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Trade and Integration Monitor 2014

Facing Headwinds

Policies to support a trade recovery in the post-crisis era

Coordinated by
Paolo Giordano





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The *Trade and Integration Monitor* is an annual report that tracks the state of integration of Latin America and the Caribbean into the global trading system. It draws on publicly available data from INTrade, the IDB Trade and Integration Information System (www.iadb.org/intradebid).

The Monitor is the result of collaborative research undertaken by the Integration and Trade Sector (INT) and the Institute for the Integration of Latin American and the Caribbean (INTAL) of the Inter-American Development Bank, carried out under the general supervision of Antoni Estevadeordal, Sector Manager.

This edition was coordinated by Paolo Giordano, Principal Economist (INT), and written in collaboration with Alejandro Ramos, Senior Economist (INTAL).

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Prologue

The outlook for the global economy presents significant uncertainties. Moderate global growth, volatility, and asynchronous recoveries of the major economies have affected trade performance in Latin America and the Caribbean (LAC) over the last three years. The most visible effect is a virtual stagnation of exports that has affected, to varying degrees, the majority of countries in the region.

The *Trade and Integration Monitor 2014* examines various aspects of the adverse trade environment the region faces. This edition is the latest in a series of annual reports produced by the Integration and Trade Sector of the Inter-American Development Bank (IDB) that studies the evolution of LAC's integration into the global trade system using data from INTrade, the IDB's information system on trade and integration.

The results of this analysis reveal weak growth in export volumes during the post-crisis period, a trend previously overshadowed by the surge in export prices that followed the recovery from the collapse of world trade in 2008–2009. Using price and volume indicators estimated from primary data sources, the report highlights signs of vulnerability in the region's external sector, a circumstance further exacerbated by increasing export concentration.

The report also reviews the policy sphere, with focus on the trade facilitation agenda. In particular, it gauges progress on this agenda under preferential trade agreements, contrasting these with the provisions of the World Trade Organization's Agreement on Trade Facilitation, negotiated multilaterally as part of the Bali Package. The results show that the region still has significant ground to cover. Furthermore, it is important to stress that trade facilitation reforms are just one component of a comprehensive and bold policy agenda necessary for overcoming global headwinds and strengthening the external sector.

Given the magnitude of these challenges, we hope that this edition of the Trade and Integration Monitor provides useful information for the design and implementation of policies that will lead to the region's competitive integration into the global economy, and as a consequence, to an increase in overall welfare.

Antoni Esteveordal
Manager, Integration and Trade Sector

List of Abbreviations

ALADI	Latin American Integration Association (Spanish acronym)
CARICOM	Caribbean Community
ECA	Economic Complementation Agreement
EFTA	European Free Trade Area
ESW	Electronic Single Window
EU	European Union
FCA	Free Circulation Area
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HS	Harmonized System
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LA	Latin America
LDC	Least Developed Country
MERCOSUR	Common Market of the South (Spanish acronym)
MFN	Most Favored Nation
NAFTA	North American Free Trade Agreement
PA	Pacific Alliance
PTA	Preferential Trade Agreement
STR	Special Trade Regimes
TF	Trade Facilitation
TFA	Agreement on Trade Facilitation
TPP	Trans-Pacific Partnership
TRQ	Tariff Rate Quota
TTIP	Transatlantic Trade and Investment Partnership
ROW	Rest of the World
US	United States
US\$	United States Dollars
WTO	World Trade Organization

Executive Summary

Since mid-2011, an adverse external scenario has caused a virtual stagnation of regional exports from Latin American and Caribbean (LAC) countries. The downward trend in export prices and the resulting reversal in the region's terms of trade have exposed vulnerabilities in LAC's external sector, leading to an export growth pattern that lags markedly behind that of the boom of 2003–2008. At the same time, efforts to stimulate multilateral trade negotiations are at an impasse and dynamic mega-regional initiatives stand to shape the regulatory framework and commercial architecture in the coming decades. In this context, the region urgently needs to negotiate and autonomously implement policies to facilitate trade and boost exports.

The *Trade and Integration Monitor 2014* reviews and analyzes these trends with a view to contributing to the design of policies to offset the weaknesses in LAC's external sector. The monitor uses a series of indicators on trade and trade agreements developed by the Integration and Trade Sector of the IDB and publicly available in INTrade (www.iadb.org/intradebid) to highlight the following findings:

Growth of regional exports faces weakened global demand in the short term as well as other cyclical obstacles

Since mid-2011, global trade growth has decelerated due to transitory demand-side factors. Low output growth rates relative to those prevailing prior to the recession, a pattern of volatility, and a lack of synchronization in the recoveries of the region's principal trading partners limit LAC's short term prospects for export growth. At the same time, cyclical trends have weakened the demand for LAC's exports. In particular, international trade has been less responsive to increases in global output. This implies that higher growth rates of world income are needed to sustain trade expansions similar to those prevailing in the last two decades, when multilateral and regional trade liberalization and the fragmentation of production in global value chains stimulated trade growth. Other drivers of the region's trade performance include a correction in the trade deficit of the United States historically associated with the expansion of world trade, a likely nominal appreciation of the dollar that typically depresses commodity prices,

and an appreciation of the real exchange rates of some regional currencies that erodes export competitiveness. In the context of growing international financial constraints, the need to boost exports becomes critical in order to avoid larger imbalances in the region's current accounts.

Limited increases in the volume of exports, combined with a fall in international prices, have virtually stalled export growth in the region

In 2013, regional exports reached US\$1.09 trillion, a mere 0.1% increase after growing only 1.2% in 2012. Exports from Mexico and Central America grew moderately (2.5% and 1.6% respectively), those of the Andean and MERCOSUR countries contracted slightly (-1.8% and -1.0% respectively), and Caribbean exports fell substantially (-4.2%). In the first seven months of 2014, total LAC exports grew a meager 0.5%. These results stand in sharp contrast to those achieved during the export boom of 2003–2008. The reversal of the region's terms of trade, which decreased 3.9% in 2012 and a further 2.5% in 2013, is largely responsible for the recent weak export performance. This situation has revealed pre-existing vulnerabilities. Growth rates of the volume of exports are low, and have been declining for years, except for 2010 when export growth rebounded following the end of the Great Recession. Yet this warning sign was initially overshadowed by export price increases, which have not been sustained since mid-2011. In 2013, export volumes grew by only 1.1%, while the aggregate price level fell 0.9% due to declines in the value of several exported products, notably metals and oil whose prices peaked in 2011. Over the past decade, LAC's export basket has become more concentrated in commodities and derivatives thereof, leaving the region particularly vulnerable to weaknesses in these markets. In 2003, exports of these products represented an average of 49% of the region's export basket. In 2013, this proportion reached 60%.

