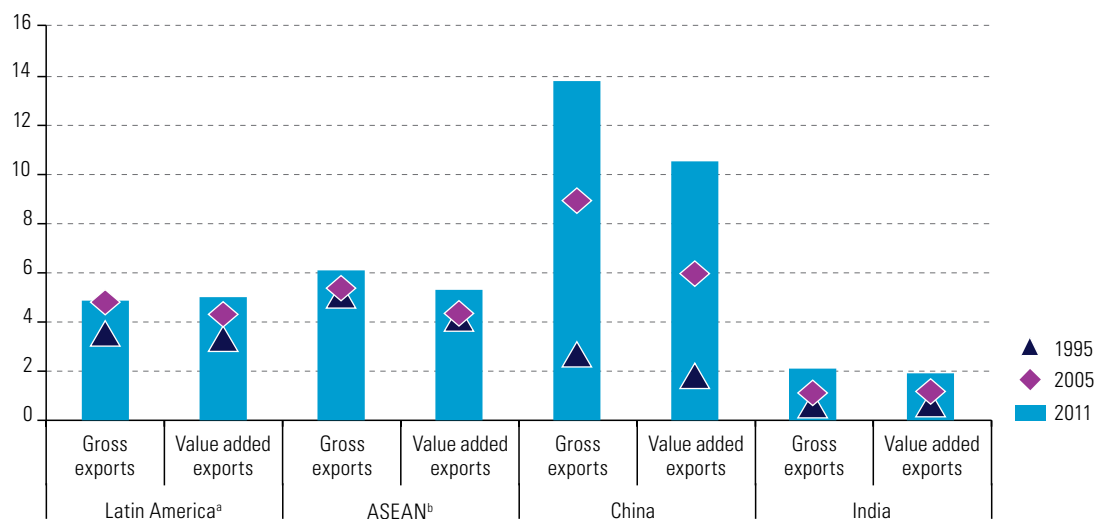
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade
Organization (WTO), Trade in Value Added (TiVA) database, 2016 [online] http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.
[b] Brunei Darussalam, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

A second and more accurate measure of the "true" share of a country in global exports is its share in global value added exports, which equals gross exports minus imported intermediate inputs. This measure yields slightly lower shares in world manufacturing exports for all the countries and regions shown in figure II.14, because their manufacturing sectors have a higher imported content of intermediate inputs than the rest of the world. By this measure, Latin America's share in the global exports market increased (by 0.7 percentage points) between 2005 and 2011, but less than that of ASEAN (1.0 percentage points) and China (4.6 percentage points).

Latin America's underperformance compared to Asia is often attributed to South America's growing export specialization in natural resources. This process was exacerbated by the fast-rising demand for these products by China and the rest of Asia as of the early 2000s. The region's growing dependence on natural resources led to a stronger concentration of exports in terms of products and export firms. It also contributed to currency appreciation in several countries, which in turn increased the international prices of their manufactured goods and thus dampened their exports: a classic case of phenomenon known as Dutch Disease (Rodrik, 2015).

This section explores another possible explanation for the region's stagnant performance in global manufacturing exports: the insufficient incorporation of domestic and foreign intermediate services. A comparison with Asian countries shows that some Latin American countries (Costa Rica and Brazil) had relatively high shares of incorporated services in 2011 (see figure II.15). By contrast, others (Colombia, Chile and Peru) had relatively low service shares, in part because they have a comparative advantage in

commodity-based manufactures, which are typically less service-intensive. Argentina and Mexico were in intermediate positions. From 1995 to 2011, the share of services in manufactures increased in Costa Rica and Brazil, but changed little in Mexico and fell in the other four South American countries, whose manufacturing exports have a high share of processed commodities. As the prices of processed commodities rose fast during this period, the intermediate services shares were automatically compressed. In sum, Latin America's stagnating performance in manufacturing exports cannot be explained by the low content of intermediate services in its manufacturing, as this is not the case in several of the region's countries.

> Latin America's stagnating performance in manufacturing exports cannot be explained by the low content of intermediate services in its manufacturing, as this is not the case in several of the region's countries.

Figure II.15
Selected countries: share of services in gross value of manufacturing exports, 1995 and 2011
(Percentages of gross export value)

Only some Latin American countries have a low services content of manufacturing exports
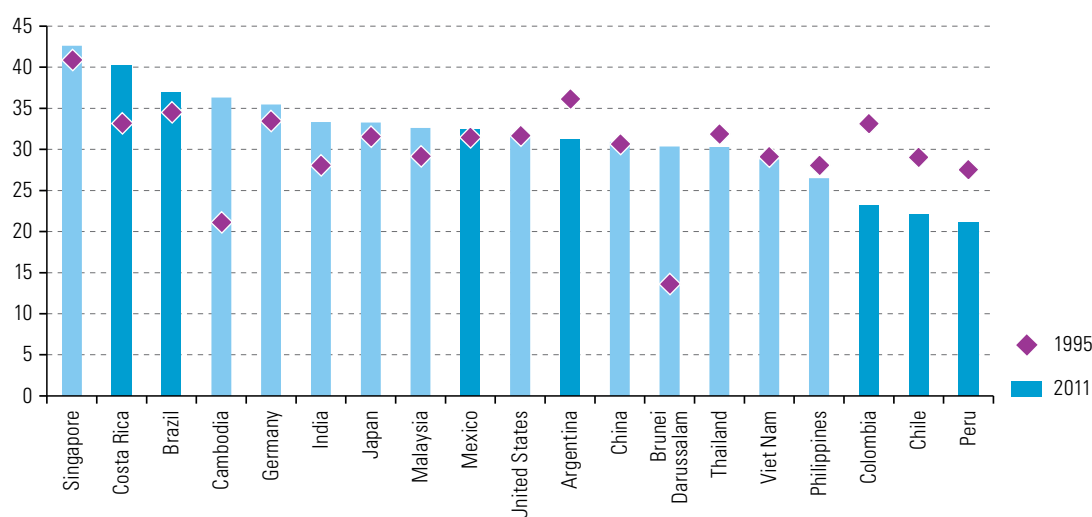
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO), Trade in Value Added (TiVA) database, 2016 [online] http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.

Latin America stands out internationally, however, for its high shares of domestic services and low shares of imported services in manufacturing export value. The region's domestic services value added intensity of manufacturing exports was higher than in ASEAN countries in the period analysed. By contrast, in ASEAN the imported services value added intensity of manufacturing exports was higher than in Latin America (see figure II.16), across all types of services. As imported business services appear to be more important for international manufacturing competitiveness than domestic ones (see the discussion in section 3 below), their higher content in ASEAN compared to Latin America may partly explain the former's better export performance. Manufacturing firms, particularly in developing countries, may prefer to import services when their performance is superior to those available at home. Another motivation for importing services is that multinational firms source simultaneous services globally instead of in each individual market, independently of the productivity of domestic providers. This increases the imported services content of manufacturing exports by these companies.

Figure II.16
ASEAN (8 countries) and Latin America (7 countries): types of services incorporated into manufacturing exports,
1995 and 2011
(Percentages of gross export value)

Imported business services play a larger role in manufacturing exports in ASEAN
than in the region
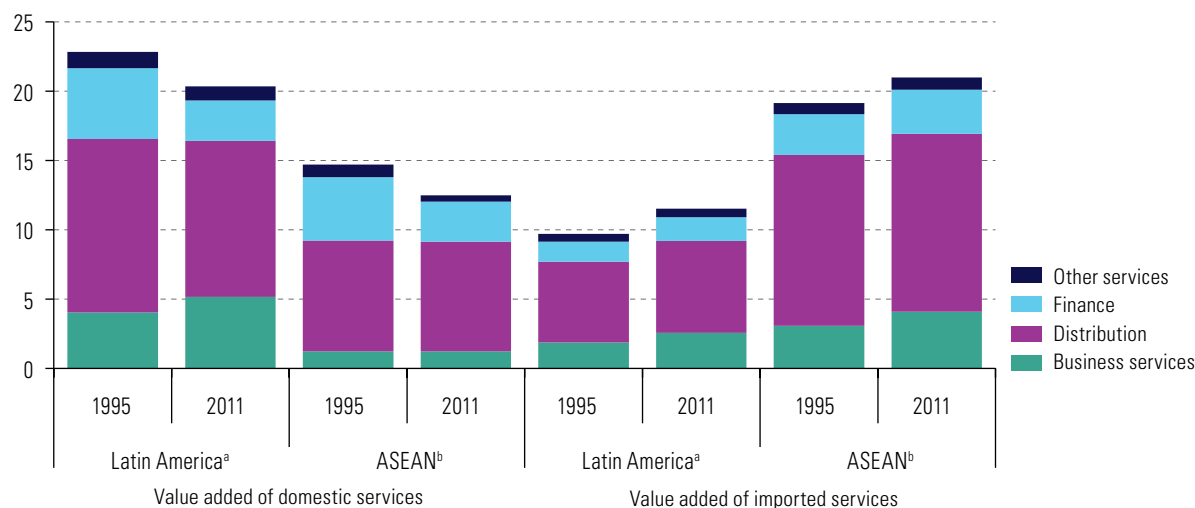
Multiple reasons may explain differences in domestic and imported services content between ASEAN and Latin America. First, as ASEAN countries are more integrated into regional production networks and value chains, they import relatively more services. The inverse causality could also be true: these countries may first have imported proportionally more services, which helped them in turn to enter international production networks. Second, Latin America may have more developed domestic services sectors than ASEAN and therefore can subcontract business services at home more easily, rather than importing them from abroad. Third, there may be a composition effect: Latin America exports proportionally more natural-resource-based manufacturing goods, which are less intensive in domestic business services. In a similar vein, ASEAN exports relatively more technology-intensive manufactures, such as electronics, which are intensive in imported business services.

The seven Latin American countries included in the TiVA database show major differences in terms of the domestic and imported services content of their manufacturing exports. Brazil and Costa Rica show the highest domestic services content of manufacturing exports (see figure II.17). Both countries have the highest share of distribution services of all seven, while Brazil also has the highest share of the other three types of services. Arbache (2014) argues that the high domestic services content in Brazil contributes little to the international competitiveness of its manufacturing sector, as it mostly reflects the high prices of key services such as finance, logistics and telecoms. In turn, these high prices result from relatively low productivity, limited competition and low levels of investment. Arbache and others (2015) also confirm the relatively high cost and possible inefficiency of intermediate services in Costa Rica.

Selected countries: share of domestic and foreign services in gross value of manufacturing exports, 1995 and 2011
(Percentages of export value)

Latin American exports contain a high share of domestic services and a low share of imported ones

A. Domestic services value added
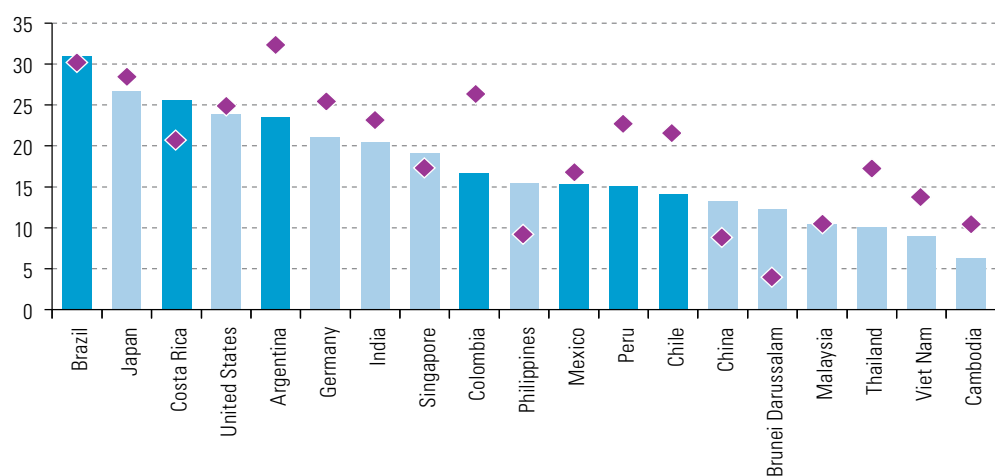
B. Foreign services value added
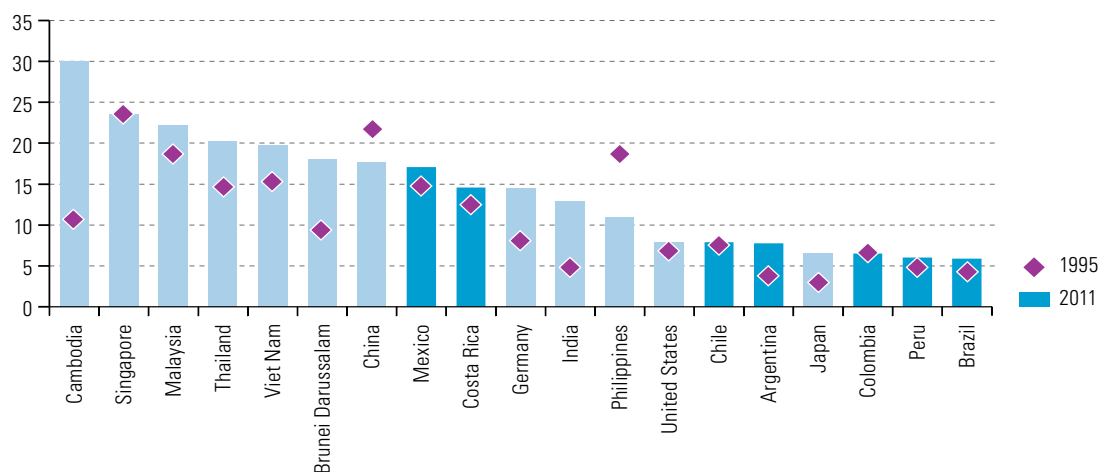
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD)/World Trade Organization (WTO), Trade in Value Added (TiVA).
Note: The bars shown in a darker shade correspond to countries of the region.

Brazil and Costa Rica are the only countries in the region where the domestic services content of manufacturing exports increased between 1995 and 2011. In the other five countries, this content fell by as much as 9 percentage points, partly as a result of their export specialization in natural-resource-based manufactures. As prices of these goods rose substantially over this period, export revenues grew faster than the cost of intermediate services, thereby compressing the latter's share.

Mexico is the first country and Costa Rica the second in terms of the foreign services value added content of exports in 2011. This may reflect the fact that the manufacturing sectors of these two economies are the most integrated in global and regional production networks that have a high concentration of technology-intensive products, which are

highly services-intensive. Both countries have the highest shares of both services aimed at reducing costs and those aimed at adding value to manufacturing exports —"cost services" and "value services", respectively (Arbache, Rouzet and Spinelli (2016).

Asian countries also show interesting differences. India and Singapore are the countries with the highest domestic services value added content of manufacturing exports in 2011 (almost 20%). While two thirds of this content is concentrated in distribution services, the business services content of these two countries is also the highest within this region. This probably reflects the fact that both countries have the most developed domestic business services sector within the Asian sample. The business services content in the value of manufacturing exports increased in all countries between 1995 and 2011 (except Brunei Darussalam), as regional value chains —which require proportionally more of these services— became deeper. Financial services and real estate are also important services, particularly in India, Thailand and Malaysia. In 2011, the imported services content was higher than the domestic content in all countries, except for India and the Philippines.

3.   Domestic intermediate services may contribute differently to competitiveness than imported ones

International rankings on the quality of infrastructure services and ease of access to loans show that several Latin American countries perform more poorly than those in Asia.

Regression results suggest that the total domestic services content of manufacturing exports is negatively associated with global export market shares, whereas total imported services content is positively associated. However, some types of domestic business services seem to contribute positively to changes in global export market shares, whereas domestic financial and real estate services (and some other services) seem negatively associated (see box II.3). The poor quality of certain domestic services may explain why these reduce the competitiveness of the region's manufacturing goods. For example, international rankings on the quality of infrastructure services and ease of access to loans show that several Latin American countries perform more poorly than those in Asia (see figure II.18).

Figure II.18
Latin America (7 countries), ASEAN, China and India: position in global rankings of 138 countries, 2016

Globally speaking, Latin American countries perform poorly in infrastructure and financial services

A. Infrastructure quality
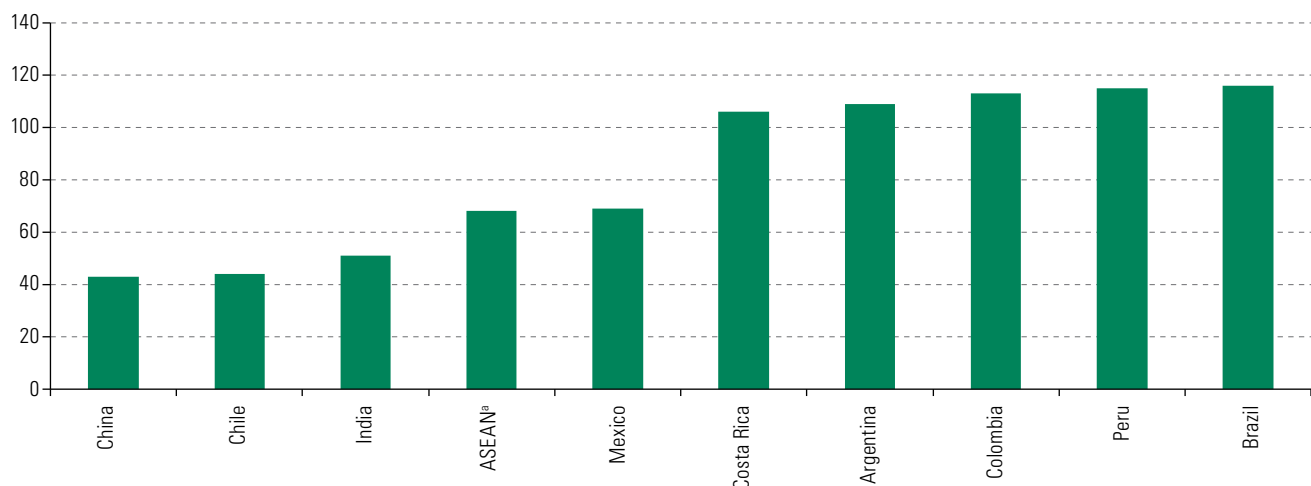
Figure II.18 (concluded)

B. Ease of access to loans
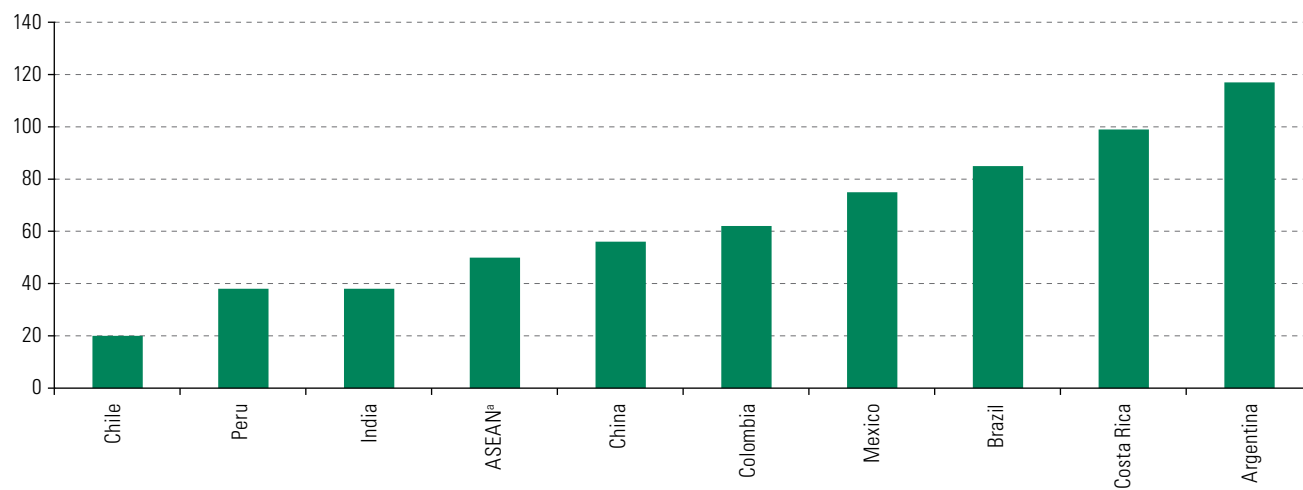
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of K. Schwab (ed.), *The Global Competitiveness Report 2016-2017*, Geneva, World Economic Forum (WEF), 2016.
Note: The lower the rank, the better the performance by the respective country.
[a] Refers to the average for the member countries of ASEAN.

Box II.3
Econometric regressions on the role of domestic and imported services in manufacturing performance

Following the literature reviewed in box II.2, Avendaño, Bontadini and Mulder (2017) analyse to what extent and how different domestic and foreign services contribute to manufacturing export performance. This is measured by the change in the share of a country's manufacturing sector in world exports of that same industry. Several standard control variables were also included in the following model:

$$\Delta Q_{ijt} = \beta_0 + \beta_1 Q_{ijt-1} + \beta_2 PMR_{ijt-1} + \beta_3 Cost_{ijt-1} + \beta_4 Manuf_{ijt-1} + \beta_5 REER_{jt-1} + \beta_6 FDI_{jt-1} + \beta_7 DomS_{ijt-1} + \beta_8 ImS_{ijt-1} + \varepsilon_{ijt}$$

where ΔQ_{ijt} represents the change in global export market share of sector i in country j in year t, *PMR* is product market regulation, *Cost* is the cost to export, *Manuf* is the size of the manufacturing sector, *REER* is the real effective exchange rate, *FDI* is foreign direct investment, *DomS* is the domestic intensity of different types of (cost and value) services, and *ImS* is the value added import intensity of different types of (cost and value) services. The model is estimated using generalized methods of moments (GMM) with one time lag of the outcome variable for 61 countries and 16 manufacturing industries for the years 1995, 2000, 2005, 2008, 2009 and 2011. The sample includes both high-income and emerging economies, mainly from Asia and Latin America. All variables are normalized, so coefficients can be interpreted as elasticities.

The first regression (see table) tests the contribution of control variables to changes in the global export market shares of sector i in country j in year t. This change seems positively associated with the previous year's export market share. Product market regulation has an expected negative and significant sign. The cost to export also emerges as a highly significant (and negative) covariate of the global export market share. This result concurs with the literature, suggesting that increasing costs are detrimental for goods-exporting countries. The stock of FDI to GDP, a proxy measure of the presence of foreign technology within a country, suggests that FDI is, surprisingly, negatively linked to higher export shares. A possible explanation for this may be that countries with a high FDI intensity have high global manufacturing export market shares, making it difficult to further increase these shares. As expected, the real effective exchange rate (*REER*) is negatively related to changes in global export market shares. A rise in the real effective exchange rate negatively impacts changes in global export market shares. Finally, size of the manufacturing sector is included to control for the size effect on global export market shares, but turns out not to be significant.