Given the uncertainty in multilateral negotiations on trade facilitation, the countries of the region have policy space to independently implement reforms

Although the trends outlined in this report may stabilize or be reversed, what emerges from this analysis is a clear warning on the urgency of implementing a policy agenda aimed at boosting the external sector through, *inter alia*, an ambitious trade facilitation program. The present dynamics of international negotiations indicate that considerable policy space for the countries of the region lies in preferential agreements and unilateral reforms. The most striking development in the global context is the negotiation of mega-regional agreements which, if successfully implemented, would become strategic reference points by defining the regulatory framework and commercial architecture for decades to come. On the other hand, despite the impasse in its ratification, the negotiation of the WTO Trade Facilitation Agreement (TFA) emerges as a milestone. Given that according to a conservative estimate only 20% of the TFA

commitments are already in place, negotiated in earlier preferential agreements between LAC and its principal partners, the region has significant ground to cover in implementing a modern trade facilitation agenda. Moreover, it is important to note that trade facilitation reforms are but one of the pillars of a necessary program to offset the headwinds currently arising in the global economy and boost trade performance in the region.

Introduction

Once the most acute period of the 2008–2009 international financial crisis had passed, Latin America and the Caribbean (LAC) exports recovered strongly through mid-2011. Given this rebound, it could have been expected that LAC's export sector would continue on a path similar to the bonanza that preceded the crisis. However, this was not the case and in mid-2011, the region's foreign sales entered a phase of stagnation, in line with post-crisis world trade patterns. As of mid-2014, the region's exports posted nearly zero cumulative growth over the preceding three years. Despite some variation across subregions and countries, the overall trend is one of stagnation, which stands in strong contrast to the period of 2003–2008 and immediately after the crisis.

This report provides a detailed analysis of the principal characteristics of LAC's exports during the post-crisis period. The weak performance of the export sector stems from a combination of multiple variables operating in the global economy and whose future remains uncertain. In any case, the trends identified in this analysis represent a warning for the region and emphasize the need to support the recovery of the export sector. This is particularly true in the area of trade policies, where measures to remedy the situation do not rise to the magnitude of the challenges.

The first section examines the principal characteristics of the slowdown in world and regional trade since the middle of 2011. The second section provides an overview of the region's trade performance between 2012 and 2013, as well as the trends in value and composition of the regional export basket in 2013, highlighting the key factors in each subregion and country. Additionally, it presents an analysis of the evolution of the terms of trade of the region, outlining the deterioration of the last two years, as well as the contributions of price and volume changes to the trajectory of foreign sales. The third section discusses recent developments in the trade policy sphere, with emphasis on the progress of multilateral and regional agreements on trade facilitation.

Country and Agreement profiles (available online) provide detailed information on the IDB borrowing member countries, complementing the analysis presented in this document. Specifically, the [Country Profiles](#) summarize indicators of recent trade performance of each country in the region. [The Agreement Profiles](#) document the free trade agreements in force among LAC countries and their trading partners.

The Deceleration of World Trade

1

Global trade has remained almost stationary since mid-2011. The contraction in developed country markets and the modest dynamism in developing countries have resulted in stagnant world trade. Slower global economic activity, intermittent and asynchronous recoveries of the largest economies, and the reduction in the United States trade deficit, combined with exchange rate factors, are some of the components of a global outlook that is substantially less favorable for LAC exports than the one that prevailed in the last boom between 2003 and 2008, and immediately after the crisis.

Weak Global Demand

The Great Recession and the subsequent recovery caused an extraordinary fluctuation of global trade: in 2009 and 2010, world trade fell and rose 22.8% and 21.6%, respectively. However, the performance following the 2010 recovery has also been unusual (Figure 1). Instead of returning to a sustained growth trajectory similar to that which favored LAC exports in 2003–2008, world trade stagnated during a period of three years, beginning in the second quarter of 2011. The behavior of LAC exports replicates that of world trade, which has been negatively affected by a contraction of developed country imports and has not been offset by greater dynamism of imports in developing countries.¹

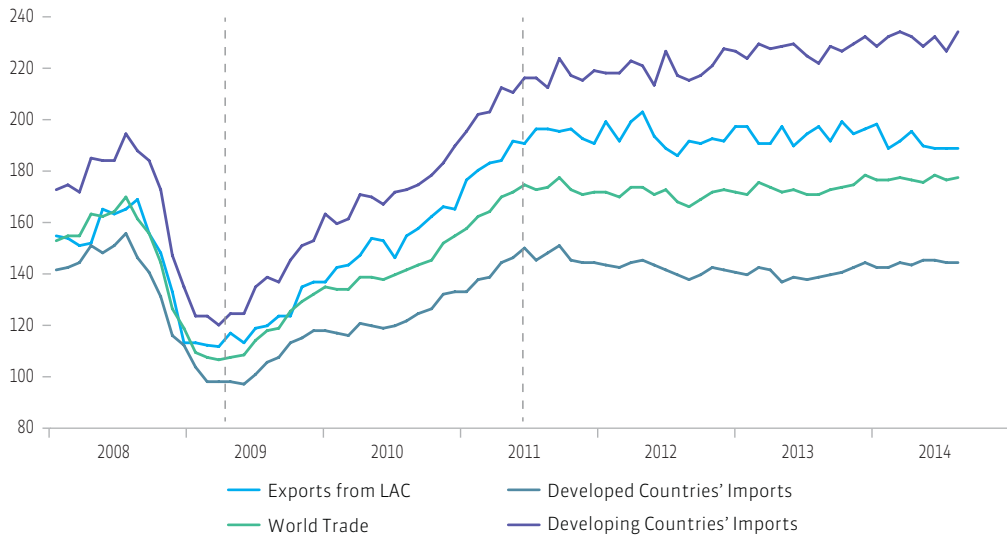
Global trade is in a phase of stagnation.

The deceleration of global demand originates in the largest economies.

Since mid-2011, imports of the principal economies have decelerated in comparison to the sustained dynamism of the 2003–2008 period. During that time, the growth rate of import values of the United States (US), the European Union (EU), China, and the LAC region itself, grew at double digits, while in the more recent period, average annual growth rates are scarcely above 6% (Figure 2).

¹ A detailed analysis of the differences in the growth of trade of developed and developing countries can be found in Giordano (2013). The short term estimates provided in this report are in line with the recent downward revision of projections for global trade growth at constant prices by the World Trade Organization for 2014, as well as the projections of the Economic Commission for Latin America and the Caribbean. See WTO (2014) and ECLAC (2014).

FIGURE 1 • VALUE OF WORLD TRADE
(Index, 2005=100, 2008–2014)



Source: IDB Integration and Trade Sector with data from the Netherlands Bureau of Economic Policy Analysis (CPB).
Note: The value of world trade is calculated as the average of world exports and imports.

Demand growth for regional products has fallen by half.

LAC’s foreign sales reflect this deceleration, with a reduction of 9 percentage points in demand growth from principal trading partners as compared to the pre-crisis period. Specifically, US and EU imports from LAC have grown at an annual average rate of 6.8% and 1.7%, respectively, markedly below the respective pre-crisis averages of 10.7% and 19.8%. Between 2011 and 2013, the growth of US and intra-regional imports was similar to the average of the four selected importing economies presented in Figure 2. In strong contrast, the demand from the EU, which grew more rapidly between 2003 and 2008, is now practically flat. The demand from China exceeds the average and remains at double digits despite a notable reduction from an annual average growth rate of 43.2% in 2003–2008 to 11.6% in 2011–2013. Additionally, the more recent growth of Chinese imports from LAC (11.6%) is somewhat less than the growth of LAC imports from China (13.3%), indicating an ongoing deterioration of the region’s bilateral trade balance. On the other hand, intra-regional import demand growth also showed less vitality averaging 6.7%, whereas in the previous 2003–2008 period, growth stood at 22.8%.

In terms of value, between May 2011 and June 2014, world trade grew at an annual rate of 0.6% (Figure 3). This is due to a mild contraction in developed country imports of 1.4% and a moderate increase of 2.6% in developing countries’ imports. The principal

Contraction in export prices combined with modest growth of trade volumes.

FIGURE 2 • TOTAL IMPORTS OF SELECTED ECONOMIES

(Average annual growth rate, percentage, 2003–2008 and 2011–2013)



Source: IDB Integration and Trade Sector with data from national sources.

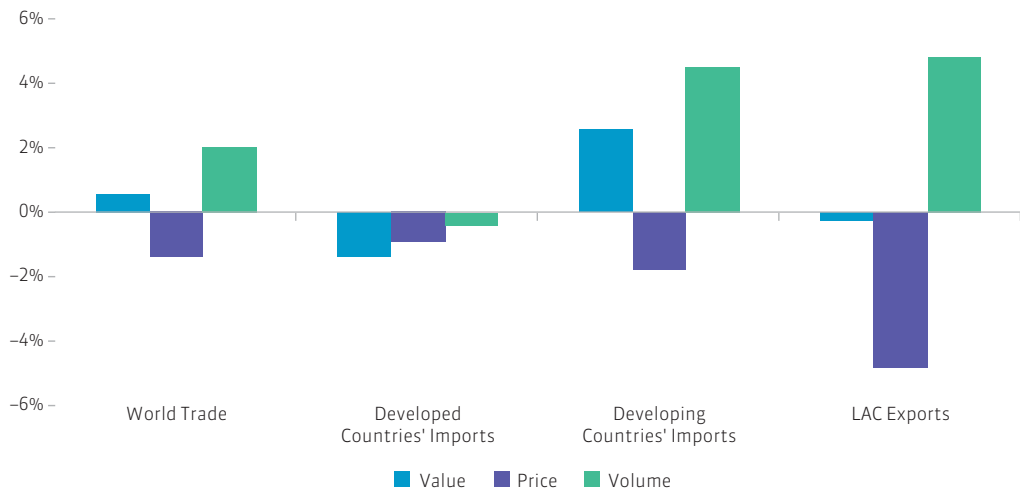
Note: The graph illustrates imports of four major LAC trade partners (US, EU, China and the region itself) by country of origin. The values reported in each quadrant refer to the reduction of the growth rate in percentage points, between the two periods indicated. “LAC as exporter” refers to the weighted average of imports from the world.

determinant of this lack of dynamism in global trade is the contraction in the prices of goods. The volumes traded at the global level have grown modestly at 2.0%, with expansions witnessed in developing countries (4.5%) and negative growth rates in developed countries (–0.4%). The global price level of traded goods, however, has fallen at an average annual rate of 1.4%, with sharper drops in the imports of developing countries than in those of developed countries (–1.9% vs. –1.0%).

The changes in value, price, and volume of LAC exports are even more notable than at the global level. In fact, according to the cited source, the 4.9% fall in average unit export prices neutralizes the 4.8% growth in export volumes, resulting in a decline of 0.3% in the total value of regional exports. Thus, in the post-crisis era, LAC trade faces an adverse external scenario, which strongly contrasts with the favorable conditions prevailing before the 2008–2009 financial crisis (Box 1).

The fall in international prices particularly affects the region.

FIGURE 3 • GROWTH IN VOLUMES AND PRICES OF WORLD TRADE
(Equivalent annual growth rate, percentage, May 2011–June 2014)



Source: IDB Integration and Trade Sector with data from CPB.

Note: Growth is calculated as the geometric average annual percentage growth in the indicated period. The value of world trade is calculated as the average of exports and imports.

Stagnation of Regional Exports

The deceleration of world trade growth and LAC's corresponding export stagnation are the result of a set of variables in the post-crisis period. These include a lower level of global economic growth, instability and lack of synchronization in the recoveries of the largest economies, and exchange rate dynamics.

Weak global economic growth since the recovery is the first element of this scenario. In the pre-crisis period (2003–2008), world GDP grew at an average annual rate of 4.5%, but it fell to an average of 3.4% between 2011 and 2013. Specifically, activity in developed countries shows a substantial deceleration, growing 1.5% in the most recent period as compared to 2.3% annually between 2003 and 2008. The situation in developing countries is similar, and has dropped from 7.4% to 5.3%.² Projections for 2014 indicate comparable or lower growth rates with respect to the past three years: 3.4% for the global aggregate and 1.8% and 4.6% for developed and developing countries, respectively.³ Subdued global demand is likely to continue over the next few quarters.

Weak demand has spread globally.

² Figures from IMF (2014a). The national growth rates are aggregated using GDP at purchasing power parity.

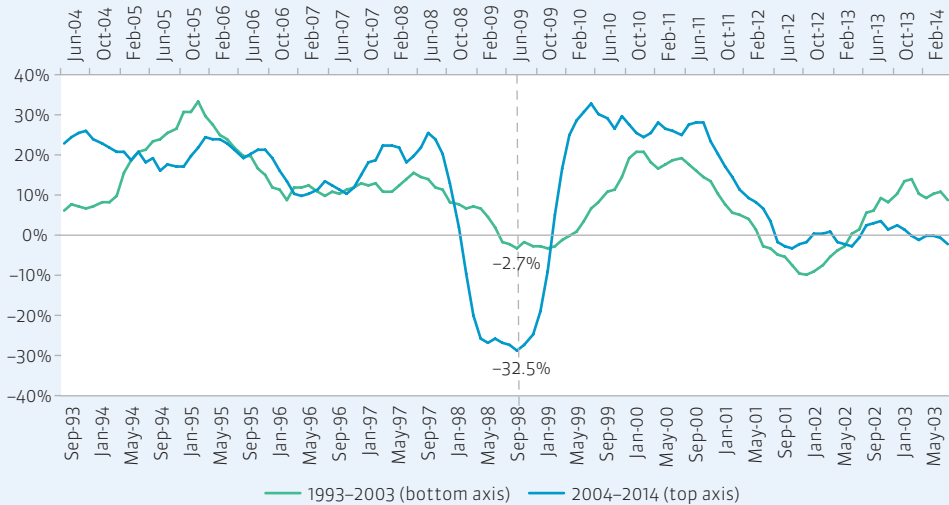
³ These figures are from the update of IMF(2014b).