Box II.3 (concluded)

63 countries: results of regression of determinants of changes in global market shares, 1995 to 2011

Dependent variable: changes in market shares of global manufacturing exports by industry	Regression 1	Regression 2	Regression 3
Control variables:			
Lag market share	+++	+++	+++
Product market regulation	--	--	--
Cost to export	---	---	---
FDI stock (percentage of GDP)	--	--	--
Real effective exchange rate	---	---	---
Manufacturing size	n.s.	n.s.	n.s.
Other variables:			
Total domestic services content		---	
Total foreign services content		+++	
Domestic business services content:			
Rental of machinery and equipment			+++
Computer services			n.s.
R&D and business services			++
Imported business services content:			
Rental of machinery and equipment			++
Computer services			---
R&D and business services			++

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
Note: One + or − sign indicates a significance of the variables at the 10% level, two + or − signs indicate significance at the 5% level and three + or − signs indicates at the 1% level; n.s. means not significant.

The second regression adds two main variables of interest: the total domestic and total foreign services content of manufacturing exports. The results suggest that total domestic services content is negatively associated with changes in market shares in global exports. In contrast, total imported services are positively related to changes in world market shares. This result suggests that Latin America's poor manufacturing export performance could be explained by the high domestic services content of its export products.

The third regression looks at the specific contribution of three types of domestic and imported business services: machinery and equipment rental, research and development (R&D) and computing and related activities. Results suggests that the domestic value added of machinery and equipment rental and R&D are positively associated with a higher global export market share for the average country. In addition, imported (foreign) machinery rental and business services have a positive effect on the export performance measure, while imported computer and related services have a significant (and negative) effect.

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of R. Avendaño, F. Bontadini and N. Mulder, "Latin America's faltering manufacturing competitiveness: what role for intermediate services?", *Comercio Internacional series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017, unpublished.

C. Few countries have active public-private strategies to promote modern services exports

1. Dynamic modern services exports require active public-private policies

The most successful modern services exporters in the region also seem to have the strongest public-private strategies in place to support this sector. This section reviews determinants and policies for modern services exports around the world and provides examples from some of the eight countries in the region that appear to have the most active policies in this regard: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Uruguay.

The most important drivers of competitiveness for business services exports, according to exporters of modern services in the region, are described in López, Niembro and Ramos (2017), who interviewed 174 firms operating in more than 10 countries. Although the response rate to their survey was highly variable across countries, which affected its representativeness, the ranking of priorities across countries was nevertheless rather similar. According to the firms interviewed, three of the four predominant factors for competitiveness are related to human resources: availability, quality and cost. In the area of institutions and policies, important determinants are double taxation agreements, protection of intellectual property rights and free trade agreements. Other important policies are country image and brand, tax burden, and investment and export promotion policies. At the bottom of the ranking are factors such as cost of other infrastructure (energy and transport), regulations on international labour movement and time zone (see figure II.19).

Figure II.19
Latin America: importance of determinants of competitiveness in business services exports, 2014[a]

The quality and cost of human capital are key aspects of modern services' competitiveness

Source: A. López, A. Niembro and D. Ramos, "Las empresas de servicios en América Latina: un estudio exploratorio sobre factores de competitividad internacional, obstáculos y políticas públicas", *TEC Empresarial*, vol. 11, No. 1, Cartago, Tecnológico de Costa Rica (TEC), 2017.
[a] Weighted average score where 1 = not very important; 2 = important; and 3 = very important.

The key determinants listed by López, Niembro and Ramos (2017) are confirmed by the indexes published by two consultancy firms, A.T. Kearney and Tholons, which work closely with business services exporters around the world. Both firms grade cities and countries on their performance regarding key factors for these exports:

• The first is the Global Services Location (TGSL) Index published by A.T. Kearney. This index is calculated as a weighted average of the following variables: financial attractiveness (40%, referring to the cost of labour compensation, infrastructure, taxes and regulation), people skills and availability (30%, referring to cumulative experience of the labour force, and educational and language skills), and business environment (30%, referring to country risk, cultural adaptability, country infrastructure, and the security of property rights).

- The second is the Tholons Services Globalization Index (TSGI) published by Tholons in 2017. It consists of the following variables (with their respective weights in brackets): workforce, skills, talent and quality (32%), presence of "super cities" (20%), digital innovation and transformation (18%), infrastructure and costs (18%), business environment (6%) and risks and quality of life (6%).

These rankings place 11 Latin American countries among the 50 most attractive locations according to A.T. Kearney. The ranking by Tholons shows similar Latin American countries among the top 50 destinations, although their ranking is quite different (see table II.1). Tholons' TSGI index also included a list of 100 top-rated cities in the world, which includes 13 cities in the region. Four cities in the region were among the top 20: São Paulo (sixth), Buenos Aires (tenth), Santiago (thirteenth) and San José (fourteenth) (Tholons, 2016).

Table II.1
Latin American and Caribbean countries in top 55 ranking of A.T. Kearney and Tholons, 2009, 2016 and 2017 *(Position)*

Five Latin American countries are among the global top 20 locations for exporters of modern services

	AT Kearney		Tholons
	2017	**2009**	**2017**
Brazil	5	12	4
Chile	9	8	7
Colombia	10	-	17
Mexico	13	11	5
Peru	20	-	36
Costa Rica	31	23	14
Argentina	36	27	13
Trinidad and Tobago	40	-	
Panama	41	43	44
Jamaica	43	24	45
Uruguay	46	36	23
Guatemala	-	-	40
Bahamas	-	-	45

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Sethi and J. Gott, *2017 A.T. Kearney Global Services Location Index: The Widening Impact of Automation*, A.T. Kearney, 2017; A.T. Kearney, *The Shifting Geography of Offshoring: The 2009 A.T. Kearney Global Services Location Index*, 2009; Tholons, Tholons Services Globalization Index 2017, 2017 [online database] http://www.tholons.com/TholonsTop100/.

> Each country's position in the above rankings depends partly on how active its public-private development strategies are for the promotion of modern services exports.

Each country's position in the above rankings depends partly on how active its public-private development strategies are for the promotion of modern services exports. For example, Chile has twice implemented a strategy to promote global services exports, first from 2006 to 2010 and later from 2015 onwards. Chile's current aim is to expand its modern services exports from US$ 4 billion in 2015 to US$ 10 billion by 2023.[3] Mexico introduced a public-private plan called PROSOFT 3.0 in 2014, aiming to quadruple its sales and exports by 2024.[4] This overall goal is to be met through eight strategies, each with their own specific targets (Hualde and López, 2017). Uruguay created a Strategy for Global Services Exports in 2012, with financial support from the Inter-American Development Bank (IDB), which is being implemented mostly by its export promotion agency, Uruguay XXI, in coordination with other public and private actors (Uruguay XXI, 2017).

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[3]   For more information, see minutes of the first meeting of the public-private technical committee on services exports of the Ministry of Finance in October 2016, "Acta primera sesión: comité técnico público-privado exportación de servicios. Ministerio de Hacienda", Santiago, 2016 [online], http://chileservicios.com/quienes-somos/sesiones/acta-primera-sesion.html.
[4]   For more information, see Ministry of the Economy, "PROSOFT 3.0" [online] https://prosoft.economia.gob.mx/.

Other countries have also set medium-term services export goals. For example, in Colombia, the Productive Transformation Programme implemented in 2009 established goals for 2019 for two modern services sectors: exports of US$ 3.3 billion in software and IT services, and of US$ 6.4 billion in offshore services in the areas of business process outsourcing (BPO), information technology outsourcing (ITO) and knowledge process outsourcing (KPO).[5] In 2015, Peru set a goal to increase exports of business services from US$ 540 million that year to US$ 3.6 billion by 2025, in an effort supported mainly through its export agency PROMPERÚ (Quindimil, 2017).

The availability and cost of human capital is probably one of the most important drivers of export success in modern services, as highlighted by López (2016), A.T. Kearney and Tholons. This includes the availability of skilled workers at reasonable cost. To better respond to the needs of modern service exporters, some countries in the region, such as Costa Rica, have created a specific public-private-academic committee to oversee the needs of the global services industry and the development of new university careers and shorter courses and the adaptation of existing ones.

Other countries, such as Argentina and Chile, have set specific goals for the university training of professionals in areas where there is particular need, such as computer programmers (111,000 in Argentina and 2,000 in Chile in 2016 and 2017) (López, 2016), with students enrolling in these courses receiving tuition waivers or special scholarships. Under the PROSOFT 3.0 programme, Mexico intends to meet 90% of all talent demand from IT companies by 2024, by increasing enrolment in IT-related courses, linking internships with universities, increasing enrolment in mass open online courses (MOOC) and training the existing work force to enter the IT sector (Hualde and López, 2017).

Another example is specialized tripartite (public-private-academic) courses to bridge specific knowledge and skills gaps between university courses and industry needs. These programmes, known as "finishing schools" have been implemented in several countries in the region. In Uruguay, finishing schools are co-financed with a subsidy covering up to 70% of customized training programmes for global service companies interested in establishing themselves in the country or expanding their operations (Uruguay XXI, 2017). Costa Rica and Colombia have also set up finishing schools. García and Bafundo (2014) identified several best practices for finishing schools: they should be flexible and adapted to specific needs, focus on both technical and soft skills, and be implemented using an integrated approach in which all parties participate. In several countries, courses are also offered to improve language skills, in particular in English.

Workforce and enterprise certification is an important complement to education and training policies. Certification focuses on two areas. The first is certification of workers' skills in IT, software development, programming and languages. The second is certification of firms regarding compliance with international production standards and measures that facilitate their integration in international value chains.

The governments of all the countries reviewed have instruments to promote the certification of workers and firms. Argentina has a fund called PRESOFT, which provides a subsidy to finance certifications for small and medium-sized enterprises (SMEs) producing software (López, 2016). Brazil devised a system, called Brasil IT+, which certifies software programs and developers and allows them, in turn, to benefit from preference margins of 18% in government tenders. In Costa Rica, multinational firms work closely with universities and national training institutes to promote worker certification. Almost three quarters of BPO firms' employees are studying to obtain

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[5]   For more information, see Ministry of Trade, Industry and Tourism, "Productive Transformation Programme" [online] www.ptp.com.co.

a university degree and many firms pay for their employees' technical and language skills training. In Uruguay, the public sector supports the testing, certification and maintenance of software, as well as training and advisory services.

Tax breaks and concessions are another important instrument for attracting multinational firms and supporting the international expansion of modern services. Some countries have eased the taxation burden on services exporters by reducing or eliminating certain taxes, providing tax breaks on social security charges, easing filing and reclaiming procedures, redistributing value added tax (VAT) proceeds, and promoting special tax regimes. The creation of free trade zones (FTZs) is probably the largest fiscal incentive to attract foreign investors and promote service exporters. Within the region, Costa Rica, the Dominican Republic and Uruguay have created FTZs to promote global services exports. In Costa Rica, service exporters are exempted from most taxes for eight years and pay only half during the following four. Further renewal periods of eight years are granted if significant new investments are made.[6] In Uruguay, offshore service companies in FTZs are exempted from all national taxes, except from social security payments and taxes on dividend payments (Uruguay XXI, 2017).

Several countries offer partial tax exemptions. Argentina offers a 60% reduction in income tax to exporters of software. In Brazil, modern services exporters pay a range of federal, state and municipal taxes, but can also deduct up to half of social security contributions. Moreover, tax exemptions apply to the import of software development inputs and technology transfers, licences and royalties; expenses for staff training and development and R&D can be deducted from income tax; and some municipalities offer additional tax incentives. In Chile, companies can deduct taxes paid abroad from taxes paid within the country where no double taxation treaty exists. In Mexico, exports of business services are VAT-exempt and part of R&D expenditures is tax deductible, while cash grants are offered for new investments (Tucker, 2015).

Double taxation treaties are another instrument used to avoid service exporters having to pay taxes in both the home and destination countries. Countries in the region vary considerably in terms of the number of such treaties. Costa Rica has the fewest, perhaps because most of its modern services exports originate in FTZs, where companies pay little or no taxes anyway. Argentina, Brazil and Chile have the highest number of agreements with other countries in the region, as well as with Europe and Asia (see table II.2).

Some countries have designed specific support instruments to promote modern services exports. In 2015, Brazil launched its National Export Plan 2015-2018, which focuses on 18 strategic markets and has specific instruments to promote modern services exports. Chile promotes its own country brand and has specific instruments and a team dedicated to increasing its services exports within its export promotion agency, ProChile. In Colombia, ProColombia has designed special programmes for the promotion of BPO, ITO and KPO service companies, including through the provision of buildings with operators that provide specialized services (communications, energy, security and mass transport for example) to exporting firms.

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6   For more information, see Costa Rica's FDI attraction agency Coalición Costarricense de Iniciativas de Desarrollo (CINDE) [online] http://www.cinde.org/en/sectors/services.

Table II.2
Latin America (selected countries): double taxation treaties, 2017

Brazil, Chile and Mexico have the largest number of double taxation treaties

Country	Partners
Argentina	Australia, Austria, Belgium, Bolivia (Plurinational State of), Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, Mexico, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom
Brazil	Argentina, Austria, Belgium, Canada, Chile, China, Czechia, Denmark, Ecuador, Finland, France, Germany, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, Paraguay, Philippines, Portugal, Republic of Korea, Russian Federation, Slovakia, South Africa, Spain, Sweden, Trinidad and Tobago, Turkey, Ukraine
Chile	Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, China, Croatia, Czechia, Denmark, France, Ireland, Italy, Japan, Malaysia, Mexico, New Zealand, Norway, Paraguay, Peru, Poland, Portugal, Republic of Korea, Russian Federation, Spain, South Africa, Switzerland, Thailand and the United Kingdom
Colombia	Canada, Chile, Czechia, India, Italy, Mexico, Panama, Peru, Portugal, Republic of Korea, Spain, Switzerland
Costa Rica	Germany, Spain
Mexico	Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czechia, Denmark, Ecuador, Finland, France, Germany, Greece, Indonesia, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russian Federation, Republic of Korea, Singapore, Slovakia, Spain, Sweden, United Kingdom
Peru	Bolivia (Plurinational State of), Brazil, Canada, Chile, Colombia, Ecuador, Mexico, Portugal, Republic of Korea, Switzerland
Uruguay	Brazil, Ecuador, Finland, Germany, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, Republic of Korea, Spain, Switzerland

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official government data on double taxation treaties.

In Peru, PROMPERÚ has held the Peru Service Summit since 2010, the largest national summit promoting business services in Latin America and the Caribbean. In addition to round tables, the key part of the summit is matchmaking events between exporters and importers. Moreover, PROMPERÚ provides specific instruments, one of them for external markets —Promex— that combines market intelligence and trade promotion, and has co-financed sales offices in Brazil and Panama. PROMPERÚ has also formed pilot exporter groups in certain regions, such as Arequipa, Junín, Loreto, Tacna and Trujillo. Another initiative is the creation of public-private Technological Export Innovation Centres (CITEXPOR) (Quindimil, 2017).

Digital ecosystems are also increasingly important for the export of modern services. These systems refer to how governments, firms, consumers and things interconnect through standardized digital platforms based on common interests. The spread, use and safety of these platforms require active policies. The development of digital markets involves the adoption of laws on data protection, the facilitation of cross-border trade (known as mode 1 of services delivery in WTO terminology), data transfer and digital content services, the adoption of automation tools, and the establishment of e-platforms and digital marketplaces to assist service providers and consumers.

The development of digital industries, including modern services, depends critically on the overall digitalization of production. According to the Development Bank of Latin America (CAF) (2017), this progress depends on four factors: (i) penetration of digital technologies in firms (measured in terms of use of Internet and IT), (ii) digitalization of the supply chain (number of firms that use electronic platforms to buy inputs and electronic banking for payments), (iii) use of digital technologies in the manufacturing part of the supply chain (for which the share of employees using the Internet and use of Internet for hiring are used as proxies), and (iv) digitalization of distribution channels (share of firms using Internet for sales). A composite index of these four factors shows that the region is substantially behind Europe and North America. Moreover, there is great heterogeneity among countries in the region (see figure II.20A).

Digital ecosystems are also increasingly important for the export of modern services.

In addition to specific regulations, most of the countries reviewed have also adopted active policies to expedite the development of a digital ecosystem. Brazil, Chile, Colombia, Costa Rica, Peru and Uruguay have introduced laws for personal data protection and to enhance cybersecurity. Moreover, Costa Rica, Peru and Uruguay have developed e-platforms in the form of a digital market-place to connect buyers with sellers, consumers with suppliers and employees with employers.

Progress towards a digital ecosystem depends in part on the quality of the institutions and regulations. In this area, the key factors are: (i) the number of liberalized services and restrictions on convergence, (ii) the development of a regulatory framework for telecoms, (iii) regulation of the IT sector, (iv) cybersecurity and protection against software piracy, and (v) the power and responsibility of government. Trinidad and Tobago, Brazil, Colombia and Mexico are leaders in the region in this area (see figure II.20B).

Figure II.20
Latin America and the Caribbean (17 countries): digitalization of production, 2015
(Index: 0-100)

Countries in the region show large differences regarding the digitalization of production

A. Digitalization of production
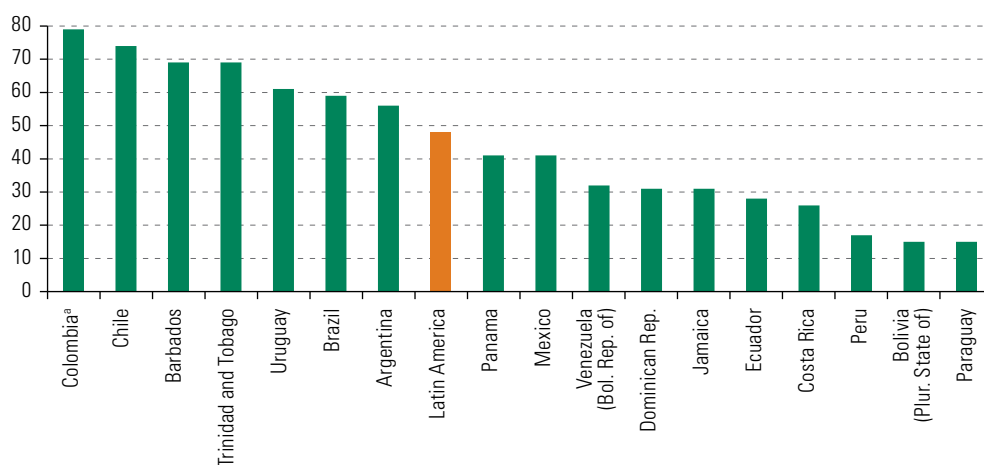
B. Institutions and regulation for the digital ecosystem
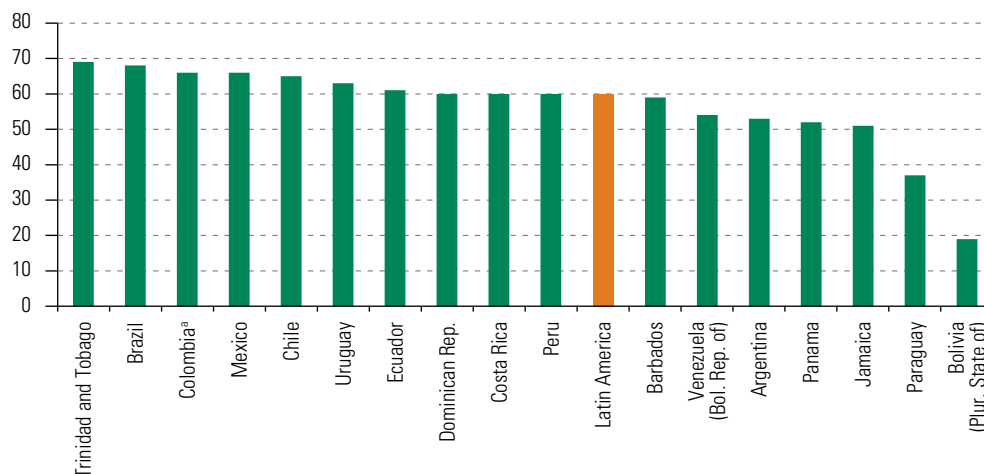
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Development Bank of Latin America (CAF), *Hacia la transformacion digital de América Latina y el Caribe: el observatorio CAF del ecosistema digital*, Caracas, 2017.
[a] Colombia's score on the digitalization of production is overestimated, as it is based on the Annual Industrial Survey conducted by the National Administrative Department of Statistics (DANE), without the application of expansion factors.

2.   Subregional integration schemes could step up services liberalization

Four of the region's five main subregional integration schemes took measures to liberalize trade in services several years (sometimes decades) after their creation. This was part of a gradual approach to integration, where the emphasis was initially on goods trade. For example, the Central American Common Market was founded in 1960, but did not negotiate a services chapter until 2002. The Caribbean Community (CARICOM) and the Southern Common Market (MERCOSUR) did so more than a decade later. For CARICOM, this was as a result of the entry into force of the Revised Treaty of Chaguaramas in 2006. The MERCOSUR Services Protocol —the Protocol of Montevideo on Trade in Services in the Southern Common Market— was prepared early on but took more than a decade to be fully adopted. In the case of the Pacific Alliance, the services chapter entered into force in 2016, the same year as the chapters on trade in goods, as the participating countries agreed from the outset that services would be an integral part of their trade agreement.

All the subregional schemes except MERCOSUR followed the approach of the North American Free Trade Agreement (NAFTA), based on a negative list of trade liberalization. This approach does not necessarily mean complete lifting of service restrictions except for pre-excluded sectors, but an across-the-board binding legal guarantee of assured market access for service suppliers and investors at the current level of existing regulations. Moreover, this approach is characterized by the depth of its provisions, transparency, in-built liberalizing mechanism, and treatment of investment and of mode 4 service delivery, referring to the temporary movement of persons (see table II.3).

The Andean Community (whose current members are the Plurinational State of Bolivia, Colombia, Ecuador and Peru) began liberalizing trade in services in 1997. In 2001, each member defined the restrictions it wished to maintain using a negative list, meaning that all other barriers to intraregional trade were to be eliminated by 2005. This took more time, but over the years several sectoral commitments to liberalize trade were reached in air and maritime transport, energy, finance, telecoms and tourism (SELA, 2014a). However, progress has been slow in other service sectors, such as financial and audiovisual services. Moreover, the liberalization of services trade has been suspended in the Plurinational State of Bolivia since December 2006 (Decision No. 659). The most recent decision on the matter by the Andean Community is Decision No. 820 of 22 June 2017. At the same time, two members of the Andean Community, Colombia and Peru, are also members of the Pacific Alliance, which has strong commitments on services trade liberalization.

The Central American Common Market[7] adopted its first agreement on trade and investment in services in 2002. This agreement was updated with protocols adopted in 2007 and 2011, when a chapter on electronic commerce was incorporated. The agreements and protocols cover regulations on investment, cross-border trade, professional services, telecoms, financial services and temporary movement of persons. The main goal of the 2007 and 2011 protocols was to adjust intraregional regulations to the commitments made in the free trade agreement signed between the Central American Common Market, the Dominican Republic and the United States in 2004 (SELA, 2014b).