BOX 1: EXPORT CYCLES OF LATIN AMERICA AND THE CARIBBEAN

In the past two decades, LAC exports have exhibited a cyclical pattern. Splitting this into two periods, 1993–2003 and 2004–2014, reveals the similarities and differences of the export trajectory in the two cycles.

EXPORT GROWTH IN LATIN AMERICA AND THE CARIBBEAN

(Quarterly moving average annualized growth rate, percentage, 1993–2014)



Source: IDB Integration and Trade Sector with data from CPB.

Note: Total regional exports in current prices.

Both intervals are centered on their minimum points: in 1993–2003, that relative minimum corresponds to September 1998, when the quarterly moving average fell to -2.7% ; in 2004–2014, the absolute minimum corresponds to June 2009, when the quarterly average dropped to -32.5% .

The overlay of the two intervals shows the similarities in the export dynamics. In both periods, the first four years display an average growth rate of around 10%, followed by declines in the value of exports. In the first period, the contraction was less dramatic but more prolonged and associated with the instability set off by the Asian and Russian financial crises. In the second period, on the other hand, the drop was much more pronounced and linked to the acute international crisis of 2008–2009.

In comparison, the rebound from the recent crisis was more intense and resulted in relatively strong export growth for the region, which lasted until the second quarter of 2011. The expansion in the analogous period following the Asian and Russia crises was less pronounced. In both instances there was a short-lived period of export growth after the recovery phase: in the 1993–2003 decade this ended with the 2001 recession; whereas recently the export rebound has been undermined by unsteady and asynchronous economic growth, principally in developed countries. While exports recovered and were growing by 10% by the end of the first decade, growth was nearly flat in the corresponding segment of the second period.

The income elasticity of world trade has declined.

The slower growth of world demand is associated with a significant reduction in the income elasticity of world trade between 2011 and 2013 (Figure 4). Specifically, a growth of 1% in world output increases global trade by only 1.3%. Between 2003 and 2008, on the other hand, the growth of trade was double the growth of output, and in the 1990s, a decade characterized by deep trade liberalization and an explosion of production fragmentation along global value chains, an expansion of 1% in output was associated with a 2.6% increase in global trade flows.⁴ Thus, trade has become less sensitive to increases in output as compared to previous periods. If this behavior is not reversed, greater economic growth will be needed to simply return to pre-crisis levels of trade growth.

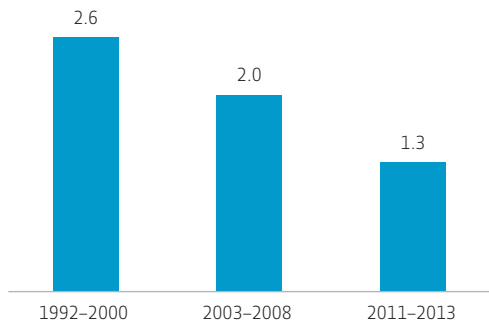
A third aspect in the slowdown of trade growth is the volatility of major economies, as measured by annualized quarterly growth rates. Wide variations in growth rates characterize the expansion of the US since 2011, which on average has also been slower than

Recovery in the large economies continues to be marked by uncertainty.

during the pre-crisis period (2% in 2011–2014

FIGURE 4 • INCOME ELASTICITY OF WORLD TRADE

(Coefficients calculated based on values at constant prices, 1992–2000, 2003–2008, 2011–2013)



Source: IDB Integration and Trade Sector with data from IMF and CPB.

Note: The elasticity is the ratio of the annual percentage changes of GDP and world trade, both at constant prices. Growth rate of world GDP is aggregated at market exchange rates, and growth of world trade corresponds to the average of exports and imports.

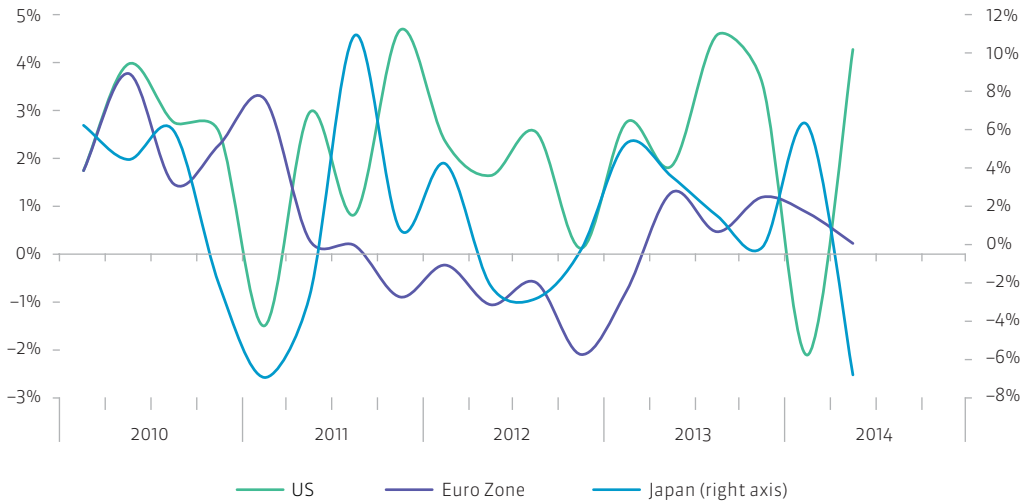
versus 3% in 2003–2007). The most recent fluctuation covers the first half of 2014: in the first quarter, GDP contracted 2.1% but grew by 4.2% in the second. The Euro Zone, for its part, has emerged unsteadily from a year-and-a-half recession, from the fourth quarter of 2011 to the first quarter of 2013, with national economies exhibiting uneven performance. In fact, in the second quarter of 2014, the GDP of Germany, France, and Italy contracted. Similarly, Japan posted an average growth of merely 0.7% between 2011 and mid-2014, demonstrating patterns of significant volatility and culminating in a contraction of 7.1% in the second quarter of 2014 (Figure 5a). On the other

⁴ The elasticities are derived from a simple arithmetic calculation, and no inference respect to future trends is possible. However, at present there are no signs of increased protectionism or of a reversal in production fragmentation along global value chains that could reinforce the observed trend. For a more extensive analysis, see European Central Bank (2014).

FIGURE 5 • GDP GROWTH AND VOLATILITY IN SELECTED ECONOMIES
(Percentage, 2010–2014)

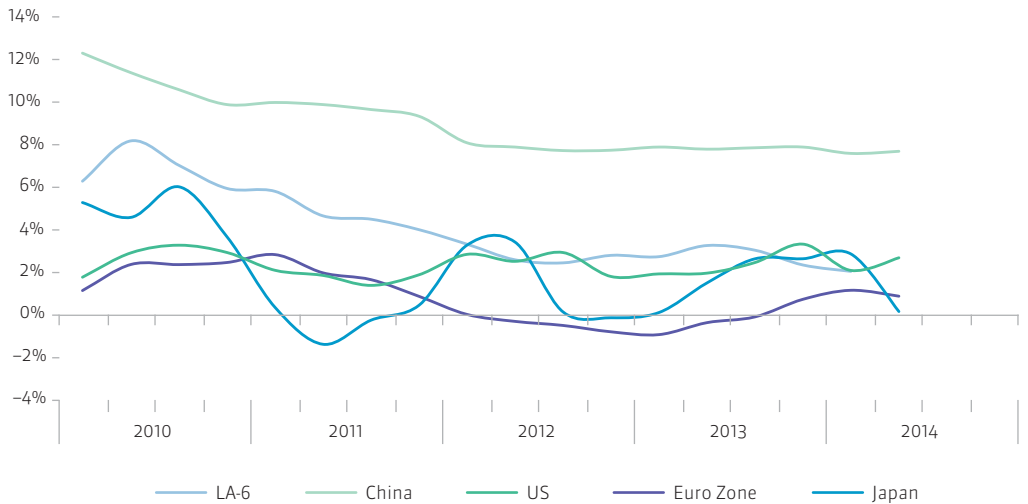
a. US, Euro Zone and Japan

(Quarterly annualized growth rates)



b. Latin America and Selected Economies

(Annual growth rates)



Source: IDB Integration and Trade Sector with data from the IMF, the US Bureau of Economic Analysis (BEA), the Organization for Economic Cooperation and Development (OECD), the Institute of Social and Economic Research of Japan, and other official sources.

Note: LA-6 is the weighted average of the percentage changes in GDP of Argentina, Brazil, Chile, Colombia, Mexico and Peru. Weights are based on GDP in terms of purchasing power parity.

hand, while less volatile than that of developed countries, post-crisis growth in the developing world also underperformed pre-crisis averages. For example, GDP growth in China as well as in LAC showed a clear reduction after 2010 (Figure 5b). Volatility and deceleration

generate uncertainty regarding demand, which undermines investment decisions and trade perspectives.

This instability, combined with the asynchronous nature of the recoveries of the principal economies, has limited the potential for positive feedback through trade channels. When a country's economy expands, imports increase, thereby stimulating the economies of its trading partners. If this impulse is more than compensated by other adverse factors in partner economies, then the second-round multiplier effect is limited, as successive imports by the partner countries from the

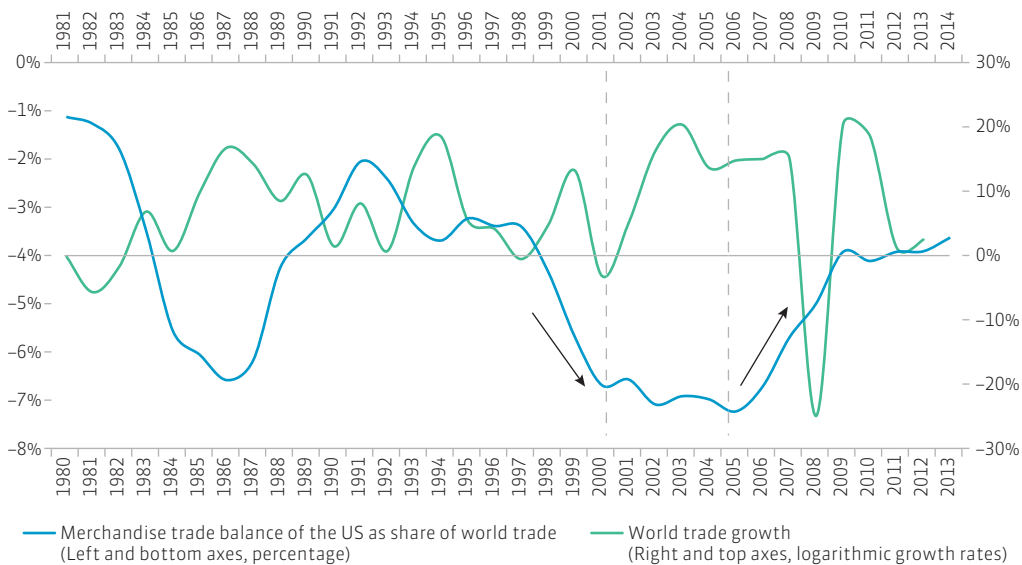
Positive feedback channels in global trade are blocked.

The adjustment of the US trade balance is associated with slower global trade growth.

initial country do not materialize. Evidently, this effect requires some simultaneity of the expansions of countries, a characteristic that is absent in the post-crisis and that contributes to explaining the lower demand, the stagnation of trade, and the lower income elasticity of world trade.

Another element at play between 2011–2014 is the behavior of the US merchandise trade deficit and its effect on world demand. In fact, an association between the trend of this deficit and the growth rate of world trade is evident in the data of the past few decades (Figure 6).

FIGURE 6 • UNITED STATES MERCHANDISE TRADE BALANCE AND WORLD TRADE
(Percentage of world trade and logarithmic growth rates, 1980–2013)



Source: IDB Integration and Trade Sector with data from WTO and BEA.

Note: The correlation between the variables improves when a one year lag is introduced, which indicates that the US trade deficit has a delayed effect on world trade growth.

When the US deficit increases, global trade growth accelerates, while periods of deficit reduction are associated with slower expansion, or contraction, of world trade.

Between 2005 and 2009, the US trade deficit in goods underwent a notable correction, falling from 7.3% to 4.3% of total world trade. During the post-crisis period, this trend has been maintained, so the dynamic contribution of US demand has been absent from global markets. This contrasts with the recovery from the 2001 crisis which was accompanied by an expansion of the US trade deficit. The adjustment of this disequilibrium affected global trade growth as other countries have not compensated for the lower US demand. In fact, during the post-crisis, the UK's trade deficit has remained stable at around 1% of world trade. Although Japan's trade balance turned to deficit in 2011, this balance represented barely 0.6% of global commerce in 2013. On their part, Germany and China have maintained a trade surplus of about 1% of world trade each, contributing to global supply rather than to demand.