CARICOM[8] implemented a services chapter in 1998 with Protocol II on "Establishment, Services and Capital". This protocol is a centrepiece of the creation of the CARICOM Single Market and Economy (CSME). It provides unconditional national treatment to all CARICOM members for the free movement of services, labour and capital. The removal of barriers to services trade was to be done in two steps: the preparation of an inventory of the restrictions,

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[7]   The member countries of the Central American Common Market are Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
[8]   The member countries of CARICOM are Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

followed by their removal. The CARICOM approach to services trade liberalization was relatively unique, using "transparency lists" or national inventories of policies and regulations on trade in services, which were deposited with the CARICOM Secretariat. These national inventories provided a baseline or standstill obligation of market openness, against which member States had to accomplish liberalization unilaterally by removing all the measures in the transparency lists between 2001 and 2006. The free movement of persons was also promoted through the CARICOM Model Legislation on Free Movement of Skilled Nationals of 1995 (Stephenson, 2008). In 2012, a study commissioned by the CARICOM Secretariat showed that the compliance level with the provisions on free movement of services was 37%, with the free movement of skilled people 66%, with the movement of capital 72%, and with the right of establishment 64% (CARICOM, 2012). In 2016, member governments requested the CARICOM Secretariat to review the implementation of CSME again. In 2017, the Secretariat reported substantial progress on services trade liberalization, in particular regarding the movement of skilled labour (*Jamaica Observer*, 2017).

Table II.3
Selected subregional trade agreements: provisions on trade in services, 2017

In two subregional integration schemes, services trade liberalization is at least partially halted

	Central American Common Market	Andean Community	Caribbean Community (CARICOM)	Southern Common Market (MERCOSUR)	Pacific Alliance
Creation of the scheme	1960	1969	1990	1991	2012
Introduction of the services chapter	2002	1997 (except Plurinational State of Bolivia)	1998	2005 (except Paraguay and Bolivarian Republic of Venezuela)	2016
Model	NAFTA	Sectoral negotiations	NAFTA with variations	GATS	NAFTA
Approach to lists or scheduling	Negative list	Negative list	Negative list with standstill provision	Positive list until 2010, mixed with negative list afterwards	Negative list, regionalizes bilateral FTAs
Flexibility	Two-yearly negotiation rounds to liberalize restricted sectors	Annual rounds of negotiations	Special treatment for less developed members	Implementation period until 2015 with exceptions	–
Market access	No requirement on local presence; curtailment of unfair advantages of monopolies	Full access except for public services, air transport and national exceptions	Full market access except for excluded sectors; restrictions on right to establishment, access under modes 1, 2 and 4; mode 3 restrictions on movement of capital	Full access; special provisions for mode 4, telecoms, air transport, financial services, labour, health, education and tourism	Subject to nonconforming measures in annex I and annex II
Non-discrimination	National treatment and MFN for investments; special provisions for marginalized social and ethnic groups	MFN, except for public services and air transport. National treatment granted for liberalized sectors	National treatment granted; recognition of degrees, certificates and qualifications	MFN granted except in government procurement; national treatment: GATS-neutral; special requirements for corporate entities	National treatment and MFN subject to nonconforming measures
Transparency	Country-specific annexes to list exclusions	GATS transparency provisions	Description of safeguard measures (art. 47), existing and necessary subsidies and mode 4 regulations; details on time-based restrictions	GATS-plus transparency: countries must list all existing restrictions with a view to their progressive removal	Extensive GATS-plus provisions; specific transparency provisions for financial services, telecoms and e-commerce
Others	Specific chapter on financial services		Coordination of external trade policy; separate agreements on financial services, air and maritime transport	In-built dispute settlement mechanism	Includes e-commerce, maritime transport
Status at present		Liberalization of other sectors (underway)		Deadlines of successive liberalization rounds according to the Protocol of Montevideo have not been met	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data.
Note: mode 1: export of a service from country A to country B (cross-border trade); mode 2: services supplied in country A to a consumer from country B (consumption abroad); mode 3: service supplied by country A through commercial presence in country B (commercial presence); and mode 4: service supplied through the temporary presence of a natural persons from country A in country B (temporary movement of workers). MFN: most favoured nation. NAFTA: North American Free Trade Agreement. GATS: General Agreement on Trade in Services.

MERCOSUR[9] adopted the Protocol of Montevideo on Trade in Services in MERCOSUR in 1997, and it has been in force since 2005, following a positive list approach. This approach is similar to that of GATS, under which members liberalize trade only in the agreed sectors listed in their schedules. The Protocol of Montevideo aimed to fully liberalize intraregional trade in all services by 2015 through biannual negotiation rounds. For this purpose, its members established the Plan of Action to Further the Programme for the Liberalization of Trade in Services (Dec. No. 49/08), which committed the countries to list all restrictions in place with the aim of gradually removing them (Stephenson and Roberts, 2014). Progress has been made, but several deadlines for the removal of barriers and harmonization of regulations have been missed (IDB, 2016). In April 2017, the four original members of MERCOSUR signed a protocol on intra-MERCOSUR FDI, which is relevant for the commercial presence modality of service delivery; however, this is not yet in force.

Progress has been made, but several deadlines for the removal of barriers and harmonization of regulations have been missed.

The commitments to liberalize trade in services among the four members of the Pacific Alliance (Chile, Colombia, Mexico and Peru) entered into force in 2016 with the Additional Protocol or Commercial Protocol to the Framework Agreement of the Pacific Alliance. The Protocol contains separate chapters on cross-border services trade, electronic commerce and investment. It follows the NAFTA negative list approach and contains a set of annexes in which countries spell out their restrictions. Many of the commitments are similar to those the countries have in their bilateral free trade agreements with the United States. In addition to the initial commitments, a working group on services and capital continues to work towards further liberalization and facilitation of services trade, focusing on areas such as investment barriers, cross-border trade in services, financial services, telecoms, air and maritime transport, and professional services (OEAP, 2017). A subgroup on the digital agenda was also established to work on the implementation of an action plan involving four pillars: digital economy, digital connectivity, digital ecosystem, and digital government.

A comparison between the two largest economic integration schemes in the region (MERCOSUR and the Pacific Alliance) regarding their efforts to promote trade in services suggests that commitments and disciplines within the Pacific Alliance are broader in scope, perhaps not surprisingly, given that the latter is more recent. The Trade Protocol of the Pacific Alliance addresses particular issues that are essential for trade and FDI in modern services and incorporates some of the new disciplines covered in twenty-first century trade agreements such as the Comprehensive Economic and Trade Agreement between Canada and the European Union (CETA), the Trade in Services Agreement (TiSA, under negotiation by 23 members of WTO) and the Trans-Pacific Partnership (TPP). These twenty-first century agreements contain significant regulatory innovations in relation to positive obligations (where parties undertake to behave in certain ways) and negative obligations (where the parties are prohibited from performing certain activities or are obliged to refrain from engaging in certain behaviours). They achieve horizontal depth,[10] dealing with a variety of issues regarding e-commerce, financial services, telecommunications, investment and regulatory cooperation. They also have a wide range of provisions establishing soft (that is, not legally enforceable) commitments in terms of best endeavours and broad cooperative frameworks. These soft rules are also important, despite the challenges they pose in terms of implementation, monitoring and accountability, for their contribution to the international governance of services trade (Palacio, 2017).

The Trade Protocol of the Pacific Alliance addresses particular issues that are essential for trade and FDI in modern services and incorporates some of the new disciplines covered in twenty-first century trade agreements.

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[9]   The full members of MERCOSUR are Argentina, Bolivarian Republic of Venezuela, Brazil, Paraguay and Uruguay. However, the Bolivarian Republic of Venezuela is currently suspended from MERCOSUR.

[10]   The term "horizontal depth" refers to the number of policy areas (or breadth) included in plurinational trade agreements (Hofmann, Ornago, Ruta, 2017).

The Pacific Alliance contains several commitments that are referred to as GATS-plus and GATS-extra.[11] The first refers to deeper commitments in existing GATS policy areas, and the second to new disciplines covering policy areas not addressed in GATS (see diagram II.4). Several of these GATS-plus and GATS-extra commitments are included in the Pacific Alliance, while others are not (see table II.4).

Diagram II.4
Trade in services: GATS-plus and GATS-extra disciplines under megaregional agreements, 2017

Deeper GATS disciplines and new ones are being negotiated in twenty-first century trade agreements
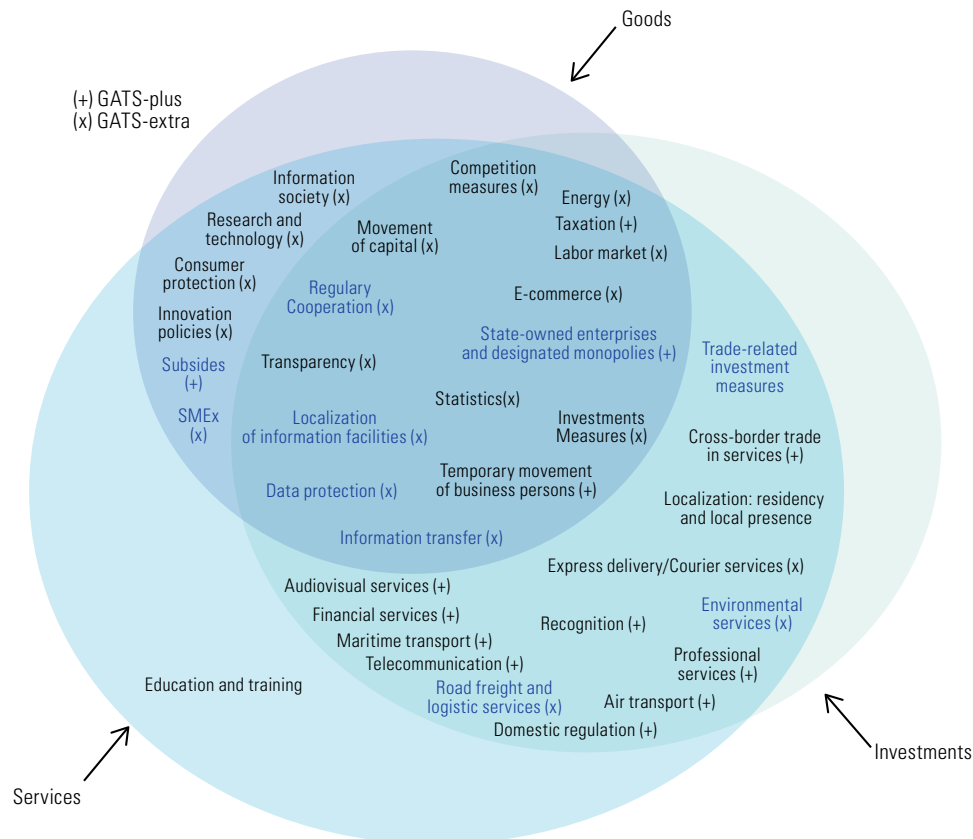
Source: A. Palacio, "Avances en la gobernanza regional del comercio de servicios: los casos de la Alianza del Pacífico y MERCOSUR", *Comercio Internacional series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017, unpublished.

In the case of MERCOSUR, the Protocol of Montevideo closely follows the provisions in GATS, which was signed more than two decades ago, but currently falls short of meeting recent demands and developments in services trade. However, the implementation of several of the Protocol's provisions has delivered results in GATS-plus areas such as recognition of professional qualifications and the temporary movement of persons. Additionally, the endeavours in some of the GATS-extra areas of MERCOSUR go beyond the modest prescriptions of twenty-first century agreements. This is the case of MERCOSUR developments regarding SMEs, innovation policy and education policy, in line with the ambitious goal of a common market. Thus, the performance of MERCOSUR is mixed by issue area and the disciplines included in the Protocol of Montevideo on Trade in Services in MERCOSUR and the Colonia Protocol for the Promotion and Protection of Investments in MERCOSUR need to be updated.

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[11]   GATS-minus refers to commitments that fall short of GATS provisions in some respect.

A significant bottleneck for MERCOSUR in furthering services liberalization objectives is its members' weak domestic incorporation of agreed rules relating to services trade, which prevents some of the rules from entering into force (see table II.4). Regional integration could be fostered if the Pacific Alliance and MERCOSUR work towards convergence of their regulations on services trade and FDI.

Table II.4
MERCOSUR and the Pacific Alliance: GATS-plus and GATS-extra commitments, 2017

The Pacific Alliance includes comparatively more and deeper disciplines than MERCOSUR

Deeper commitments than in GATS-plus	MERCOSUR	Pacific Alliance	New disciplines not addressed in GATS-extra	MERCOSUR	Pacific Alliance
Cross-border trade in services	GATS	X	Competition measures	---	---
Domestic regulation	GATS	X	Labour market regulation	X	---
Recognition	X	X	E-commerce	---	X
Localization (presence, residency)	GATS	X	Consumer protection	X	---
Transparency	GATS	X	Consumer protection in e-commerce	X	X
Telecommunications	GATS	X	Data protection and privacy	X	X
Financial services	GATS	X	Cross-border transfers of information	---	X
Temporary entry for business persons	X	---	Localization of computing facilities	---	X
Maritime transport	GATS	X	Innovation policies	X	---
Air transport	1---	---	Information society	---	---
Air transport related services	GATS	X	Research and technology	---	---
Professional services	X	X	Express delivery/courier services	---	---
State aids (subsidies)	GATS	X	Audiovisual services	X	---
State-owned enterprises and monopolies (in services)	GATS	GATS	Energy (related services)	---	---
Movement of capital	GATS	X	Road freight, transport and logistics services	---	---
Taxation	X	X	Environmental services	---	---
			Education and training	X	---
			Regulatory cooperation/ convergence	---	X
			Trade-related investment measures (in services)	---	X
			Investment measures	---	X
			Services statistics	X	X
			SMEs	X	X

Source: A. Palacio, "Avances en la gobernanza regional del comercio de servicios: los casos de la Alianza del Pacífico y MERCOSUR", *Comercio Internacional series*, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017, unpublished.
Note: GATS: incorporates only provisions of the General Agreement on Trade in Services; X: incorporates some of the criteria for each discipline in the issue area; ---: no references to this theme in the subregional agreement.

D.　Moving forward

Several findings and recommendations emerge from this chapter. On the basis of official statistics, it concludes that the region's competitiveness in trade in services stagnated in the last decade. This performance is poor compared to competitors in Asia, such as China, India and ASEAN, which all expanded their market shares substantially. Within the region, Brazil, Colombia, Costa Rica, Panama and Peru improved their global market share, whereas Chile, the Dominican Republic and Mexico lost market share. Moreover, all the subregions, except for Central America, saw worsening trade balances in both total services and modern services during this period. The countries that most gained market share in modern services in this period were Argentina Brazil, Costa Rica and Panama, whereas Chile, Mexico, and Peru lost market share.

On the basis of these results, more detailed analyses of the competitiveness of the region, its subregions and countries are needed using different types of indicators. The primary focus should be on the most dynamic segments of modern services, which are heavy users of digital platforms. Despite some advances in the measurement of trade in these services, the great majority of the countries in the region do not publish data by trading partner, while almost none registers services trade by mode of delivery. In this context, countries should step up efforts to improve their statistics on trade in services on the basis of the recommendations of the *Manual on Statistics of International Trade in Services, 2010*.

More work could also be done to improve understanding of differences in country performance. These may stem in part from the vigour of public and private initiatives to promote the production and exports of specific types of modern services. In-depth studies on national strategies to develop specific human capital skills and attract and retain FDI in targeted sectors would be useful. In addition, the export services sector would benefit from research on the role of tax treatment for service exporters and the right regulatory environment for supporting domestic service providers and boosting competition, expanding digital platforms and promoting services exports. Apart from looking at exports, more analysis is also needed to analyse import barriers for intermediate services, as these play a key role in exports from all sectors in the economy. Such studies and experiences could usefully be shared through South-South cooperation modalities.

The region does not seem to underperform developing Asian countries in terms of incorporating intermediate services into its exports of manufactured goods. This finding appears to reject the hypothesis that the region's almost stagnant export performance in goods trade over the past 15 years could be due to the insufficient incorporation of intermediate services in exports. Comparing Latin America with ASEAN, it turns out that the domestic services value added intensity of manufacturing exports is higher in the former, whereas the imported services value added intensity is greater in the latter. Econometric regressions suggest that the total domestic services content of manufacturing exports may be negatively associated with market shares in global exports, whereas total imported services are positively associated. However, some types of domestic business services seem to be positively associated with changes in global export market shares, while domestic finance and real estate services may be negatively associated. This work opens up avenues for future research on the contribution of different domestic and imported service intensities to manufacturing export performance. These service intensities can in turn be linked to performance measures of domestic service sectors. This work could also be extended to primary-goods-producing industries, which are of particular interest for South American countries.

The final part of this chapter argues that the competitiveness of modern services exporters depends crucially on domestic and regional strategies to promote these activities. More structural public-private-academic dialogue and strategies are required to create enabling conditions for modern services exporters to prosper. To be effective, these strategies need to comply with modern governance standards, with a medium-term focus, clear goals, sufficient budgets, clear allocation of responsibilities, constant monitoring and regular evaluation (Devlin and Moguillansky, 2011). They need to focus on key areas for modern services exporters, such as human capital development and certification, tax treatment, export promotion and digital markets. The efforts being made by various countries in these areas are still mostly modest.

Finally, a more determined effort is needed to promote regional integration in services trade. In two of the region's five subregional integration schemes, the negotiation agenda on trade in services is stalled, while the others could do more to bring new regulatory areas into their agendas, following the example of multiple twenty-first century trade agreements. This is particularly important considering that the region is the most important destination for many services exporters. Finally, governments must also increase their cooperation at the regional level to produce public goods related, for example, to the digital ecosystem.

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Latin America and the Caribbean: the challenges of global agricultural trade

Introduction

The combination of various worldwide demographic, economic and social trends highlights the potential that the agricultural export sector holds for Latin America and the Caribbean. The most recent projections indicate that the world population, currently around 7.3 billion, will reach 9.5 billion by 2050. Nearly all of this increase (roughly equal to the total present populations of China and India) will take place in developing countries, especially in Africa and Asia. In addition to their robust economic growth, these two continents are going through an accelerated process of urbanization and expansion of the middle class. All of this creates significant room for food exports from the region, which has traditionally produced a surplus in this sector. In this context, the agricultural, agro-industrial, aquaculture and forestry sectors can make an important contribution to regional development, not only as generators of foreign exchange, but also in terms of value added and the diversification of output and exports.

To take full advantage of the potential offered by the agricultural export sector is not a trivial undertaking. On one hand, countries of the region will have to design and implement a variety of policies for adding value to their current export baskets, thereby reducing their dependency on commodities. The idea is to generate distinctive attributes that will command better prices on world markets. On the other hand, the expansion of food shipments must be done in a way that is socially and environmentally sustainable, in line with the objectives of the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change. In that context, this chapter offers an overview of the participation of Latin America and the Caribbean in world agricultural trade, together with some policy recommendations for boosting the sector's contribution to regional development.

Following this introduction, section A presents an overview of world agricultural trade in terms of amount, composition, leading players and outlooks for the coming years. Section B examines trends in the region's agricultural trade since 2000. It highlights the specific features of the different subregions and countries with respect to various metrics (net exporters and importers, weight of the agricultural sector in total exports and imports, composition of the export basket, main markets of destination and supply, and concentration by product and market, among other aspects). Section C looks at the role of industrial policy when it comes to generating attributes that add value to the region's agricultural exports, and the role of trade agreements in enhancing access for those exports to third country markets. Lastly, section D. summarizes the main policy messages and recommendations that emerge from the preceding sections.

A. Except for Brazil, the main players in world agricultural trade are the industrialized countries and China

The value of world trade in agricultural products, measured by exports, stood at US$1.69 trillion in 2015.[1] This is equivalent to 11% of world merchandise exports, a share similar to that recorded by the sector at the beginning of the past decade (see figure III.1). The two groups of agricultural products that are most heavily traded at the international level are pulp and paper and processed foods, each accounting for 12% of the total. Taken together, the five main groups of products (which also include fruits and vegetables, meat products and wood and products derived from wood) represent half of the value of worldwide agricultural trade (see figure III.2).

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[1] The definition of agricultural products in this chapter comprises foodstuffs (including fishery and aquaculture products), the forestry sector, and other products of animal and plant origins such as leathers, hides, wool, linen, silk and cotton.

The combination of various worldwide demographic, economic and social trends highlights the potential that the agricultural export sector holds for Latin America and the Caribbean.

Figure III.1
World agricultural exports, 2000-2015
(Billions of dollars and percentages of world merchandise exports)

Agriculture represents between 10% and 11% of world merchandise trade
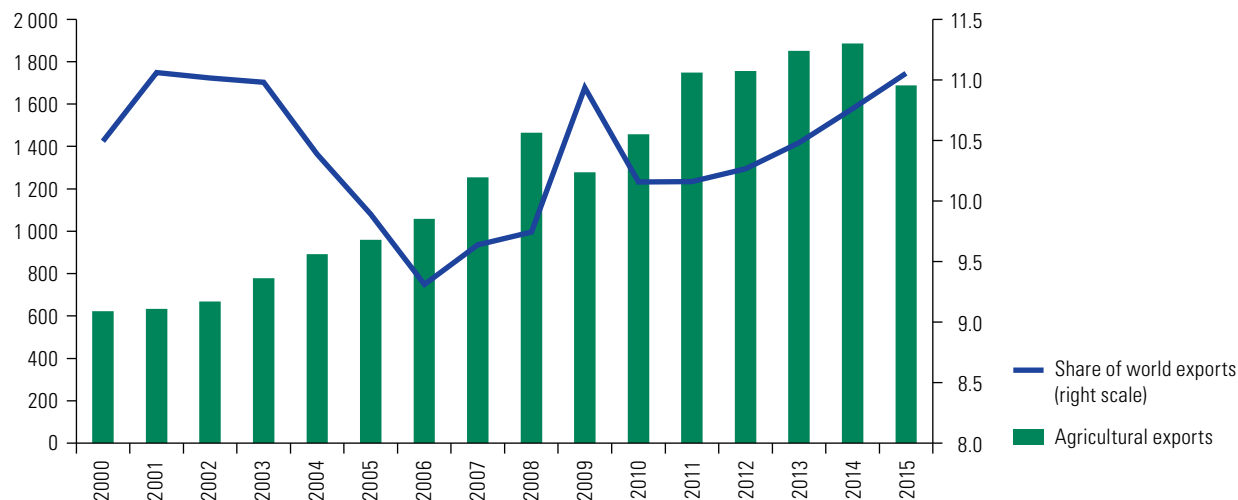
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

Figure III.2
Composition of world agricultural exports, 2015
(Percentages)

Wood pulp, paper and processed foodstuffs are the most widely traded agricultural products
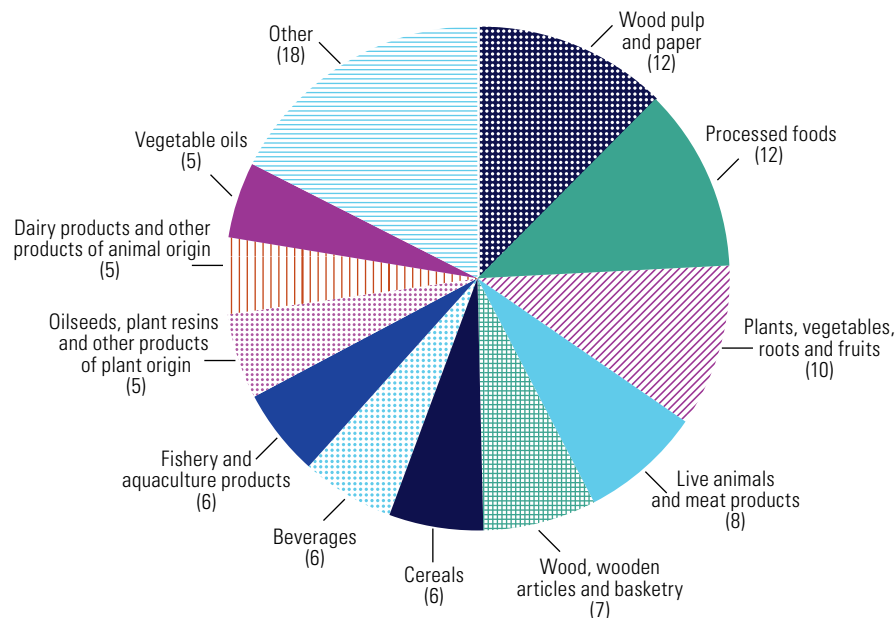
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

There is a great similarity between the lists of the world's 10 main agricultural exporters and importers: eight countries appear in both categories (see figure III.3). Agricultural trade shows a high degree of concentration: the 10 main players represent 50% of global exports, and 54% of global imports. It should be noted that the European Union, taken as a whole, is the world's main agricultural exporter and importer. China, which in 2000 was the world's tenth largest agricultural exporter, is now in third place, and it is also the biggest importer.