Other economies have not compensated for the lower US trade deficit.

Exchange rate dynamics have affected the competitiveness of regional exports.

Finally, the alignment of several exchange rate variables in the post-crisis period, in particular the nominal appreciation of the US dollar and the real appreciation of LAC currencies, contributed to hold back regional exports. In effect, the cycle of the dollar influences the prices of primary goods directly, while the evolution of the real exchange rates of the region's currencies affects predominantly

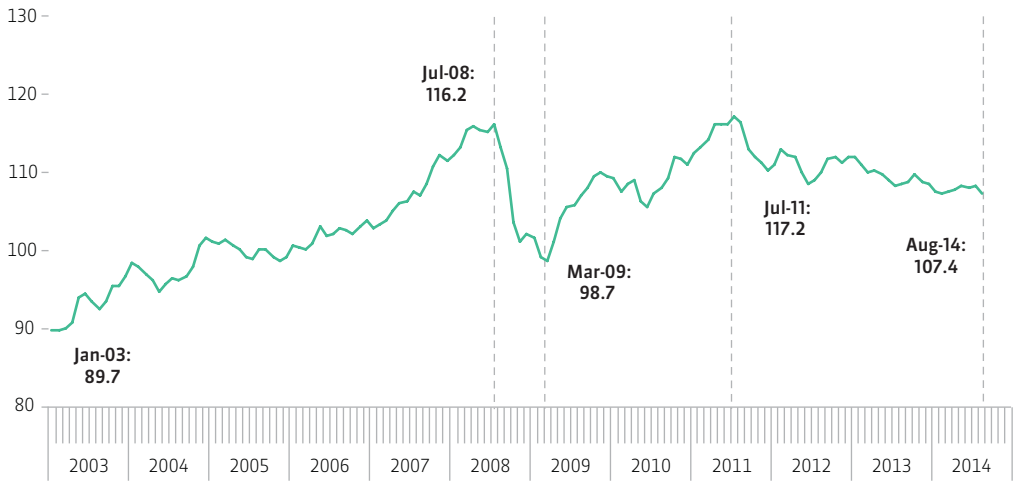
manufactures.

Since 2003, the nominal value of the dollar has followed a cyclical pattern with respect to a broad group of currencies, displaying periods of depreciation and appreciation (Figure 7). Dollar depreciations tend to raise the prices of primary products through two channels. First, since these products are traded internationally in dollars, there is a *numeraire* effect that translates depreciations of the dollar into higher prices for these products.⁵ Furthermore, with similar consequences, in periods of a weak dollar, associated with low interest rates in the US and reduced investor risk aversion, an observable store of value effect generates additional demand for primary products and also tends to raise prices. These effects operate in the opposite direction when the dollar appreciates, as occurred during the

Appreciation of the dollar tends to reduce international prices of primary goods.

⁵ If the price of one metric ton of a metal expressed in the currency of its exporter is \$100 and the exchange rate is US\$1 = \$1, the price of the ton of metal expressed in dollars is US\$100. If the dollar depreciates with respect to the local currency (e.g. US\$1.10 = \$1) and the costs of the metal do not change, the price of the 1 ton of metal expressed in dollars would be US\$110. See Mundell (2002) and IMF (2008).

FIGURE 7 • NOMINAL EFFECTIVE EXCHANGE RATE OF THE US DOLLAR
(Index, 2005=100, 2003–2014)



Source: IDB Integration and Trade Sector with data from the US Federal Reserve.
Note: Exchange rate versus a broad basket of currencies. A negative/positive slope indicates an appreciation/depreciation of the dollar.

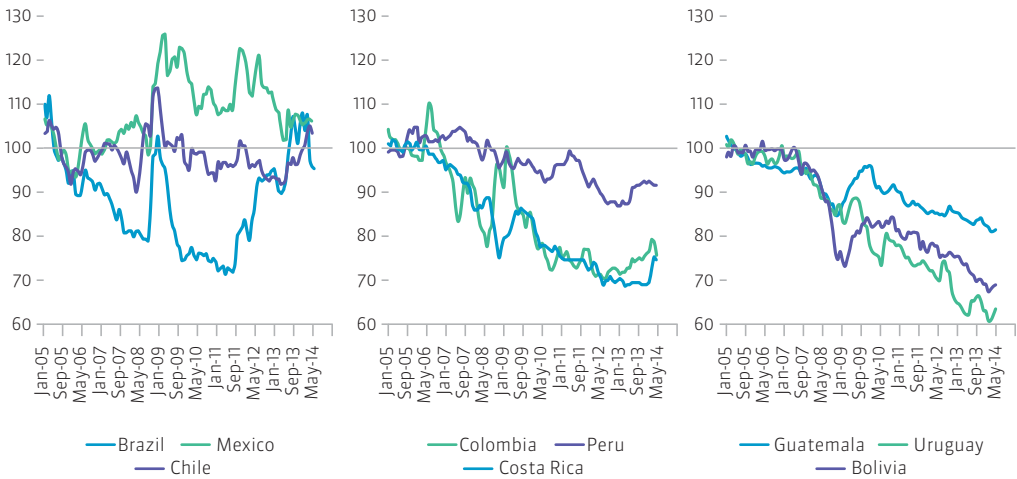
nadir of the 2008–2009 financial crisis and, more recently, starting in the second half of 2011, when prices of primary products began to decline slowly. The recent appreciation of the dollar is thus one of the causes of LAC’s weak export performance in the last two years, and will likely continue to hold in the next few quarters.

On the other hand, the appreciations of some currencies in the region reduced incentives to export (Figure 8). In mid-2014, the real exchange rate levels of several countries were below the corresponding average from 2005⁶ despite recent and transitory depreciations of some currencies, with the exception of Mexico. Overall, during the post-crisis period, dominant appreciation trends eroded the exchange rate competitiveness of export products sensitive to this variable. Additionally, the real depreciations observed recently in some currencies (e.g. Colombia, Peru, and Costa Rica) have not been homogenous, nor have they been sufficient to compensate for the real appreciation accumulated in the preceding years. In general, LAC countries’ real exchange rates are below the 2005 average, and some currencies have not experienced any correction at all.

Real appreciations have reduced the competitiveness of manufactured goods.

⁶ This year is representative of the middle of the 2003–2008 export boom.

FIGURE 8 • REAL EXCHANGE RATE OF SELECTED ECONOMIES
(Index, 2005=100, 2005–2014)



Source: IDB Integration and Trade Sector with data from Latin American and Caribbean Macro Watch (LMW) and the Institute of Applied Economic Research of Brazil (IPEA).