Among the countries of the region, Brazil moved from being the world's eleventh agricultural exporter in 2000 to fifth place in 2015, with a share of 5%. In net terms (exports minus imports), Brazil is by far the world's top agricultural exporter, with a surplus in this sector of nearly US$ 73.3 billion in 2015. Although Argentina does not figure among the 10 leading exporters (it accounts for around 2% of world agricultural exports), it is the second largest net exporter worldwide, with a surplus of more than US$ 32.0 billion. The third largest agricultural exporter in the region is Mexico, accounting for 1.7% of world exports. The country is also the region's main agricultural importer, absorbing 2% of global imports.

Except for Brazil, the leading players in world agricultural trade are developed countries and China
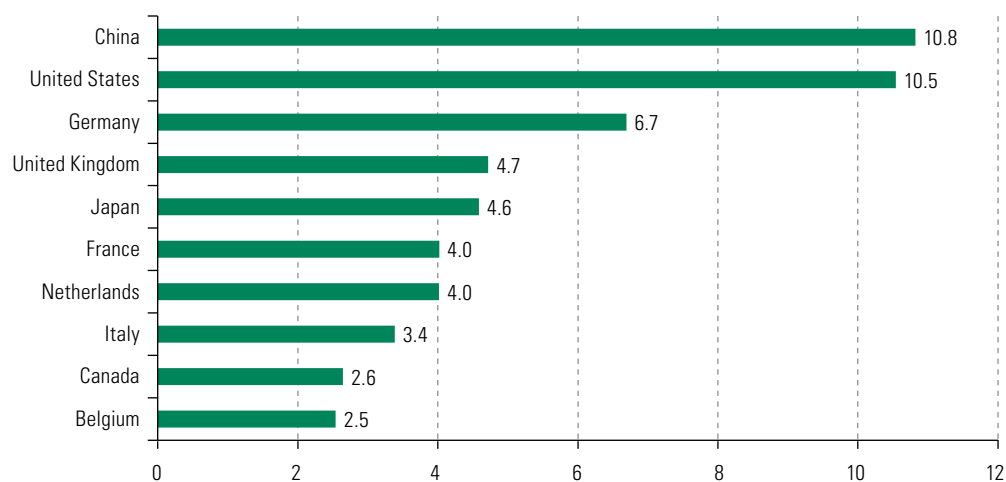
Figure III.3
Ten leading agricultural exporting and importing countries worldwide, 2015 *(Share of total)*

A. Exporters

B. Importers

Recent projections suggest that the pace of growth of world demand for foodstuffs could slow considerably between 2017 and 2026, compared to the historic growth rate recorded in the previous decade. In the case of cereals, meat, fish and vegetable oils, the average rate of growth in consumption between 2017 and 2026 would be approximately half that of the period 2007-2016 (OECD/FAO, 2017). This would result from the lower rate of growth in the world's population (which would drop to 1% per year during the next decade), lower-than-expected demand for biofuels, and a more sluggish performance in emerging economies which, nevertheless, would continue to show the highest rates of consumption growth in all food categories. China, which drove the growth in global food demand during the past decade, could moderate its demand in the coming decade, as a result of a slowing economy and a lower propensity on the part of households to devote incremental incomes to food.

In line with the projected slowing of global demand for food (and of world trade in general), the period 2017 to 2026 is expected to see world agricultural trade expand at a slower pace than it did in the preceding decade. In fact, it is likely that trade in the majority of basic agricultural, livestock and fishery products will not grow by more than 2% annually in volume between 2017 and 2026, while the equivalent annual growth rate between 2007 and 2016 exceeded 4%. This could be the result of the factors mentioned above that are limiting world demand, as well as the adoption of more protectionist policies in some of the leading importing countries (including China, India and Indonesia). Normally, these policies are part and parcel of strategies to boost food self-sufficiency in those countries (OECD/FAO, 2017).[2] Notwithstanding the more sluggish performance forecast for agricultural trade, dependence on imports will remain high in regions where agricultural and livestock resources are scarce, especially in North Africa and the Middle East. Food imports are also projected to grow strongly in sub-Saharan Africa over the next decade, in a context of sharp demographic and economic growth, urbanization, and expansion of the middle class.

Prices for most food products (expressed in real terms) should tend to decline slightly over the period 2017-2026, dropping on average by around 1% annually in the majority of cases. The main exceptions would be sugar and meat of bovine animals, where prices are projected to drop by more than 2% annually, and milk powder, which would see its price rise by around 1% annually (OECD/FAO, 2017). In this context, the prices of agricultural products would fall short of the peaks reached in the preceding decade, but they would still be above the levels recorded at the beginning of this century (see figure III.4).

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[2]   Since 2013, Indonesia has on several occasions been brought before the dispute settlement mechanism of the World Trade Organization (WTO) for alleged restraints on the imports of vegetable and meat products. In 2016, China was also challenged before that same mechanism for granting subsidies that benefited the producers of various cereals. See "Disputes by agreement" [online] https://www.wto.org/spanish/tratop_s/dispu_s/dispu_agreements_index_s.htm.

Despite a sharp drop, prices for agricultural products remain higher than they were at the beginning of the past decade

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of United Nations Food and Agriculture Organization (FAO), FAO Food Price Index [online] http://www.fao.org/worldfoodsituation/foodpricesindex/en/.
[a] The FAO Food Price Index is the average of price indices for five groups of products: cereals, vegetable oil, dairy, meat and sugar, weighted by each group's share in world agricultural exports for the period 2002-2004. To express it in real terms, the nominal index is deflated by the World Bank's Manufactures Unit Value Index.

B. The place of Latin America and the Caribbean in world agricultural trade

1. The region is a net agricultural exporter, but with great heterogeneity among subregions and countries

As a region, Latin America and the Caribbean is a net exporter of agricultural products, which consistently posts a trade surplus with the rest of the world in that sector (see figure III.5). The region's agricultural exports showed much greater resilience than its total shipments did over the period 2012-2016, when its overall export performance was the weakest it had been since the 1930s. Meanwhile, between 2012 and 2016 the value of the region's agricultural exports declined by 1%, while that of total exports dropped by 21%, having declined for four consecutive years (ECLAC, 2016).

During this century the weight of the agriculture sector in the region's total export value rose considerably, from 17% in 2000 to 26% in 2016. The region's share of world agricultural exports has also increased, from 10% in 2000 to 13% in 2015 (see figure III.6). This last figure is more than double the regional share of world exports of all merchandise, which stood at 5.6% in 2015. The region runs an agricultural trade surplus with all of its main partners, with particularly rapid growth in its surpluses with China and the rest of Asia (see figure III.7).

Figure III.5
Latin America and the Caribbean: agricultural trade with the rest of the world, 2000-2016
(Billions of dollars)

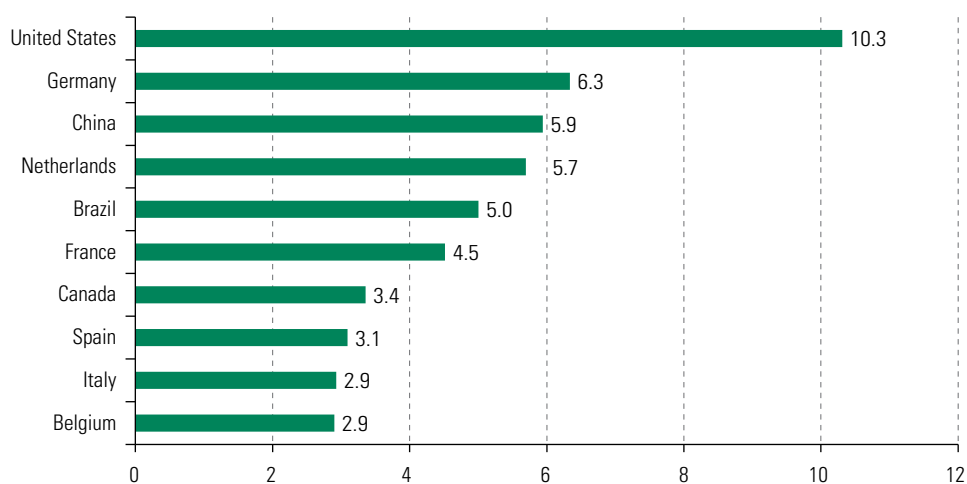Latin America and the Caribbean as a region has a strong surplus in its agricultural trade
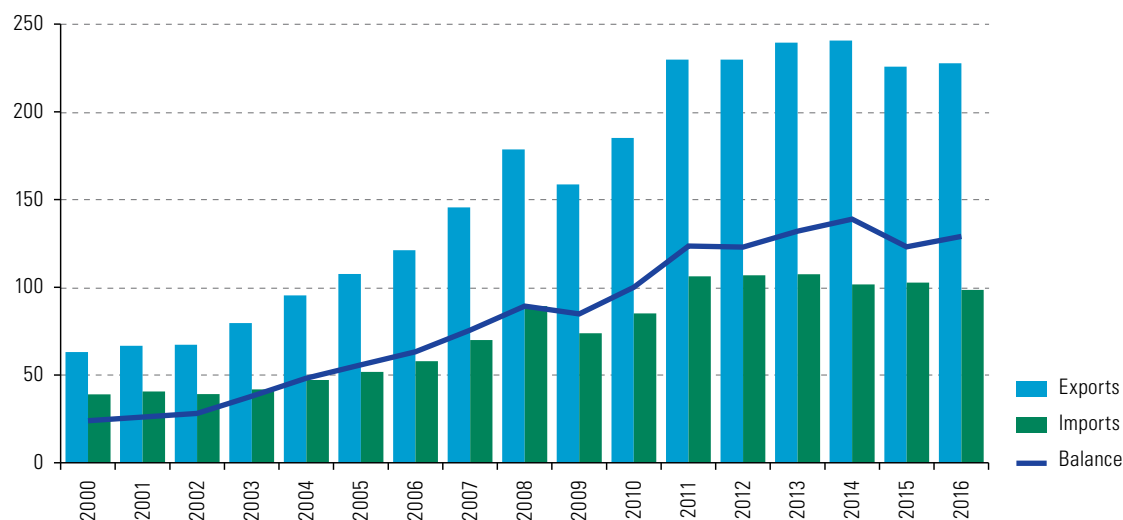
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

Figure III.6
Latin America and the Caribbean: share of regional agricultural exports in world agricultural exports
and in the region's total merchandise exports to the world, 2000-2016[a]
(Percentages)

The weight of the agricultural sector in the region's total exports, and the region's share
in global agricultural exports, have both increased since 2000
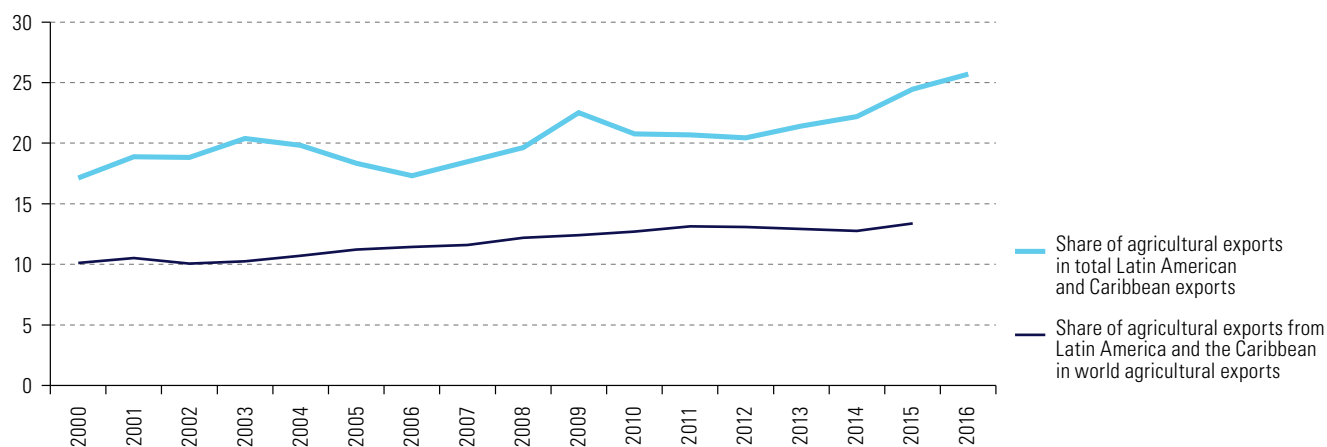
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade)
and United Nations Conference on Trade and Development (UNCTAD), UNCTADSTAT database [online] http://unctadstat.unctad.org/TableViewer/tableView.
aspx?ReportId=88.
[a] At the time this chapter was written, the information needed for calculating the amount of world agricultural exports in 2016 was not yet available, and consequently the
regional share in those exports could not be calculated.

Figure III.7
Latin America and the Caribbean: trade balance in the agriculture sector with selected partners, 2000-2015
(Billions of dollars)

The region has growing surpluses in its agricultural trade with Asia

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

The region's agricultural exporting potential has been reinforced by the fact that there is still significant room to expand the crop and livestock area. Between 2016 and 2025, Latin America is projected to be the region of the world where that area will expand the most (some 24%) over the baseline period of 2013 to 2015. This expansion would be led by soybean crops (29%), primarily in Brazil and Argentina (OECD/FAO, 2016).

The aggregate figures conceal some important differences within the region. During the last decade, South America accounted, on average, for 80% of the value of regional agricultural exports, Mexico 11%, Central America 7%, and the Caribbean only 1%.[3] Over that same time, South America accounted, on average, for 45% of regional agricultural imports, Mexico 35%, Central America 15%, and the Caribbean 5% (see figure III.8). Thus, South America has a wide and generally growing surplus in its agricultural trade with the world, as does Central America (although on a much smaller scale). Meanwhile, Mexico and the Caribbean are in systematic deficit (see figure III.9). At the country level, Brazil and Argentina are by far the leading agricultural exporters in the region; in the 2015-2016 biennium their exports accounted, on average, for 53% of total shipments, and 83% of the regional trade surplus in this sector (see figure III.10).

There are also sharp variations among countries of the region in terms of the weight of the agricultural sector in total merchandise trade, especially in the case of exports. At one extreme is a group of South American and Central American countries where the weight of agricultural shipments in total merchandise exports exceeds 40%, and in some cases can reach almost 80%. At the other extreme, in Mexico, Trinidad and Tobago and the Bolivarian Republic of Venezuela, the sector's share is less than 10%. Between 2000 and 2016, the greatest increases in the agricultural sector's share of total merchandise exports were recorded by countries of the Southern Cone (where they were already high). This phenomenon is strongly correlated with the expansion of oilseed exports. Double-digit increases were also recorded in Costa Rica, Cuba, Ecuador and the Dominican Republic (see figure III.11A).

> The aggregate figures conceal some important differences within the region. During the last decade, South America accounted, on average, for 80% of the value of regional agricultural exports, Mexico 11%, Central America 7%, and the Caribbean only 1%.

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[3]   Table III.A1.1 of annex III.A1 presents total agricultural exports for each country of the region between 2006 and 2016.

Figure III.8
Latin America and the Caribbean: composition of agricultural trade by subregion, 2000-2015
(Percentages)

On average, South America accounts for 80% of the region's agricultural exports and, together with Mexico, represents 80% of its imports

A. Exports
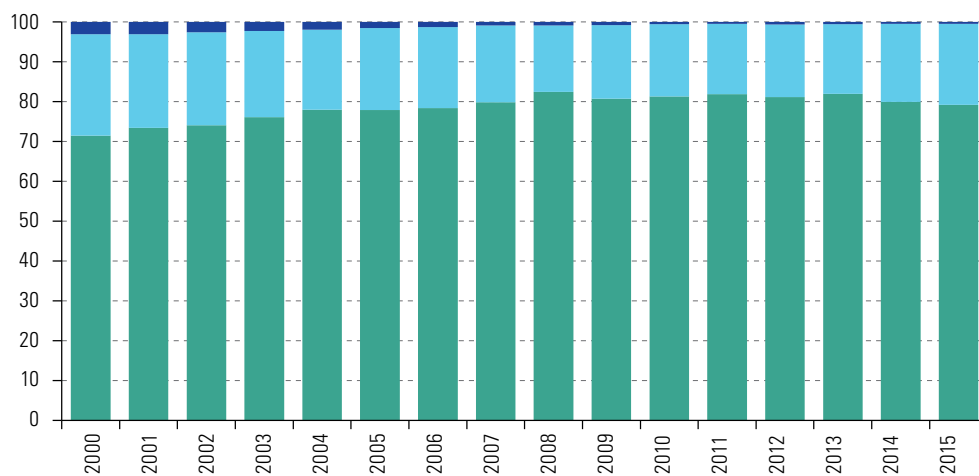
B. Imports
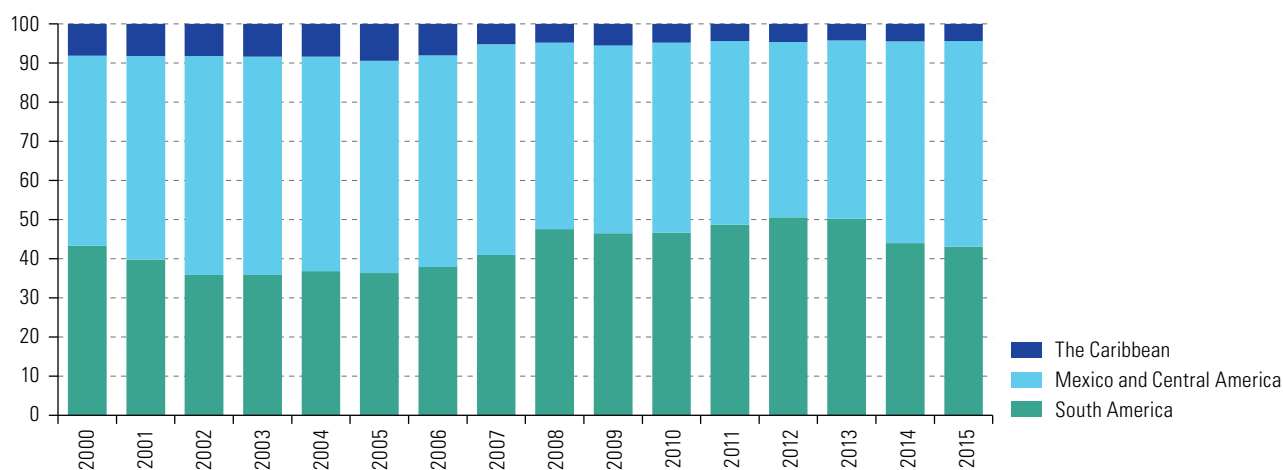
The Caribbean
Mexico and Central America
South America

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

Figure III.9
Latin America and the Caribbean: agricultural trade balances by subregion, 2000-2015
(Billions of dollars)

South America and Central America have surpluses in their agricultural trade,
while Mexico and the Caribbean run deficits

A. South America

B. Central America, the Caribbean and Mexico

Source: Economic Commi ssion for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

Figure III.10
Latin America and the Caribbean (31 countries): agricultural trade balances by country, average 2015-2016[a]
(Billions of dollars)

Brazil and Argentina account for more than 80% of the region's agricultural trade surplus

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN COMTRADE).
[a] Figures for 2016 for the Bahamas, the Bolivarian Republic of Venezuela, Cuba, Dominica, Guatemala, Honduras, Panama, Paraguay, the Plurinational State of Bolivia, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines are mirror data.

Since 2000 there have also been several cases where the weight of the agricultural sector in merchandise exports has dropped sharply, in particular in Nicaragua (from 88% to 49%), Honduras (from 83% to 59%) and Guatemala (from 52% to 40%). In these three countries, the drop was due in large part to the abrupt emergence of the maquiladora industry (producing primarily clothing and auto parts), which was oriented to the United States market and was favoured by entry into force in 2006 of the Free Trade Agreement between the Dominican Republic, Central America and the United States. Double-digit drops were also recorded in the Bahamas, Guyana and the Plurinational State of Bolivia.

The proportional differences in agricultural imports are less pronounced than for exports. The weight of agricultural imports in total merchandise imports fluctuates between 6% in Argentina and 33% in Saint Vincent and the Grenadines. With the exception of the Bolivarian Republic of Venezuela, all countries where agricultural imports represent 20% or more of total goods imports are in Central America and the Caribbean. Between 2000 and 2016, the weight of agricultural imports in total imports remained more stable than that of exports, and there were no double-digit variations in any country (see figure III.11B).