Note: A negative/positive slope indicates an appreciation/depreciation of the respective currency.

Vulnerability in the Balance of Payments

In a context of weak global demand and adverse exchange rate dynamics, export stagnation has had an impact on the current account balance in most countries of the region (Figure 9). In 2013, this balance deteriorated in all subregions,⁷ except Central America, which stabilized with a large deficit. In Andean countries with exports intensive in fuels and energy, the surplus of 2012 decreased in 2013. In Chile and Peru, where metals and minerals represent a significant share of the export basket, the deficit grew in both years.

The tightening of financing conditions may exacerbate the vulnerability of the external sector.

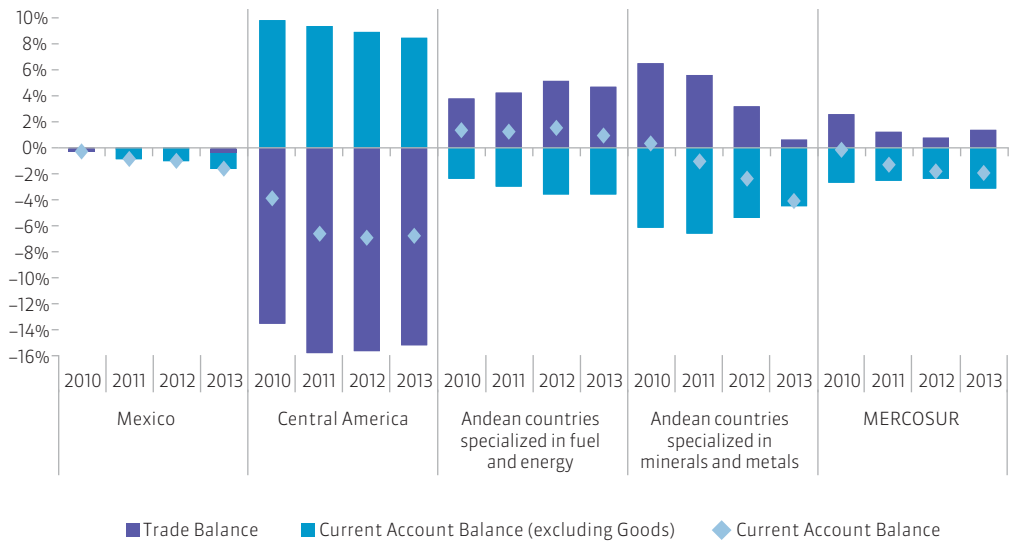
There was also deterioration in the MERCOSUR countries and in Mexico. The balance of trade in goods, where weak export performance is reflected, contributed to this deterioration.

Indeed in 2010, the first year of recovery after the financial crisis, a deterioration of the current account balances in the region was already evident. The latent fragility of this situation

Stagnation of exports has led to deterioration in the balance of payments in the region.

⁷ Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Panama and Dominican Republic. Andean countries specialized in fuel and energy includes Bolivia, Colombia, Ecuador and Venezuela. Andean countries specialized in mineral and metals includes Chile and Peru. MERCOSUR includes Argentina, Brazil, Paraguay and Uruguay (excludes Venezuela).

FIGURE 9 • CURRENT ACCOUNT AND MERCHANDISE TRADE BALANCES
(Balance as a percentage of GDP, 2010–2013)



Source: IDB Integration and Trade Sector with data from LMW and national sources.

Note: The values of the subregions are an average of the balances of the countries in the group as a percentage of GDP, which in turn indicates the degree of external solidity, regardless of the differing economic weights of the balances of the countries involved. Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Panama and Dominican Republic. Andean countries specialized in fuel and energy includes Bolivia, Colombia, Ecuador and Venezuela. Andean countries specialized in mineral and metals includes Chile and Peru. MERCOSUR includes Argentina, Brazil, Paraguay and Uruguay (excludes Venezuela).

had not translated into real vulnerability for two reasons: comfortable levels of international reserves accumulated in the pre-crisis period, and the wide availability of external finance resulting from the exceptional monetary policies implemented in the advanced economies. However, a reversal of these favorable international financial conditions—already anticipated by expectations of higher interest rates in the US—in combination with a prolonged period of weak exports, would create a complex scenario for the external sector of the region, certainly very different from that prevailing in the export boom of 2003–2008.⁸

In conclusion, in the post-crisis period, the slowdown of world trade has generated a relatively unfavorable outlook for LAC exports. The region’s exports are facing significant headwinds due primarily to declines in demand from developed countries and modest growth in developing country markets. Overall, the stagnation of world trade is the result of a deceleration in global economic activity with respect to the pre-crisis period, as well as an unstable and asynchronous recovery of the main global economies and a reduction of the trade deficit of the US. These trends are reinforced by exchange rate dynamics and have led to a deterioration of the current account balance in the majority of countries in the region. The next section discusses regional export trends by country and subregion.

⁸ For more detail, see Powell, A. (2014).

Growth Dynamics and Structure of Regional Exports

2

Aggregate regional exports have stagnated for three years, growing modestly in Mexico and Central America and contracting in the other subregions. Across LAC, the share of products based on natural resources has increased in the composition of the export basket, representing a source of vulnerability in the current global context. The deterioration of the terms of trade, due to declines in export prices, exposes the trend of low growth in export volumes that has been present since before the crisis.

Export Performance by Country Groups

The growth of LAC exports has been declining since the second half of 2011. Although the average total growth was 24.3% in 2011, deceleration began by the middle of the year and continued into 2012, when annual growth registered a mere 1.2%. In 2013, export performance was even weaker, with virtually stagnant growth of 0.1% (−4.2% for the Caribbean and +0.2% for Latin America). The total value exported by the region in 2013 reached US\$1.09 trillion. This recent lukewarm performance stands in stark contrast to the sustained growth witnessed during the export boom of 2003–2008, when LAC’s foreign sales grew at an average annual rate of 17.1%.

Export growth was not sustained after the crisis.

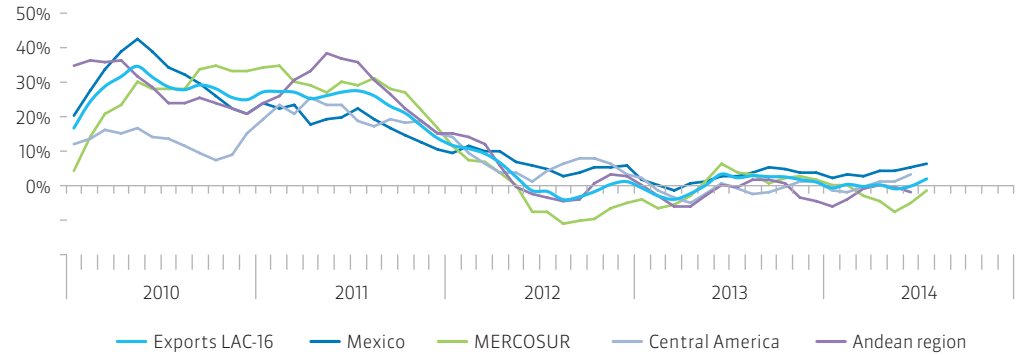
Downward trends continue in 2014.