Figure III.11
Latin America and the Caribbean (selected countries): share of the agricultural sector
in merchandise trade, 2000 and 2016[a]
(Percentages)

The weight of agriculture in exports fluctuates much more than in imports, by country
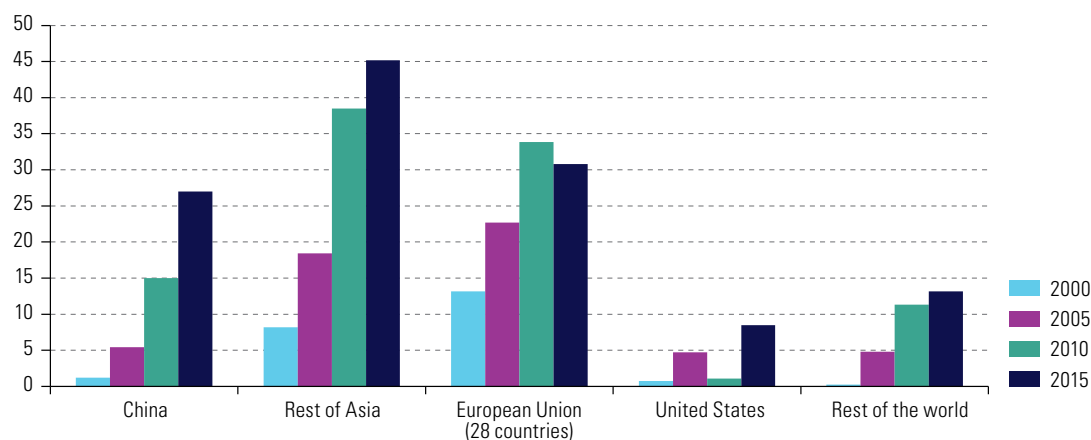
A. Exports
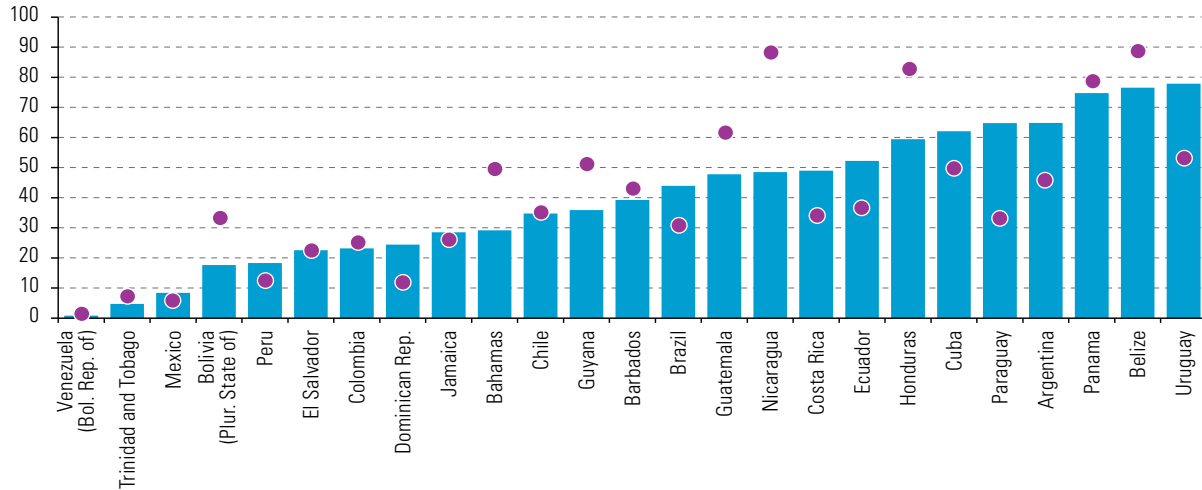
B. Imports
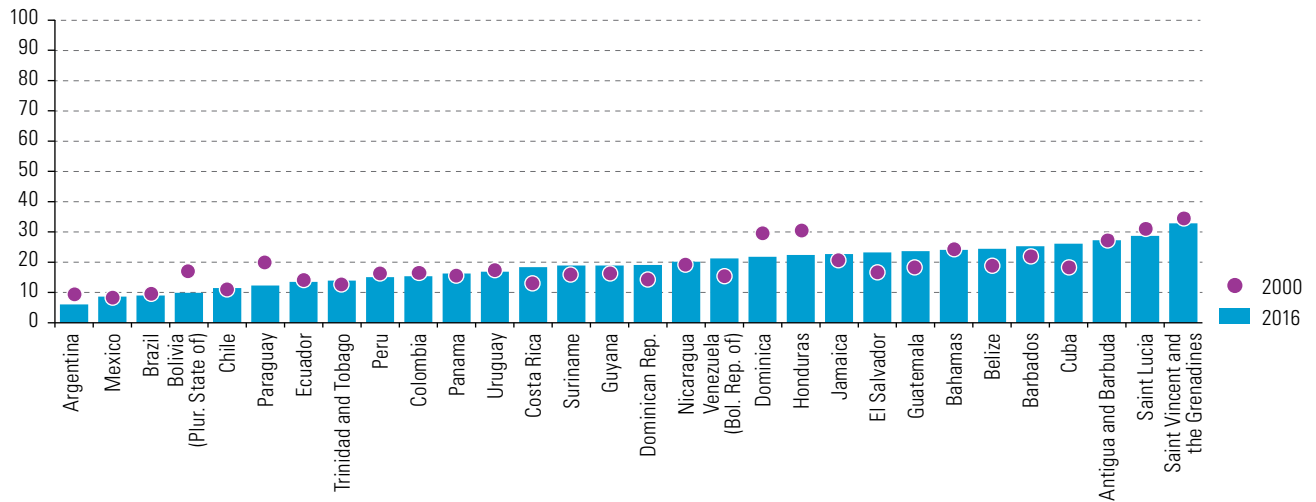
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] Data for the Bolivarian Republic of Venezuela and Cuba were obtained through mirror statistics. Data for the Bahamas, Guatemala, Nicaragua, the Plurinational State of Bolivia, Saint Vincent and the Grenadines, and Trinidad and Tobago are for 2015, and those for Honduras, 2014.

2. Asia has become the most important market for the region's agricultural exports, while the United States is its main supplier

The trend in destinations of regional agricultural exports over the last 15 years reveals the growing importance of Asian markets. The share of Asia (including the Russian Federation and the countries of the Middle East) doubled between 2000 and 2015,

rising from 17% to 35%. This performance was strongly influenced by growth in shipments to China. That country's share of total agricultural exports from the region jumped from 2% in 2000 to 14% in 2015, and as of 2003 it replaced Japan as the main buyer in Asia. Overall, Asia is already the main destination for the region's agricultural shipments, having surpassed traditional markets such as the European Union, the United States and the region itself. Between 2000 and 2015, the share of these three markets in regional agricultural shipments dropped from 28% to 18% in the case of the European Union, from 29% to 22% in the case of the United States, and from 20% to 16% for the region itself (see figure III.12). Thanks to the growing weight of Asian markets, between 2000 and 2015 the great majority of the region's countries saw a reduced concentration of agricultural shipments by market, as measured by the Herfindahl-Hirschman index (see figure III.13).[4]

When it comes to imports, the United States is the main supplier of agricultural products to the region, with a 43% share of the total value of imports, followed by the region itself, with 33%. This pattern has been fairly stable since 2000 (see figure III.14). However, the relative importance of the two suppliers varies greatly across the different subregions: while the United States is the dominant supplier in Mexico and the Caribbean, South America is its own main supplier. The United States and South America have similar shares in the Central American market (see figure III.15).

Figure III.12
Latin America and the Caribbean: composition of agricultural exports by destination, 2000-2015
(Percentages)

Asia is now the leading destination for the region's agricultural exports
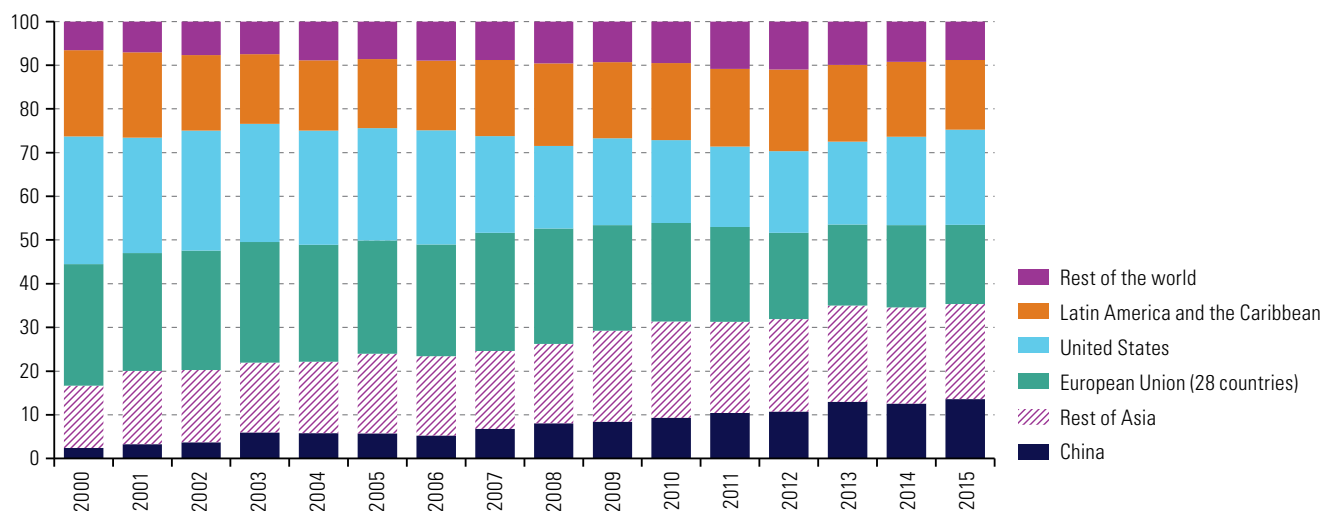
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

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[4]   The Herfindahl-Hirschman Index (HHI) is used in the literature on industrial economics as an indicator of market concentration. In this case, it shows how concentrated the country's exports are in terms of their product makeup and their markets of destination. It fluctuates between 0 and 1: at a value greater than 0.18 the index is considered to be concentrated, between 0.10 and 0.18 it is moderately concentrated, and between 0 and 0.10 it is diversified (Duran and Alvarez, 2011).

Figure III.13
Latin America and the Caribbean (23 countries): Herfindahl-Hirschman index of agricultural exports
by destination, 2000 and 2015

The great majority of countries in the region have reduced the concentration by destination
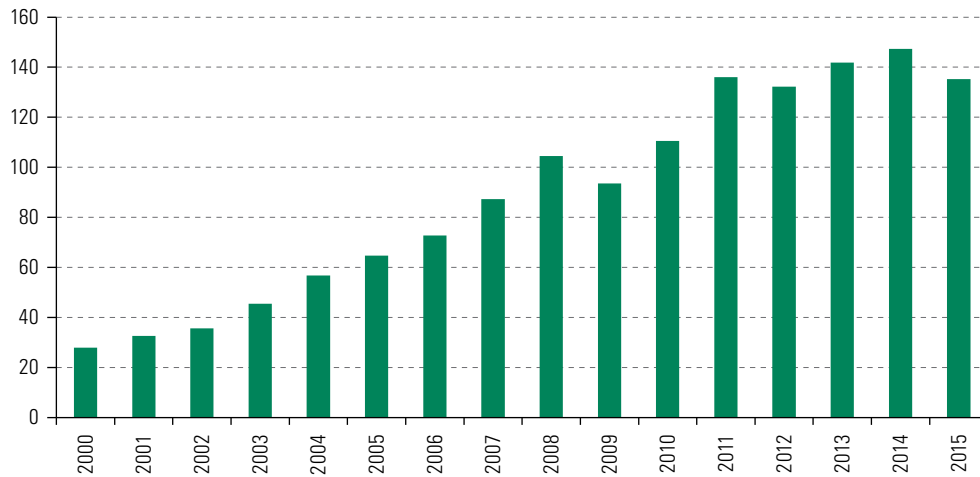of their agricultural exports
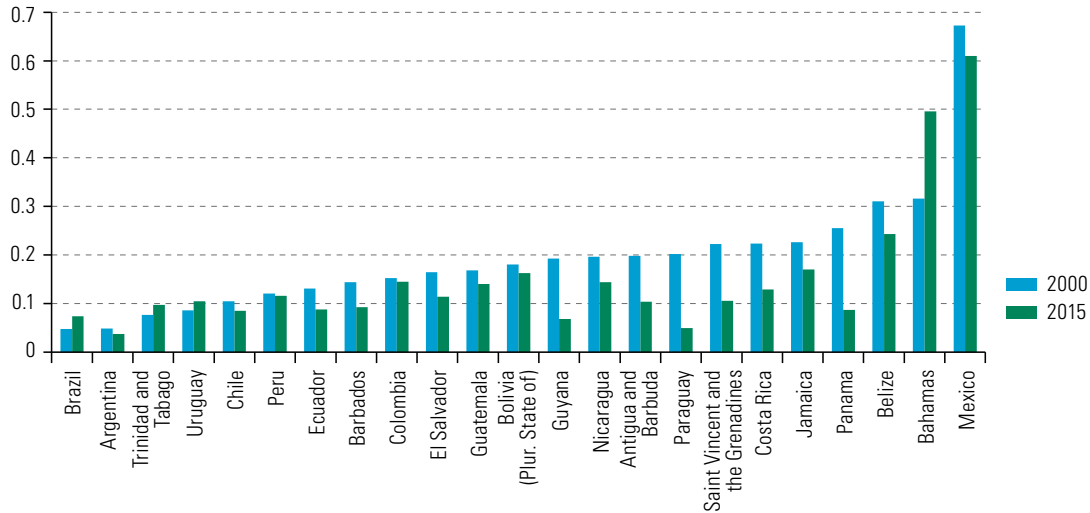
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
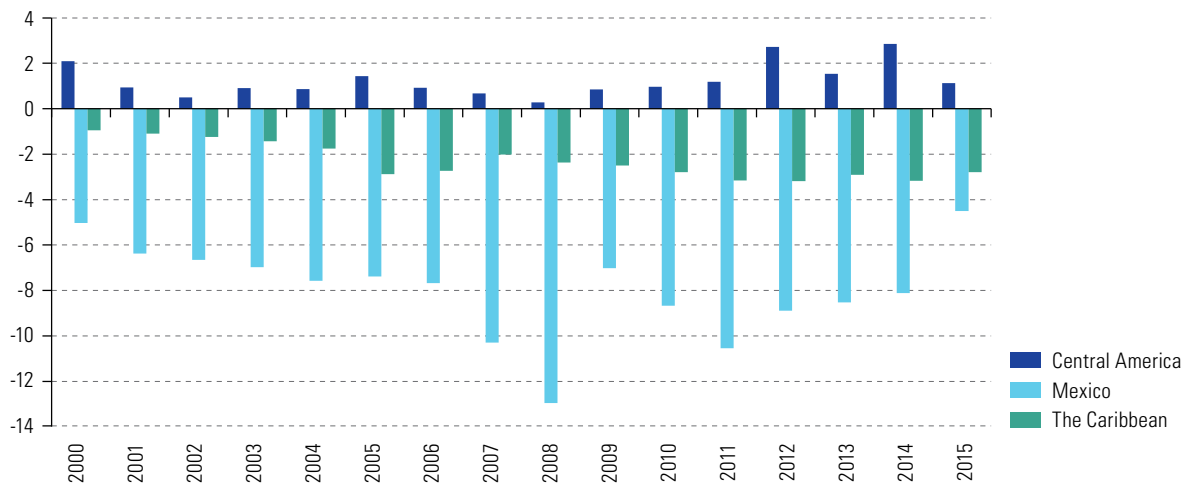
Figure III.14
Latin America and the Caribbean: composition of agricultural imports by origin, 2000-2015
(Percentages)

The United States and the region itself are the main agricultural suppliers
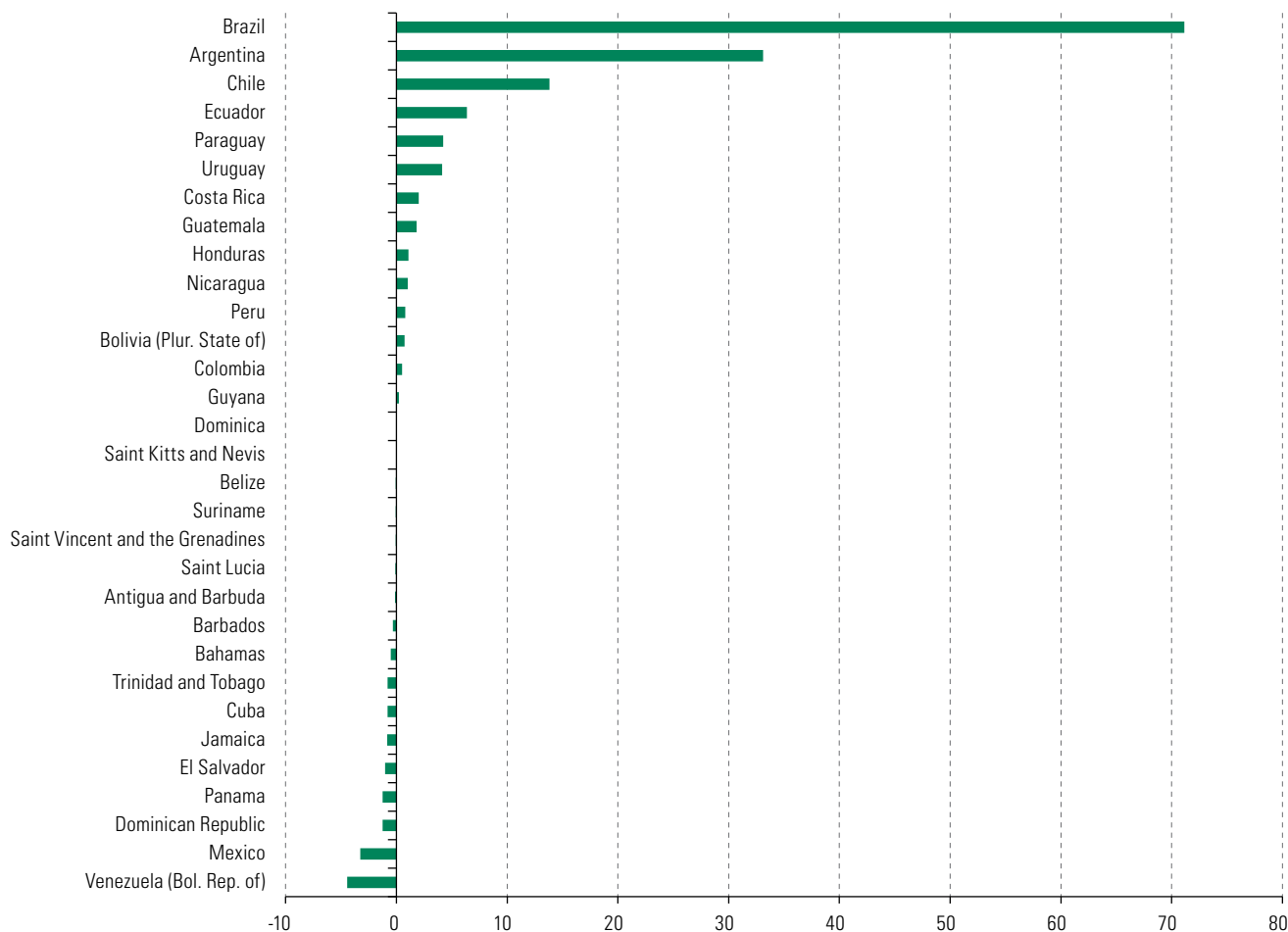of Latin America and the Caribbean

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

Figure III.15
Latin America and the Caribbean (subregions and selected countries): composition
of agricultural imports by origin, 2015
(Percentages)

The United States is the main supplier of Mexico and the Caribbean, while Latin America
and the Caribbean is the top supplier for Central America and especially for South America
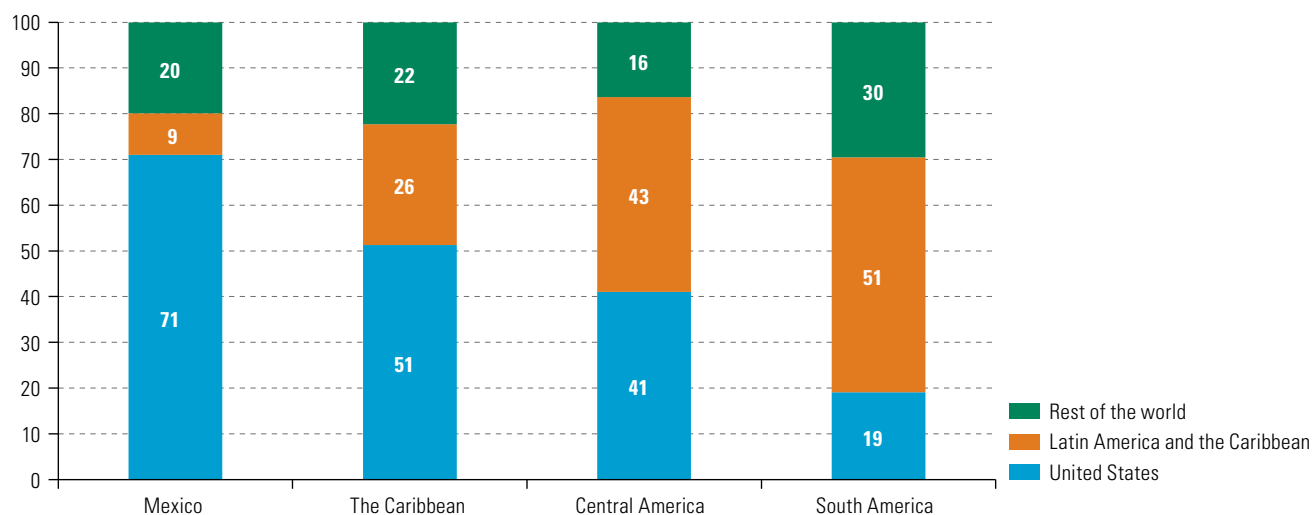
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN COMTRADE).

3.   The region is an important international player in commodities trade, but its export performance in processed products is weak

In terms of the make-up of regional agricultural shipments, the two most important categories are fruits and vegetables and oilseeds, each accounting for 14% of the total, followed by meats, with 10% (see table III.1). In the case of fruits and vegetables, the main products exported are bananas or plantains (3% of the total value of the region's agricultural exports), followed by such products as grapes, pineapples, avocados, and tomatoes. In the case of oilseeds, nearly all shipments consist of soybeans (13% of the total value of the region's agricultural exports). Among meat products, the leading exports are frozen meat of bovine animals and frozen poultry cuts and offal, for which shares in the total value of agricultural exports are 3% and 2% respectively. Oilseeds and meats were the categories that saw the greatest increase in their share of regional agricultural exports between 2000 and 2015, while the products that experienced the steepest decline were coffee, tea and spices; wood and wooden articles and basketry; fishery and aquaculture products, and wood pulp and paper. The share of processed foodstuffs also dropped, but to a lesser extent.

Seven of the 10 main agricultural products exported by the region to the world in 2000 were also among the 10 most exported products in 2016. In the intervening years, frozen shrimp, wheat and frozen orange juice dropped out of the top 10, and maize, frozen meat of bovine animals and frozen poultry cuts and offal entered the list. Likewise, the combined weight of soybean products —soybeans, soybean meal and other solid residues from the extraction of soybean oil, and crude soybean oil— rose from 14% to 22% of the total value of exports (see table III.2). Notwithstanding the high share of some categories in the total exports of Latin America and the Caribbean, there are many different exporter profiles within the region. At the subregional level, products

such as sugar, coffee, tropical fruits and alcoholic beverages (beer and liquors, such as rum and tequila) dominate in Central America, the Caribbean and Mexico. In South America some of these same products (sugar, coffee and bananas) figure among the main exports of countries such as Brazil, Colombia and Ecuador, but soybean products, cereals, meats and temperate-climate fruits and vegetables are also important.[5]

The share of oilseeds in regional agricultural exports doubled between 2000 and 2015, and they now constitute the top export category, together with fruits and vegetables

Table III.1
Latin America and the Caribbean: composition of agricultural exports by category, 2000 and 2015
(Percentages and percentage points)

Category	2000 (percentages)	2015 (percentages)	Change (percentage points)
Plants, vegetables, roots and fruits	15.6	14.2	-1.4
Oilseeds, plant resins and other products of plant origin	6.6	13.7	7.1
Live animals and meat products	5.8	9.9	4.1
Food residues and animal fodder	7.1	8.5	1.4
Processed foods	8.3	7.1	-1.2
Wood pulp and paper	9.4	6.8	-2.6
Cereals	4.6	5.9	1.3
Sugars and confectionery	5.3	5.5	0.2
Coffee, tea and spices	8.7	5.4	-3.3
Fishery and aquaculture products	7.5	4.9	-2.6
Beverages	4.5	4.2	-0.3
Animal fats	4.2	4.0	-0.1
Wood, wooden articles and basketry	5.7	3.1	-2.7
Dairy products and other products of animal origin	1.6	1.8	0.2
Tobacco	2.5	1.8	-0.7
Cocoa and its preparations	0.7	1.2	0.5
Other (8 sectors)[a]	1.7	2.1	0.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] The "other" category includes: fibres; grain mill and bakery products; natural essences; albuminoidal substances, starches and gums; hides and leathers; refined oils and other fatty acids; organic chemicals; and furs.

Table III.2
Latin America and the Caribbean: 10 main agricultural products exported to the world, 2000 and 2016
(Billions of dollars and percentages of total agricultural exports)

Seven of the ten leading agricultural products exported to the world by the region in 2000 also figure among the ten products most exported in 2016

| 2000				2016			
No.	Product	Amount	Percentage	No.	Product	Amount	Percentage
1	Coffee, not roasted, not decaffeinated	5.06	8.0	1	Soybeans	25.25	11.7
2	Soybean meal	4.06	6.4	2	Soybean meal	16.03	7.5
3	Soybeans	3.31	5.2	3	Raw cane sugar	9.48	4.4
4	Bananas, including plantains	2.45	3.9	4	Coffee, not roasted, not decaffeinated	8.73	4.1
5	Raw cane sugar	2.03	3.2	5	Maize (excluding seed corn)	8.55	4.0
6	Chemical non-coniferous wood pulp	1.74	2.8	6	Chemical non-coniferous wood pulp	6.13	2.9
7	Shrimps, frozen	1.54	2.4	7	Boneless meat of bovine animals, frozen	5.72	2.7
8	Crude soybean oil	1.30	2.1	8	Bananas, including plantains	5.38	2.5
9	Wheat	1.22	1.9	9	Crude soybean oil	5.23	2.4
10	Orange juice, frozen	1.20	1.9	10	Poultry cuts and offal, frozen	4.37	2.0
	10 main products	**23.91**	**37.9**		**10 main products**	**94.86**	**44.1**

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

[5]   Table III.A1.5 in the annex presents the five main agricultural products exported to the world by each country of the region, with their respective amounts and shares in the total value of agricultural exports.

Of particular importance among the leading categories imported are wood pulp and paper, food preparations, cereals (primarily maize and wheat), and meats (primarily beef). Together these four groups represent half of the region's agricultural imports in 2015 (see table III.3). The weight of the wood pulp and paper category in agricultural imports declined sharply between 2000 and 2015, while processed foods and animal by-products and fodder recorded the greatest increases.

Table III.3
Latin America and the Caribbean: composition of agricultural imports by category, 2000 and 2015
(Percentages and percentage points)

Wood pulp and paper, food preparations and cereals are the main agricultural categories imported by the region

Category	2000 (percentages)	2015 (percentages)	Change (percentage points)
Wood pulp and paper	23.8	17.1	-6.8
Processed foodstuffs	9.8	12.8	2.9
Cereals	13.1	12.5	-0.6
Live animals and meat products	7.2	7.6	0.4
Food residues and animal fodder	3.7	6.3	2.6
Plants, vegetables, roots and fruits	6.0	5.7	-0.2
Oilseeds, plant resins and other products of plant origin	5.8	5.4	-0.4
Animal fats	4.2	5.1	0.9
Beverages	3.0	5.1	2.0
Dairy products and other products of animal origin	5.4	4.7	-0.7
Wood, wooden articles and basketry	4.5	3.9	-0.6
Fishery and aquaculture products	1.4	2.9	1.5
Sugars and confectionery	1.9	2.4	0.5
Grain mill and bakery products	1.9	2.0	0.1
Cocoa and cocoa-derived products	1.2	1.6	0.4
Other (9 sectors)[a]	6.9	5.0	-1.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] The "other" category includes: coffee, tea and spices; tobacco; albuminoidal substances, starches and gums; fibres; refined oils and other fatty acids; hides and leathers; natural essences; organic chemicals; and furs.

Fruits and vegetables, oilseeds and meats are, in that order, the categories that contribute most to the region's trade surplus in the agriculture sector (see figure III.16). Together, these three categories accounted for 51% of the regional surplus in 2015. As a region, Latin America and the Caribbean has small deficits in only a few categories (the largest, in the paper and paper pulp sector, was US$ 750 million). This situation contrasts with that observed in 2000. At that time, although fruits and vegetables were also the category that generated the largest trade surplus for the region, the weight of oilseeds and meats was much lower, while the share of coffee and fishery products was greater in relative terms. This highlights the profound reconfiguration of the region's agricultural export basket during this century and, in particular, the growing weight of soybeans, largely as a result of demand from Asia. Moreover, in 2000, the region ran larger deficits (in absolute terms) than it does today, especially in the paper and paper pulp, cereals and dairy products sectors.

Figure III.16
Latin America and the Caribbean: trade balance in the agricultural sector by category, 2000 and 2015
(Millions of dollars)

Between 2000 and 2015 the region's agricultural trade deficits shrank sharply in all categories

A. 2000

B. 2015

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

As can be appreciated from figure III.17, since the year 2000 some countries of the region, including Brazil and Argentina, have experienced a notable increase in the product concentration of their agricultural export basket (as measured by the Herfindahl-Hirschman index). This is due in large part to the greater weight that soybeans have acquired in the total value of agricultural shipments from these two countries. On the other hand, the product concentration of agricultural exports of several of the countries that signed free trade agreements within and beyond the region declined between 2000 and 2015. This is the case, among others, with Chile, Costa Rica, El Salvador, Guatemala, Nicaragua, Panama and Peru. This phenomenon could respond in part to the new export opportunities opened by these agreements, which have improved conditions of access for agricultural products to relevant markets, as will be seen in section C.

Figure III.17
Latin America and the Caribbean (20 countries): Herfindahl-Hirschman index of agricultural exports by product, 2000 and 2015

Between 2000 and 2015 the product concentration of agricultural exports from Argentina and Brazil increased, while in several countries it declined
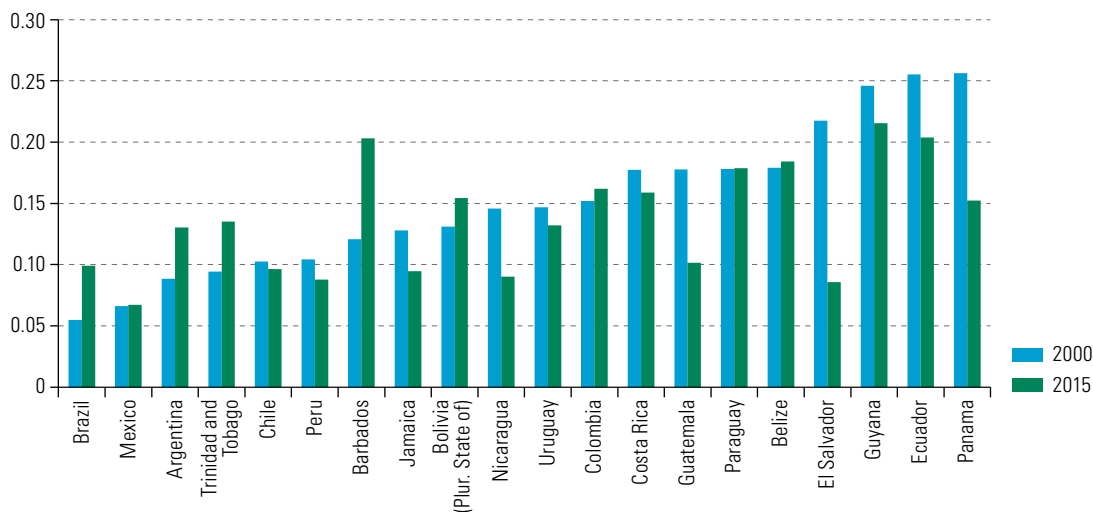
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).

The composition and the degree of concentration of the region's agricultural export basket fluctuate considerably according to the market of destination. Among the most important export markets, the most concentrated is China (where one single product, soybeans, accounts for 60% of the total value of shipments), followed by the European Union. Shipments to the United States and within the region itself are much more diversified (see table III.4).

In line with the previous observation, the number of agricultural products exported by the region to China is much smaller than the number sent to the European Union, the United States and the intraregional market. The greatest variety of agricultural products is sold within the region, as is true with other products. However, the gap between the number of agricultural products exported to China and to the other three markets mentioned has narrowed sharply since 2000 (see figure III.18).

Table III.4
Latin America and the Caribbean: main agricultural products exported to selected destinations, 2016
(Billions of dollars and percentages)

Among the main markets for the region, agricultural shipments to China are the most concentrated by product, and those within the region itself are the most diversified

	Product	Amount	Share
United States	Coffee, not roasted, not decaffeinated	2.49	5.2
	Beer made from malt	2.32	4.9
	Tomatoes, fresh or chilled	2.12	4.5
	Avocados	1.68	3.5
	Fresh cut flowers	1.47	3.1
	Bananas, including plantains, fresh or dried	1.23	2.6
	Fruits of the genus Capsicum or of the genus Pimenta, fresh or chilled	1.18	2.5
	Fresh grapes	1.15	2.4
	Filets and other fish meat, fresh or chilled	1.09	2.3
	Shrimps, prawns and other crustaceans	1.05	2.2
	Total 10 main products	**15.77**	**33.2**
European Union	Product	Amount	Share
	Soybean meal	6.52	17.0
	Coffee, not roasted, not decaffeinated	3.99	10.4
	Bananas, including plantains, fresh or dried	2.57	6.7
	Soybeans	2.53	6.6
	Chemical non-coniferous wood pulp,	2.10	5.5
	Shrimps, prawns and other crustaceans	1.34	3.5
	Boneless meat of bovine animals, fresh or chilled	0.98	2.6
	Orange juice	0.92	2.4
	Tobacco, partly or wholly stemmed/stripped	0.91	2.4
	Avocados	0.67	1.7
	Total 10 main products	**22.53**	**58.8**
Latin America and the Caribbean	Product	Amount	Share
	Maize	1.17	3.8
	Food preparations not elsewhere specified or included	1.15	3.8
	Spelt, common wheat and meslin	1.11	3.7
	Boneless meat of bovine animals, fresh or chilled	0.96	3.2
	Soybean meal	0.74	2.4
	Soybeans	0.71	2.3
	Semi-milled or wholly milled rice	0.65	2.1
	Preparations of a kind used in animal feeding (excluding dog and cat food)	0.64	2.1
	Milk and cream, in powder form, of a fat content, by weight, exceeding 1.5%	0.61	2.0
	Sanitary towels (pads) and tampons, napkins and napkin liners for babies, and similar articles	0.59	1.9
	Total 10 main products	**8.32**	**27.5**
China	Product	Amount	Share
	Soybeans	17.33	60.0
	Chemical non-coniferous wood pulp	2.03	7.0
	Boneless meat of bovine animals, frozen	1.35	4.7
	Poultry cuts and offal, frozen	1.00	3.5
	Chemical coniferous wood pulp	0.87	3.0
	Raw cane sugar	0.82	2.8
	Fresh cherries	0.67	2.3
	Chemical wood pulp, dissolving grades	0.35	1.2
	Tobacco, partly or wholly stemmed/stripped	0.34	1.2
	Shrimps, prawns and other crustaceans	0.29	1.0
	Total 10 main products	**25.05**	**86.7**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
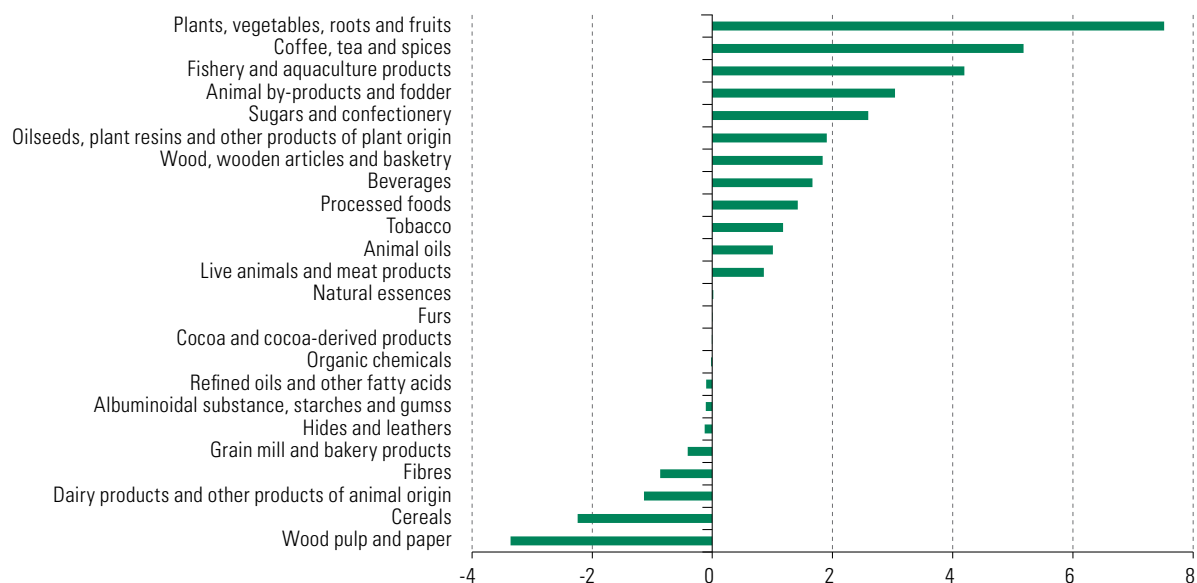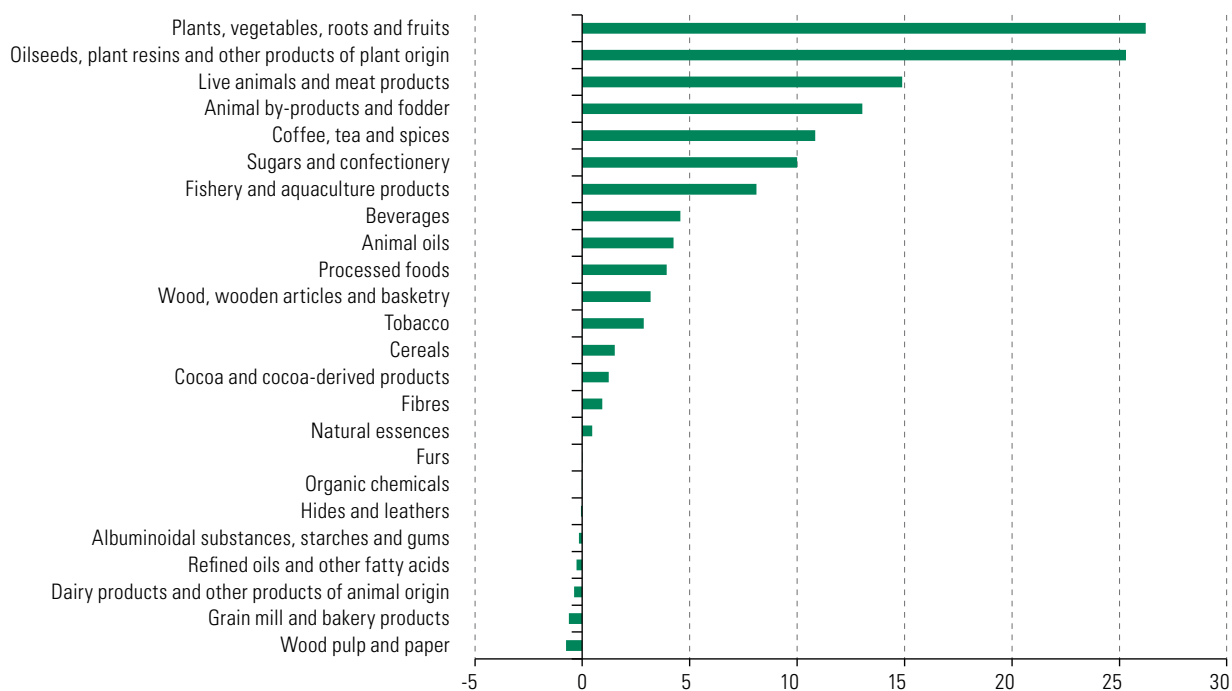
Figure III.18
Latin America and the Caribbean: number of agricultural products exported
to selected destinations, 2000-2016ᵃ

Among the region's main export markets, China receives the smallest variety
of agricultural products
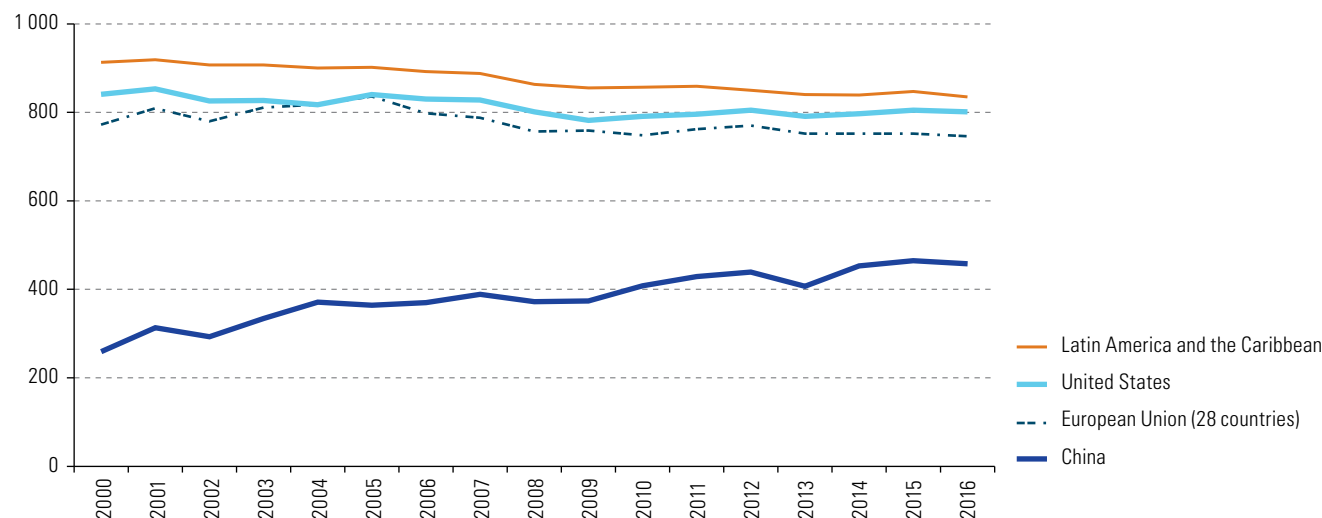
Legend:
- Latin America and the Caribbean
- United States
- European Union (28 countries)
- China

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
ᵃ Calculated to the six digit level of the Harmonized Commodity Description and Coding System.

At the global level, the region is a major supplier of agricultural products. These correspond primarily to commodities with a low degree of processing. In 2016, the region accounted for 84% of raw cane sugar, 67% of soybean meal, 55% of not roasted or decaffeinated coffee, 51% of chemical non-coniferous wood pulp, 49% of soybeans, 38% of frozen poultry meat, and 32% of maize and frozen meat of bovine animals exports worldwide. In all cases, the region's share increased substantially compared to 2000, mainly as a result of Brazil's greater market share (see figures III.19A to III.19H).

Unlike commodities, the region has very limited weight as a supplier of processed products. For example, in 2016 it accounted for only 12% of global exports of preparations of vegetables, fruits or nuts, 6% of exports of miscellaneous edible preparations and 2% of cheese exports. Despite being the source of 55% of global exports of not roasted, not decaffeinated coffee, the region accounts for just 1% of global roasted coffee exports. The main exporters of roasted coffee are developed, mainly European, countries that import raw coffee and process it (see figures III.19C and III.19D). Similarly, although the region's share of global exports of cocoa beans is close to 12%, the only country in the region with more than a 1% share of global exports of chocolate and other food preparations containing cocoa is Mexico, with 2.4% (see figures III.19I and III.19J).

Figure III.19
Selected agricultural products: leading world exporters, 2000 and 2016
(Percentages of global exports for each product)

The region carries great weight in global exports of commodities, but it has a reduced share
in exports of processed products

A. Soybeans
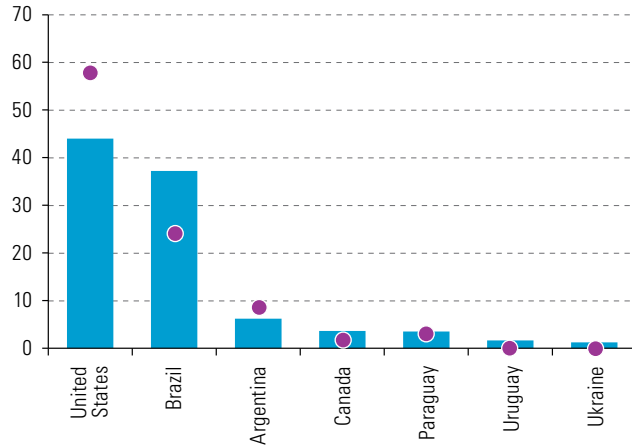
B. Soybean meal
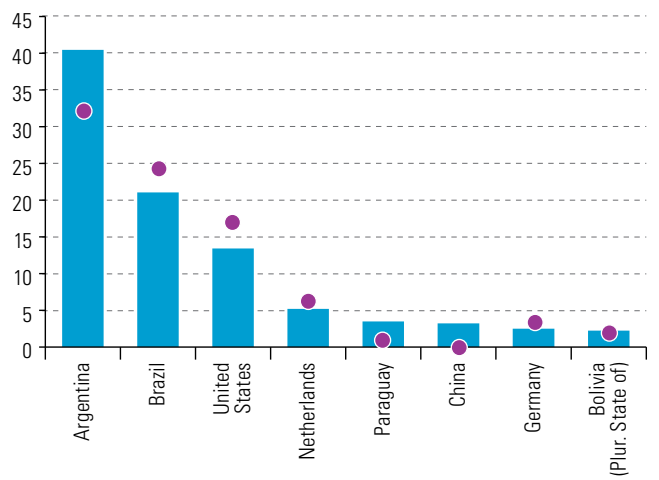
C. Coffee, not roasted, not decaffeinated
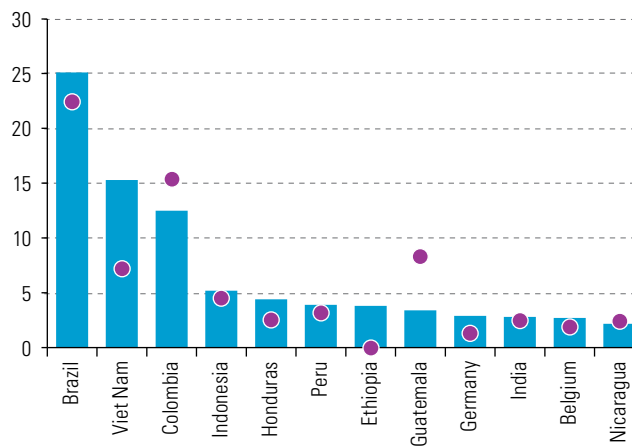
D. Coffee, roasted (not decaffeinated)
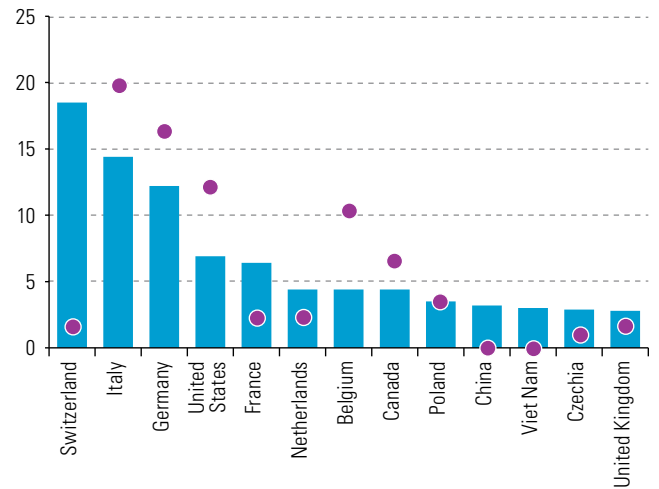
E. Raw cane sugar
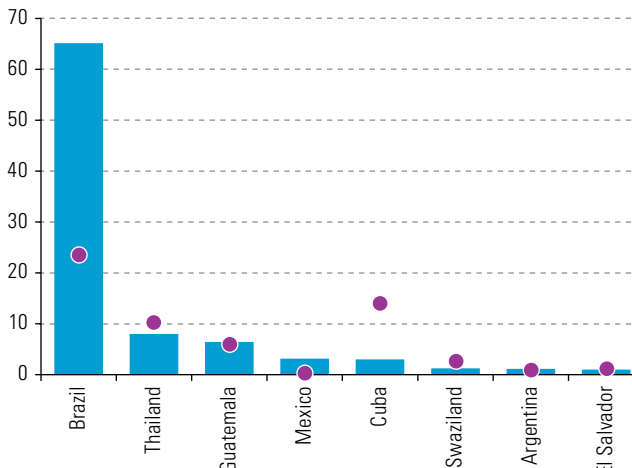
F. Maize
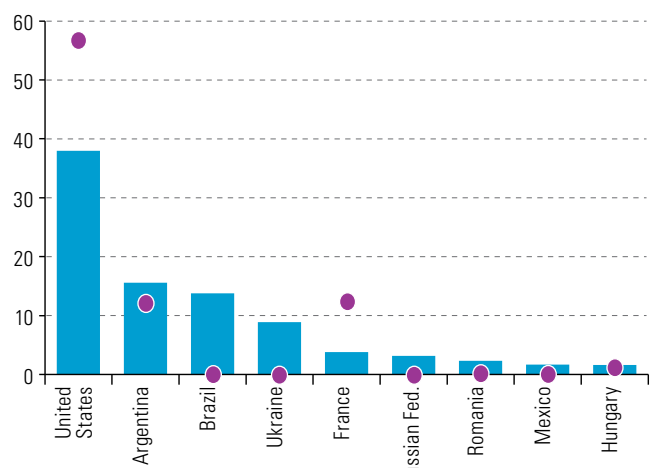
● 2000   ■ 2016

Figure III.19 (concluded)

G. Boneless meat of bovine animals, frozen
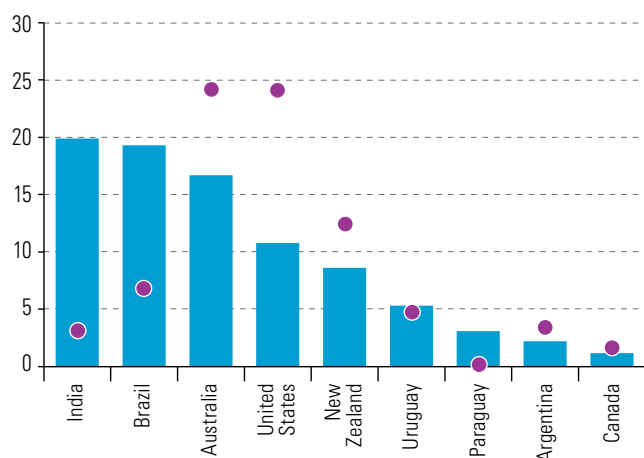
H. Poultry cuts and offal, frozen
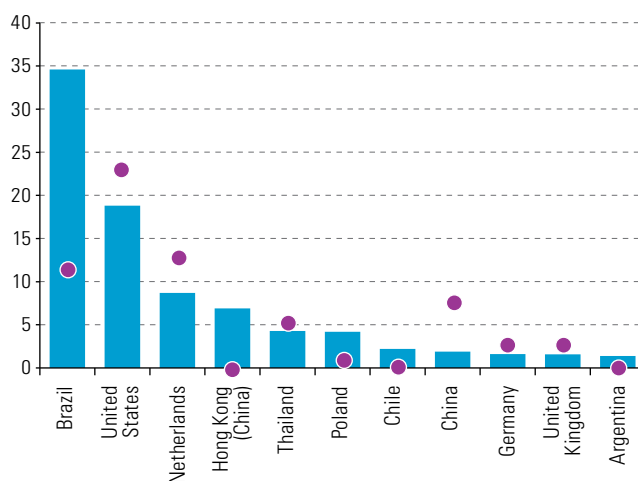
I. Cocoa beans
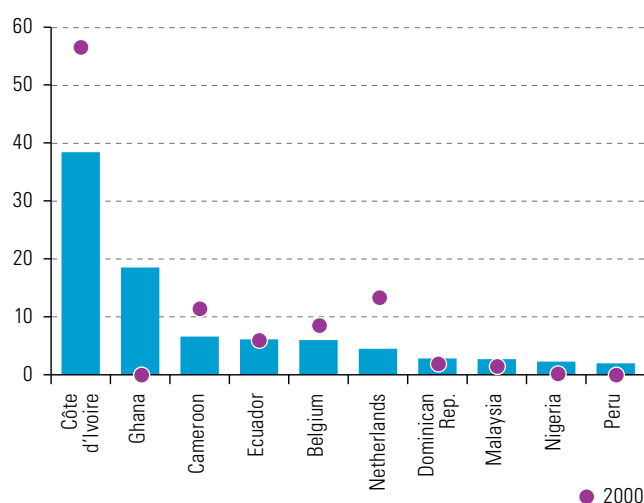
J. Chocolate and other food preparations containing cocoa
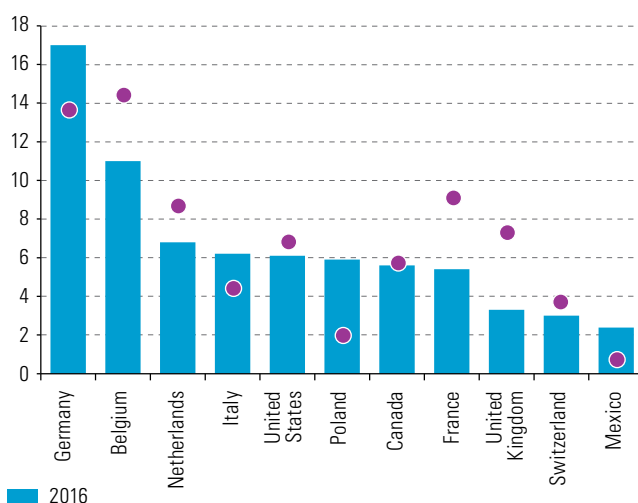
● 2000   ▬ 2016

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

> The fact that regional agricultural exports are highly concentrated in commodities means that the export basket must be "de-commoditized" (i.e. made less dependent on commodities) as a matter of urgency, a similar challenge faced by other sectors linked with natural resources.

C. Proactive public policies are needed to de-commoditize the agricultural export basket

1. Industrial policies are essential to generate distinctive attributes in world markets

The fact that regional agricultural exports are highly concentrated in commodities means that the export basket must be "de-commoditized" (i.e. made less dependent on commodities) as a matter of urgency, a similar challenge faced by other sectors linked with natural resources. For this to happen, distinctive attributes must be developed, such as quality, trademarks, traceability, safety and international certifications (e.g. of

organic production, fair trade or ecological footprint) that will allow higher prices to be achieved in world markets. Factors such as these explain in part the great differences observed between the average values earned by countries of the region that export the same product. Thus, for example, in 2015 the coffee exported by Costa Rica recorded an average free on board (FOB) value that was 61% higher than for the coffee exported by Brazil, and the value of frozen meat of bovine animals exported by Uruguay was 36% higher than that for Paraguay (see figure III.20).[6] Another market niche that is becoming ever more attractive in the face of a rapidly ageing global population is that of "functional foods", i.e. foods that, in natural or processed form, contain items which offer health benefits beyond nutrition.[7] Several of the distinctive attributes already mentioned are linked to intensive use of high value-added services in the different segments of the value chain (see the example of the Chilean wine industry in Farinelli and others, 2017).

Figure III.20
Selected countries: average value of exports of coffee and frozen meat of bovine animals, by origin, 2015
(Dollars per kilo)

The prices commanded by the same product in international markets may vary widely according to their origin, reflecting the existence of various differentiating attributes
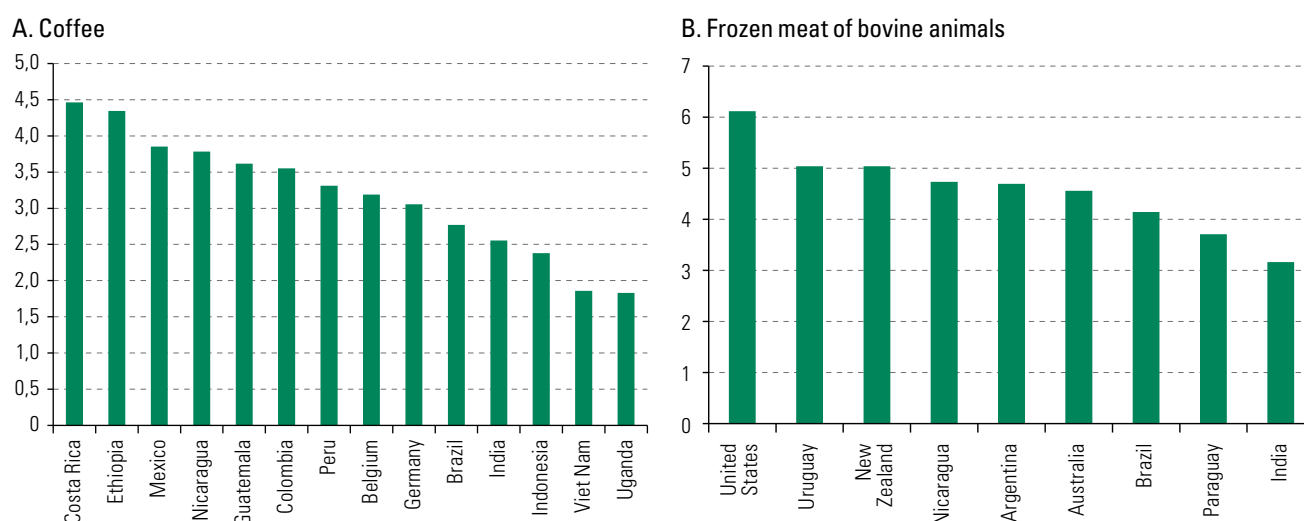
A. Coffee

B. Frozen meat of bovine animals

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

The shift to more sophisticated products does not typically flow automatically from price signals in international markets. To move forward with this transition will require a proactive rural industrial policy, understood as State intervention to strengthen the productive structure of the countryside, through the upgrading of rural activities along with heightened integration and complementarity with faster-growing and more knowledge-intensive activities, markets and sectors (Padilla and Quiroz, 2017). The scope of such a policy would go beyond the agricultural sector as it is defined in this chapter, as it would cover all rural economic activities, including services (for example,

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[6]   Zurbriggen and Sierra (2015) point out that, thanks to a collaborative public-private effort, Uruguay is the only country in the world where 100% of the beef herd is registered and identified electronically in an individual manner. This makes it possible to monitor the entire production chain and to track animals from birth until their meat reaches the consumer.

[7]   See Instituto de Nutrición y Tecnología de los Alimentos (INTA) of the University of Chile [online] https://inta.cl/6-que-son-los-alimentos-funcionales.

rural tourism). Nevertheless, such a policy is undeniably important for achieving the objective of increasing value added and enhancing the knowledge intensity of the region's agricultural exports.

A rural industrial policy calls for three categories of instruments: (i) trade, competitiveness and competition policies; (ii) tools for the promotion of productive development; and (iii) environmental policies (Padilla and Quiroz, 2017). The first category includes instruments such as export promotion and the negotiation of agreements to enhance access for agricultural products to new markets (see section 4 below), promotion of a stable macroeconomic framework, maintenance of a competitive exchange rate, the provision of infrastructure and the surveillance of competition in agrifood markets. All of these are basic conditions for the sound performance of exports in general, and of agricultural exports in particular.

Environmental policy, for its part, is an essential element for generating sustainable structural change in rural areas. Included here are instruments such as support for waste management and research for adaptation to climate change and mitigation of its effects, as well as programmes designed to measure, certify and reduce the environmental footprint, including the carbon footprint, of exports (Frohmann, 2017). Actions of this kind, besides generating an important environmental dividend, also have a clear link with the competitiveness of agricultural exports, as international markets (especially in developed countries) are increasingly insistent on knowing the environmental impact of imported foods (Frohmann and others, 2012). This is an issue of particular importance for the region. The current agricultural export model has had a number of adverse environmental consequences, in particular the deforestation caused by expanding the surface area devoted to soybean crops and livestock.

Policies for productive development are the broadest category within rural industrial policy, and include six areas of action: (i) productivity; (ii) marketing; (iii) education and training; (iv) access to financing; (v) science, technology and innovation (STI); and (vi) productive linkages. Included here are instruments such as support for obtaining international certifications, training programmes in information and communication technologies (ICT) and business management, the promotion of seed capital and venture capital funds, strengthening of agrifood innovation systems, the strategic use of intellectual property tools (for example denominations of origin) and incentives for forming clusters.[8]

The available data suggest that countries of the region still have a long way to go in order to make their agricultural and agro-industrial exports more sophisticated, and this will require industrial and technological policies that are more proactive than has been the case to date (see for example Solleiro and others, 2017). Obviously, as is the case with industrial policy in the broad sense, there is no "one size fits all" solution in terms of industrial policy for the agricultural export sector. The combination of instruments used will depend on the circumstances of each country, including the structure of the sector and the existing institutional, financial and technological capacities.

2.   Trade agreements are important when it comes to enhancing access to highly protected markets

Given its great sensitivity in most countries, the agricultural sector has historically constituted an exceptional case within the multilateral trading system and for nearly half a century, between entry into force of the General Agreement on Tariffs and Trade (GATT) in 1948 and the creation of the World Trade Organization (WTO) in 1995, this sector

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[8]   See the list of instruments for each area in Table II.8 of Padilla and Quiroz, 2017.

fell outside the general rules applied to trade in manufactures. Despite the progress made since its incorporation into the WTO rules during the Uruguay Round (1986-1994), agricultural trade is still subject to greater barriers than is trade in manufactures, mining products and fuels (Herreros, 2016).

The customs tariffs applied to agricultural products are on average higher than in other sectors (see figure III.21), and they can reach prohibitive levels, especially in certain developed countries.[9] Agriculture is in fact subject to instruments of protection that are prohibited for other products: these include tariff quotas and seasonal tariffs. The same happens with subsidies to production and export, despite some recent progress toward their elimination. Agricultural trade is also characterized by the extensive use of administrative barriers, such as non-automatic import licenses and cumbersome procedures for obtaining health and phytosanitary permits.

Figure III.21
Selected countries: average tariffs applied to agricultural and non-agricultural products, 2016[a]
(Percentages)

With few exceptions, agricultural products face higher tariffs than industrial products
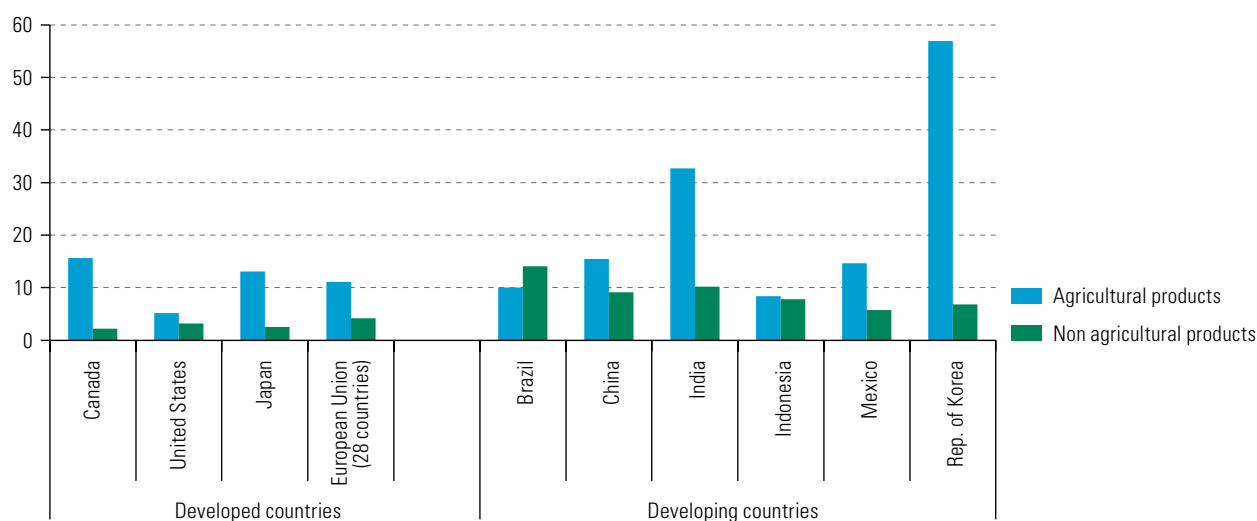
Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of International Trade Centre/World Trade Organization/United Nations Conference on Trade and Development (ITC/WTO/UNCTAD), *World Tariff Profiles 2017*, Geneva, 2017.
[a] The WTO definition of agricultural products differs from that used in this chapter, which excludes fisheries, aquaculture and forestry products.

The multiple continuing distortions in world agricultural trade have prevented many countries of the region from seizing full advantage of their export potential in that sector. In this context, and especially since the year 2000, several countries of the region have signed free trade agreements or other preferential accords with their main trading partners. These include traditional markets such as Canada, the United States, Japan and the European Union and, more recently, some of the major emerging economies of Asia (see table III.5). These agreements vary widely in the degree of liberalization of

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[9]   In 2016, the maximum tariffs applied to agricultural products in some of the main import markets were the following: in Canada, 368%; in the United States, 350%; in India, 150%; in Indonesia, 150%; in Japan, 613%; in the Republic of Korea, 887%; and in the European Union, 170% (ITC/WTO/UNCTAD, 2017).

agricultural trade, although it has been substantial in all cases.[10] A study based on a set of 53 trade agreements signed around the world between 1992 and 2009 concluded that inter-regional agreements (i.e. negotiated between countries or groupings of two separate regions) achieved an average proportion of duty-free agricultural tariff lines of 82%, at full implementation (OECD, 2015). That list includes all the agreements signed until then by countries of the region with Canada, China, the United States, Japan, the Republic of Korea and the European Union.

Most countries of the region have signed trade agreements with partners beyond the region

Partner	Countries and groupings of the region with trade agreements
Canada	Chile, Colombia, Costa Rica, Honduras, Panama, Peru (all in force)
China	Chile, Costa Rica, Peru (all in force)
United States	Chile; Colombia; Panama; Peru; Mexico (North American Free Trade Agreement, NAFTA); Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua (Free Trade Agreement between the Dominican Republic, Central America and the United States) (all in force)
India	Chile, MERCOSUR[a] (both in force)
Japan	Chile, Mexico, Peru (all in force)
Republic of Korea	Chile, Colombia, Peru (in force) Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua (negotiations concluded)
European Union	Chile, Colombia, Ecuador, Mexico, Peru, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, CARIFORUM[b] (in force) MERCOSUR[a] (negotiations under way)

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of Organization of American States (OAS), Foreign Trade Information System [online] http://www.sice.oas.org.
[a] Southern Common Market.
[b] Caribbean Forum of African, Caribbean and Pacific States.

In the context of regional integration, the countries of Latin America and the Caribbean have also made considerable progress in removing tariffs applicable to intra-regional agricultural trade. In effect, the study mentioned above concluded that agreements between countries of the region would reach a 95% proportion of duty-free tariff lines at full implementation (OECD, 2015).

With the current renegotiation of the North American Free-Trade Agreement (NAFTA), there is now an emphasis on the potential to expand trade in foodstuffs between Mexico and the rest of the region. In 2016, only 9% of Mexican agricultural imports came from Latin America and the Caribbean, compared to the 70% sourced in the United States. This is due in large part to geographic proximity, which translates into lower transportation costs compared to more distant suppliers. However, the duty-free access that nearly all agricultural exports from the United States enjoy under NAFTA also plays a role. On the contrary, within the region, it is only Mexico's partners in the Pacific Alliance (Chile, Colombia and Peru) and in Central America that have high levels of preferential access for their agricultural exports to Mexico.

Neither of the region's two main agricultural exporters, Brazil and Argentina, has a comprehensive trade agreement with Mexico, hence the majority of the agricultural products they export to this country enter with no tariff preferences (ECLAC/FAO/ALADI, 2016). Thus, their shipments of maize face an MFN (most-favoured-nation) tariff of 20%; wheat exports, 15%; rice, between 9% and 20%; beef and pork, on average, 20%; and poultry meat, between 80% and 100% (Michalczewsky, 2017). In the current climate of uncertainty created by the United States decision to renegotiate NAFTA, it is

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[10]   In general, the agreements signed by countries of the region with Canada, China and the United States achieve a greater degree of reciprocal liberalization in the agricultural sector than those signed with India, Japan, the Republic of Korea and the European Union.

essential for Mexico to diversify both its export markets and its suppliers. If negotiations for new trade agreements between Mexico and Brazil (launched in 2015) and between Mexico and Argentina (begun in 2016) are successfully concluded, this will help to reduce Mexico's high dependency on the United States in the food sector and, at the same time, will offer attractive export opportunities for its South American partners.

Looking ahead, an important task for countries of the region will be to improve access conditions for their agricultural products to the markets that are likely to account for the bulk of the expected growth in world food demand. Given the demographic trends now under way, such markets will become increasingly prevalent in Africa —which currently absorbs only 5% of regional agricultural exports— and in Asia (see table III.6). These two continents will experience the greatest expected population growth in absolute terms between 2015 and 2030 (in total, around 1 billion persons). Moreover, these are today the two least urbanized continents of the world, and their rate of urbanization is expected to rise the fastest. Between 2014 and 2050, that rate is projected to rise from 40% to 56% in Africa, and from 48% to 64% in Asia (United Nations, 2014). Thus markets such as Indonesia and Pakistan, in Asia, or Nigeria, the Democratic Republic of Congo and Ethiopia, in Africa, will become increasingly attractive for the region, even if they have not to date figured prominently on its trade negotiations' agenda.

Table III.6
World population distribution by regions, 2015 and 2030
(Millions of inhabitants and percentages of world population)

Africa and Asia will account for nearly all the expected worldwide population increase to 2030

Geographic zone	2015		2030		Absolute change 2015-2030
	Population	**Share** *(percentages)*	**Population**	**Share** *(percentages)*	
World	7 349	100.0	8 501	100.0	1 152
Africa	1 186	16.1	1 679	19.8	493
Asia	4 393	59.8	4 923	57.9	530
Europe	738	10.0	734	8.6	-4
Latin America and the Caribbean	634	8.6	721	8.5	87
North America	358	4.9	396	4.7	38
Oceania	39	0.5	47	0.6	8

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of United Nations, "World Population Prospects: The 2015 Revision, Key Findings and Advance Tables", Working Paper, No. 241 (ESA/P/WP.241), New York, Population Division, 2015 [online] http://esa.un.org/unpd/wpp/.

D.   Final reflections

From the analysis presented in this chapter it might be concluded that, over the last decade and a half, Latin America and the Caribbean as a region has increased its comparative advantage in the agricultural sector. During that time, the weight of agricultural shipments in the region's total exports has risen significantly, as has the region's share in global agricultural exports (although to a lesser extent). The region as a whole has become increasingly self-sufficient in agriculture: it runs no significant trade deficit in any category of products. Yet when disaggregated, the analysis reveals great discrepancies among subregions and countries. Few countries can be regarded as agricultural export powers, and they are located essentially in South America: that subregion accounts for nearly 80% by value of the region's agricultural shipments, and two countries alone (Brazil and Argentina) are responsible for more than half of those shipments.

Latin America and the Caribbean is a significant global supplier under various agricultural headings. However, these relate mainly to primary goods, with a very low presence of agro-industry products. The region's agricultural exports have not escaped the phenomenon of reprimarization that has been affecting its total exports since 2003. Because of this the weight of oilseeds in the value of the region's agricultural exports doubled between 2000 and 2015, moving to the top slot —together with fruits and vegetables— among its export categories. This in turn reflects the notable reorientation by destination of its agricultural shipments, of which China and the rest of Asia now absorb more than a third. Given current economic and demographic trends, the relative importance of Asian markets can be expected to rise further in coming years. For similar reasons, Africa may become an increasingly important market for the region's agricultural exports even if —in the case of sub-Saharan Africa— it also has the potential to become a significant competitor.

Like its general export performance, the region faces the urgent challenge of boosting the value added and the knowledge content of its agricultural export basket. In this regard, conditions must be created that are conducive to processing in the region those products that are currently exported almost exclusively in their raw form. Moreover, it is indispensable to develop distinctive attributes in areas such as quality, safety, conservation, healthful properties, and social and environmental sustainability. All these goals demand proactive and coordinated public policies on trade, science, technology and innovation, cluster promotion, intellectual property, financing, and education and training, among other areas. These policies will have a greater impact if the actions undertaken are the result of a joint assessment by the public sector and corporate stakeholders. In short, without a deliberate public policy effort to enhance the sophistication of agricultural exports, it will be very difficult to overcome the many weaknesses in the current pattern of export specialization.

> Without a deliberate public policy effort to enhance the sophistication of agricultural exports, it will be very difficult to overcome the many weaknesses in the current pattern of export specialization.

As in other sectors, intraregional trade in food and agricultural products is most conducive to export diversification, since it is characterized by the greatest number of products traded and by the largest share of processed products. Therefore, any action aimed at promoting such trade will also foster the necessary diversification of output and exports, and the development of agro-industrial value chains. In this context, a successful conclusion to Mexico's current trade negotiations with Argentina and Brazil will encourage diversification of Mexico's agricultural imports, reducing its heavy dependence on the United States. Seeing those negotiations through to a successful conclusion is even more important in the light of the great uncertainty created by the current renegotiation of NAFTA.

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Annex III.A1

Table III.A1.1

Latin America and the Caribbean (30 countries): value of agricultural exports, 2007-2016
(Millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Antigua and Barbuda	1	...	1	1	2	2	2	1	1	1
Argentina	29 413	38 167	28 830	35 330	45 069	43 238	42 782	38 555	35 248	37 452
Bahamas	108	128	69	78	80	84	94	72	65	...
Barbados	101	115	97	91	98	108	109	109	100	103
Belize	171	175	179	179	194	246	264	205	200	154
Bolivia (Plurinational State of)	861	1 100	1 145	1 209	1 277	1 694	2 117	1 970	1 540	...
Brazil	52 654	66 866	61 478	72 362	90 922	91 610	95 870	92 170	84 487	81 377
Chile	14 768	16 974	14 666	16 332	19 619	19 436	21 434	22 722	20 324	20 821
Colombia	6 422	7 335	6 554	6 307	7 679	7 246	7 253	7 881	7 395	7 202
Costa Rica	3 027	3 633	2 496	3 563	4 068	4 340	4 458	4 643	4 558	4 857
Dominica	13	16	16	8		4	...	...	...	...
Dominican Republic	1 174	1 295	1 202	1 490	1 685	1 764	1 863	2 361	2 118	2 137
Ecuador	3 708	4 574	5 002	5 423	6 678	6 562	7 283	8 624	8 587	8 774
El Salvador	1 003	1 234	968	959	1 379	1 484	1 450	1 215	1 313	1 205
Guatemala	2 864	3 275	3 517	3 897	4 512	5 004	4 995	5 177	5 106	...
Guyana	416	435	385	399	478	460	551	534	545	470
Honduras	1 359	...	1 542	1 800	2 407	2 737	...	2 694	...	...
Jamaica	404	505	510	364	351	549	408	257	230	313
Mexico	16 613	18 140	17 644	19 884	23 808	23 615	26 470	27 986	29 223	31 466
Nicaragua	981	1 292	1 182	1 461	1 753	2 267	2 091	2 409	2 265	...
Panama	962	967	664	494	877	494	557	586	520	649
Paraguay	2 468	4 059	2 835	4 071	4 894	4 350	6 409	6 529	5 380	5 501
Peru	2 615	3 364	3 144	4 007	5 602	5 321	5 457	6 310	6 065	6 599
Saint Kitts and Nevis	3	4	4	3	4	...	...	...	4	...
Saint Lucia	39	47	49	41	31	22	52	42	...	...
Saint Vincent and the Grenadines	33	34	34	30	29	34	...	...	37	...
Suriname	...	...	38	60	62	107	73	91	...	95
Trinidad and Tobago	459	568	357	309	449	462	436	433	445	...
Uruguay	2 809	4 092	3 954	4 824	5 673	6 462	6 842	6 936	5 745	5 424
Venezuela (Bolivarian Republic of)	...	175	96	151	70	3	56	...	...	...

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

Table III.A1.2
Latin America and the Caribbean (30 countries): value of agricultural imports, 2007-2016
(Millions of dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Antigua and Barbuda	147	...	148	125	128	144	139	143	147	134
Argentina	2 943	4 098	2 581	2 977	3 554	3 304	3 289	3 046	3 099	3 360
Bahamas	654	667	624	630	664	724	675	774	761	...
Barbados	356	424	354	373	403	404	417	412	414	410
Belize	107	131	123	145	133	142	152	252	242	233
Bolivia (Plurinational State of)	495	639	539	614	855	872	957	1 089	969	...
Brazil	7 493	10 064	8 668	11 060	14 457	13 897	14 609	14 256	11 204	12 389
Chile	4 174	5 325	4 039	5 348	6 690	7 147	7 325	7 292	6 800	6 725
Colombia	4 011	5 106	4 208	5 068	6 322	7 094	7 081	7 235	6 667	6 883
Costa Rica	1 631	1 967	1 226	1 890	2 411	2 505	2 568	2 636	2 580	2 813
Dominica	53	64	60	62	...	65	...	...	...	...
Dominican Republic	2 061	2 538	2 201	2 649	3 257	3 005	3 069	3 223	3 373	3 398
Ecuador	1 523	2 214	1 886	2 285	2 739	2 599	2 671	2 808	2 436	2 188
El Salvador	1 758	2 118	1 654	1 722	2 078	2 236	2 189	2 206	2 293	2 288
Guatemala	2 158	2 509	2 162	2 521	2 989	3 060	3 153	3 335	3 392	...
Guyana	172	225	194	251	280	313	312	309	292	307
Honduras	1 251	...	1 400	1 478	1 772	1 799	...	1 788	...	...
Jamaica	1 103	1 392	1 232	1 275	1 582	1 634	1 477	1 221	1 144	1 082
Mexico	26 908	31 093	24 663	28 559	34 352	32 502	34 992	36 107	33 724	33 487
Nicaragua	675	764	722	805	1 007	1 070	1 108	1 131	1 182	...
Panama	1162	1 515	1 355	1 630	1 976	485	575	554	497	511
Paraguay	552	786	749	983	1 212	1 202	1 260	1 318	1 226	1 202
Peru	2 831	3 994	3 218	4 161	5 141	5 575	5 609	5 814	5 583	5 456
Saint Kitts and Nevis	65	74	79	68	72	...	...	...	...	...
Saint Lucia	153	169	185	187	195	186	189	184	...	...
Saint Vincent and the Grenadines	92	110	100	104	109	116	...	...	110	...
Suriname	...	...	228	243	271	304	302	287	...	222
Trinidad and Tobago	879	1 163	917	897	1 102	1 228	1 233	1 332	1 294	...
Uruguay	724	996	956	1 137	1 550	1 442	1 686	1 511	1 542	1 371
Venezuela (Bolivarian Republic of)	3 725	8 989	7 288	5 848	8 934	10 604	9 135	...	...	...

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

Table III.A1.3
Latin America and the Caribbean (27 countries): distribution of agricultural exports by destination, 2016[a]
(Percentages)

	Latin America and the Caribbean	European Union (28 countries)	United States	China	Rest of Asia	Rest of the world
Antigua and Barbuda	39.9	14.7	7.4	0.1	0.3	37.6
Argentina	19.8	18.1	3.9	10.2	33.4	14.5
Bahamas	0.2	26.2	67.0	0.0	0.9	5.8
Barbados	51.1	14.7	23.4	0.0	0.2	10.6
Belize	19.5	42.2	33.4	0.0	3.4	1.5
Bolivia (Plurinational State of)	70.6	15.1	8.8	0.4	2.3	2.9
Brazil	7.1	19.4	7.0	24.8	31.7	9.9
Chile	20.2	14.9	24.8	16.0	19.0	5.2
Colombia	17.2	29.4	37.1	0.3	9.2	6.8
Costa Rica	29.5	30.1	33.8	0.6	3.6	2.4
Dominican Republic	18.7	25.2	50.7	0.4	1.9	3.1
Ecuador	13.2	26.1	23.7	2.8	30.7	3.5
El Salvador	65.0	6.7	19.0	0.3	4.6	4.4
Guatemala	30.8	11.7	35.6	2.6	10.2	9.1
Guyana	40.2	30.7	18.4	2.5	3.8	4.5
Honduras	27.0	28.3	36.5	0.1	2.7	5.3
Jamaica	17.5	22.5	36.7	0.2	7.0	16.0
Mexico	7.4	4.4	78.1	0.5	4.8	4.9
Nicaragua	43.4	12.4	33.7	0.8	1.9	7.8
Panama	36.5	21.4	16.2	0.9	11.1	13.9
Paraguay	40.9	18.8	1.8	0.1	33.4	4.9
Peru	18.3	37.1	30.3	2.8	7.3	4.2
Saint Vincent and the Grenadines	93.8	3.2	1.8	0.0	0.0	1.2
Suriname	45.1	18.0	0.6	11.1	20.7	4.5
Trinidad and Tobago	79.6	5.7	9.3	0.0	0.5	4.9
Uruguay	26.0	13.1	6.2	15.5	11.6	27.6
Venezuela (Bolivarian Republic of)	11.5	19.3	11.0	7.7	16.0	34.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] The figures for the Bahamas, Guatemala, Nicaragua, the Plurinational State of Bolivia, Saint Vincent and the Grenadines, and Trinidad and Tobago are from 2015. The figures for the Bolivarian Republic of Venezuela and Honduras are from 2013 and 2014, respectively.

Latin America and the Caribbean (27 countries): distribution of agricultural imports by origin, 2016[a]
(Percentages)

	Latin America and the Caribbean	European Union (28 countries)	United States	China	Rest of Asia	Rest of the world
Antigua and Barbuda	30.7	11.7	51.3	0.6	1.0	4.7
Argentina	66.1	15.4	6.4	3.9	4.0	4.2
Bahamas	7.0	4.2	84.9	0.2	0.4	3.2
Barbados	30.4	14.3	43.2	1.1	2.1	8.9
Belize	40.2	7.5	31.9	7.3	11.3	1.8
Bolivia (Plurinational State of)	81.7	5.0	6.7	3.6	2.1	0.9
Brazil	51.8	17.6	11.2	6.7	6.8	5.8
Chile	55.6	15.2	17.1	4.7	3.0	4.4
Colombia	37.8	8.8	38.8	3.0	2.3	9.2
Costa Rica	35.4	6.6	43.1	3.4	1.9	9.6
Dominican Republic	27.7	12.6	48.8	2.5	3.2	5.3
Ecuador	59.0	6.7	17.4	3.0	2.8	11.1
El Salvador	58.3	4.2	32.4	1.2	1.1	2.8
Guatemala	45.7	4.9	43.7	1.6	1.9	2.2
Guyana	41.0	9.7	30.5	3.3	4.2	11.3
Honduras	52.8	3.7	40.3	0.9	1.1	1.2
Jamaica	32.5	9.0	46.1	1.8	3.0	7.6
Mexico	9.3	7.2	70.0	2.5	3.1	7.8
Nicaragua	66.8	2.9	22.2	1.6	4.4	2.1
Panama	14.2	38.7	19.3	11.4	10.4	6.0
Paraguay	83.2	8.1	3.0	2.0	2.3	1.4
Peru	48.3	7.9	26.9	3.4	3.9	9.6
Saint Vincent and the Grenadines	33.5	12.6	48.3	0.7	0.8	4.1
Suriname	38.2	32.5	19.7	4.1	3.6	1.8
Trinidad and Tobago	26.0	13.4	43.1	2.3	5.0	10.1
Uruguay	77.8	12.8	2.6	2.1	2.4	2.3
Venezuela (Bolivarian Republic of)	66.3	7.4	16.8	2.1	0.7	6.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] The figures for the Bahamas, Guatemala, Nicaragua, the Plurinational State of Bolivia, Saint Vincent and the Grenadines, and Trinidad and Tobago are from 2015. The figures for the Bolivarian Republic of Venezuela and Honduras are from 2013 and 2014, respectively.

Table III.A1.5
Latin America and the Caribbean (26 countries): five main agricultural products exported, by country, 2016[a]
(Millions of dollars and percentages of total agricultural exports)

No.	Country	Amount	Share
	Antigua and Barbuda		
1	Rum	0.50	48.5
2	Mineral water	0.36	34.7
3	Other paper, including unsorted waste and scrap	0.05	4.7
4	Other sauces	0.04	4.3
5	Other spirits	0.03	3.3
	Total five main products	**0.99**	**95.6**
	Argentina		
1	Soybean meal	9 971	26.6
2	Maize	4 131	11.0
3	Crude soybean oil	3 967	10.6
4	Soybeans	3 233	8.6
5	Wheat	1 838	4.9
	Total five main products	**23 140**	**61.8**
	Bahamas		
1	Lobsters (frozen)	55	84.6
2	Other crustaceans	3	4.1
3	Crabs	3	4.0
4	Coral and similar materials	1	1.9
5	Lobsters (not frozen)	1	1.8
	Total five main products	**63**	**96.5**
	Barbados		
1	Rum	39	37.7
2	Paper or paperboard labels, printed	11	10.8
3	Margarine	9	8.5
4	Biscuits	7	6.9
5	Beer made from malt	5	4.9
	Total five main products	**71**	**68.8**
	Belize		
1	Sugar	51	33.5
2	Orange juice	39	25.6
3	Shrimps	6	4.1
4	Lobsters	6	4.1
5	Animal by-products and fodder	5	3.3
	Total five main products	**108**	**70.5**
	Bolivia (Plurinational State of)		
1	Soybean meal	511	33.2
2	Crude soybean oil	246	16.0
3	Walnuts, shelled	191	12.4
4	Other cereals	108	7.0
5	Undenatured ethyl alcohol	55	3.5
	Total five main products	**1 111**	**72.1**
	Brazil		
1	Soybeans	19 331	23.8
2	Sugar	8 282	10.2
3	Soybean meal	5 193	6.4
4	Chemical non-coniferous wood pulp	5 129	6.3
5	Coffee, not roasted, not decaffeinated	4 843	6.0
	Total five main products	**42 778**	**52.6**

Table III.A1.5 (continued)

No.	Country	Amount	Share
	Chile		
1	Wine of fresh grapes (excluding sparkling wine)	1 521	7.3
2	Fresh grapes	1 390	6.7
3	Chemical coniferous wood pulp	1 147	5.5
4	Fish fillets and other fish meat, fresh or chilled	1 009	4.8
5	Chemical non-coniferous wood pulp	1 000	4.8
	Total five main products	**6 067**	**29.1**
	Colombia		
1	Coffee, not roasted, not decaffeinated	2 418	33.6
2	Flowers	1 301	18.1
3	Bananas, including plantains	915	12.7
4	Sugar confectionery, not containing cocoa	231	3.2
5	Extracts, essences and concentrates of coffee	216	3.0
	Total five main products	**5 081**	**70.5**
	Costa Rica		
1	Bananas, including plantains	997	20.5
2	Pineapples	905	18.6
3	Food preparations not elsewhere specified or included	389	8.0
4	Coffee, not roasted, not decaffeinated	308	6.3
5	Pineapple juice	201	4.1
	Total five main products	**2 799**	**57.6**
	Dominican Republic		
1	Cigarillos	651	30.4
2	Bananas, including plantains	247	11.5
3	Cocoa	228	10.7
4	Raw cane sugar	92	4.3
5	Rum	75	3.5
	Total five main products	**1 292**	**60.4**
	Ecuador		
1	Bananas, including plantains	2 742	31.3
2	Shrimps	2 580	29.4
3	Flowers	788	9.0
4	Cocoa	622	7.1
5	Crude palm oil	180	2.1
	Total five main products	**6 912**	**78.8**
	El Salvador		
1	Raw cane sugar	125	10.4
2	Toilet paper	110	9.1
3	Coffee, not roasted, not decaffeinated	109	9.1
4	Mineral water	92	7.7
5	Other varieties of bread	68	5.7
	Total five main products	**505**	**41.9**
	Guatemala		
1	Raw cane sugar	848	16.6
2	Bananas, including plantains	764	15.0
3	Coffee, not roasted, not decaffeinated	663	13.0
4	Crude palm oil	247	4.8
5	Cardamoms	243	4.8
	Total five main products	**2 765**	**54.2**

Table III.A1.5 (continued)

No.	Country	Amount	Share
	Guyana		
1	Husked rice	148	31.4
2	Raw cane sugar	70	15.0
3	Shrimps	50	10.5
4	Rum	39	8.2
5	Other fish	22	4.6
	Total five main products	**328**	**69.7**
	Honduras		
1	Coffee, not roasted, not decaffeinated	783	29.1
2	Shrimps	306	11.4
3	Bananas, including plantains	222	8.2
4	Crude palm oil	170	6.3
5	Cigarillos	78	2.9
	Total five main products	**1 558**	**57.8**
	Jamaica		
1	Rum	40	12.7
2	Other tubers	28	8.9
3	Coffee, not roasted, not decaffeinated	28	8.8
4	Other varieties of palm hearts	22	6.9
5	Sauces and preparations therefor, condiments, mustard flour	18	5.9
	Total five main products	**135**	**43.2**
	Mexico		
1	Beer made from malt	2 814	8.9
2	Tomatoes	2 111	6.7
3	Avocados	2 024	6.4
4	Other distilled spirits	1 245	4.0
5	Pepper	1 161	3.7
	Total five main products	**9 355**	**29.7**
	Nicaragua		
1	Coffee, not roasted, not decaffeinated	392	17.3
2	Boneless meat of bovine animals, frozen	285	12.6
3	Cigarettes	156	6.9
4	Shrimps	141	6.2
5	Boneless meat of bovine animals, fresh or chilled	133	5.9
	Total five main products	**1 108**	**48.9**
	Panama		
1	Whisky	146	14.0
2	Cigarettes	97	9.4
3	Bananas, including plantains	92	8.9
4	Other distilled spirits	91	8.7
5	Shrimps	65	6.3
	Total five main products	**491**	**47.3**
	Paraguay		
1	Soybeans	1 816	33.0
2	Soybean meal	850	15.5
3	Boneless meat of bovine animals, frozen	580	10.6
5	Boneless meat of bovine animals, fresh or chilled	519	9.4
4	Crude soybean oil	463	8.4
	Total five main products	**4 228**	**76.9**

Table III.A1.5 (concluded)

No.	Country	Amount	Share
	Peru		
1	Coffee, not roasted, not decaffeinated	756	11.5
2	Fresh grapes	646	9.8
3	Asparagus	420	6.4
4	Avocados	397	6.0
5	Cranberries, bilberries and other fruit of the genus Vaccinium	237	3.6
	Total five main products	**2 456**	**37.2**
	Saint Vincent and the Grenadines		
1	Wheat or meslin flour	13	35.6
2	Beer made from malt	5	13.4
3	Other tubers	4	10.7
4	Other animal fodder	3	9.4
5	Husked rice	3	8.1
	Total five main products	**28**	**77.1**
	Trinidad and Tobago		
1	Bottled water	79	17.7
2	Cigarillos	47	10.6
5	Rum	19	4.4
3	Other preparations of cereals	30	6.8
4	Other distilled spirits	21	4.6
	Total five main products	**196**	**44.1**
	Uruguay		
1	Boneless meat of bovine animals, frozen	972	17.9
2	Soybeans	857	15.8
3	Other wood in the rough	562	10.4
4	Boneless meat of bovine animals, fresh or chilled	369	6.8
5	Sugar-free dairy products	316	5.8
	Total five main products	**3 076**	**56.7**
	Venezuela (Bolivarian Republic of)		
1	Hides and skins of bovine animals	15	23.0
2	Beer made from malt	7	10.1
3	Cocoa	6	8.9
4	Rum	5	8.2
5	Maize oil	5	8.2
	Total five main products	**39**	**58.4**

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations International Trade Statistics Database (UN Comtrade).
[a] The figures for the Bahamas, Guatemala, Nicaragua, the Plurinational State of Bolivia, Saint Vincent and the Grenadines, and Trinidad and Tobago are from 2015. The figures for the Bolivarian Republic of Venezuela and Honduras are from 2013 and 2014, respectively.

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