LAC exports continued to stagnate during the first seven months of 2014. In fact, estimates indicate that regional exports grew by only 0.5% since the same period in 2013 (Figure 10a). This result reflects the continuing weakness of global demand. EU imports from LAC continued to decline at the end of the second quarter of 2014, and the corresponding figures for the US are stationary. Only Chinese imports from LAC showed a positive trend, evidenced by the moving average growth rate of 16.2% through May, which was nevertheless still well below previous growth rates, having reached 32.9% in 2011 (Figure 10b).

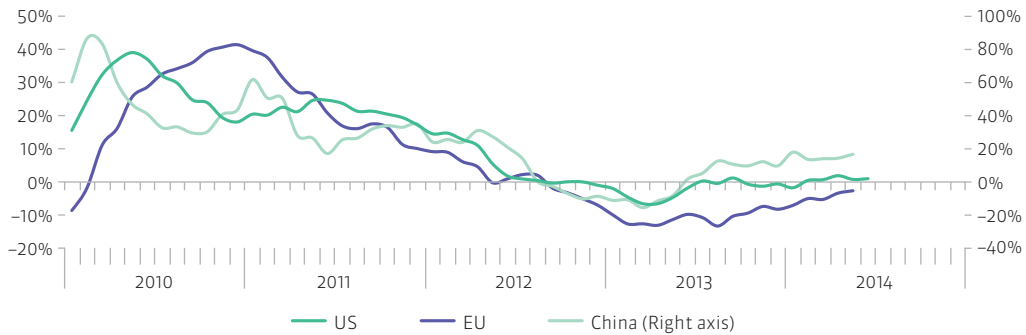
Disaggregating by subregion highlights differences in export performance during the first few months of 2014. The year-on-year growth of Mexican exports accelerated (4.3% cumulative

FIGURE 10 • GROWTH OF TRADE FLOWS OF SELECTED ECONOMIES
 (Quarterly moving average of year-on-year growth rate, percentage, 2010–2014)

a. Exports from Latin America



b. Imports of the US, European Union and China from Latin America



Source: IDB Integration and Trade Sector with data from the IMF, the US International Trade Commission (USITC), EuroStat, CPB and national sources.

Note: LAC-16 includes 16 Latin American countries which account for 91% of exports from the region in 2013. Central America includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama (excludes Dominican Republic). MERCOSUR includes Argentina, Brazil, Paraguay and Uruguay (excludes Venezuela). The Andean region includes Bolivia, Chile, Colombia, Ecuador and Peru.

Divergence in performance across LAC subregions has widened.

through July), and foreign sales from Central America, excluding the Dominican Republic, continued to grow modestly (up 1.8% with respect to the same period in the previous year). In line with 2013 trends, exports from the Andean countries specializing in minerals and metals fell 3.1%, while those from countries specializing in fuels and energy grew by only 1.8%. Lastly, through July, MERCOSUR’s⁹ exports registered a year-on-year decline of 2.8%.¹⁰

Of the 26 countries included in Table 1, exports declined in 14 cases in 2013, as compared to 8 in 2012. Thus, the stagnation observed in the previous year

⁹ Brazil’s petroleum exports could lead to a positive total for the year 2014 (-1.1% cumulative through August).

¹⁰ Data are not yet available for 2014 for the Caribbean or Venezuela.

has affected a growing number of countries. Growth in 2013 was generally quite modest and associated with ongoing deceleration. Only Paraguay (29.5%), the Dominican Republic (15.3%), and Haiti (13.9%) presented substantial growth, mostly due to very low bases of comparison from the previous year. Specifically, Paraguay had an exceptional harvest of oilseeds after a severe drought in 2012, while in the Dominican Republic a new mine lifted exports of gold and silver. For its part, Haitian exports were exceptionally weak in 2012. On the other end of the spectrum, exports shrank substantially in Guyana (-25.3%), Barbados (-15.3%), Honduras (-10.6%), Nicaragua (-10.3%), Jamaica (-8.8%), Peru (-8.5%), and Venezuela (-8.0%).¹¹

Export stagnation has spread.

2013 saw modest export growth in Mexico and Central America.

The stagnation of 2013 combines divergent export patterns of Mexico and Central America, including the Dominican Republic, on the one hand, and the Andean, MERCOSUR, and Caribbean countries on the other. The foreign sales of the first group, featuring a high share of manufactures mainly directed to the US, showed modest increases: Mexican exports grew 2.5% and Central American exports 1.6%.

In Central America, exports under Special Trade Regimes (STR)¹² limited the overall deceleration of total exports (Box 2).

Exports from the Andean countries fell 1.8% in 2013, after growing a moderate 1.4% in 2012. The region is composed of two groups: Chile and Peru, where minerals and metals feature predominantly in their export baskets; and Bolivia, Colombia, and Ecuador, exporters specialized in fuels and energy.¹³ The result of the first group explains the drop in overall Andean exports last year, as Peru's foreign sales fell 8.7% and Chile's fell 0.7%, in both cases prolonging their negative performance from the preceeding year. In contrast, the exports of the second group showed a slight expansion in 2013 (0.6%), with increases in Bolivia and Ecuador (4.8% and 4.9%, respectively) and a small reduction in Colombia (-1.9%). Nonetheless, in all cases the export performance was lower than in the previous year.

Andean exports have declined.

MERCOSUR exports declined more slowly.

Similarly, after declining 2.8% in 2012, MERCOSUR's exports continued to fall in 2013, but only by 1.0%. When Venezuela is excluded, the bloc achieved positive growth of 1.0%. Importantly,

¹¹ For a more extensive analysis, see [Country Profiles](#).

¹² Note that the growth rates corresponding to the exports of Honduras and Nicaragua do not include STR. STRs include regulatory instruments for the promotion of exports, such as export processing zones, temporary import regimes, and duty drawback mechanisms, among others.

¹³ In 2013, 60% and 52% of exports from Chile and Peru respectively included products derived from minerals and metals. Similarly, 50% of exports from Bolivia, 65% from Colombia and 58% from Ecuador are fuels and energy.

TABLE 1 • EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY COUNTRY AND SUBREGION

(Average annual growth rate and billions of US\$, 2003–2008 and 2012–2013)

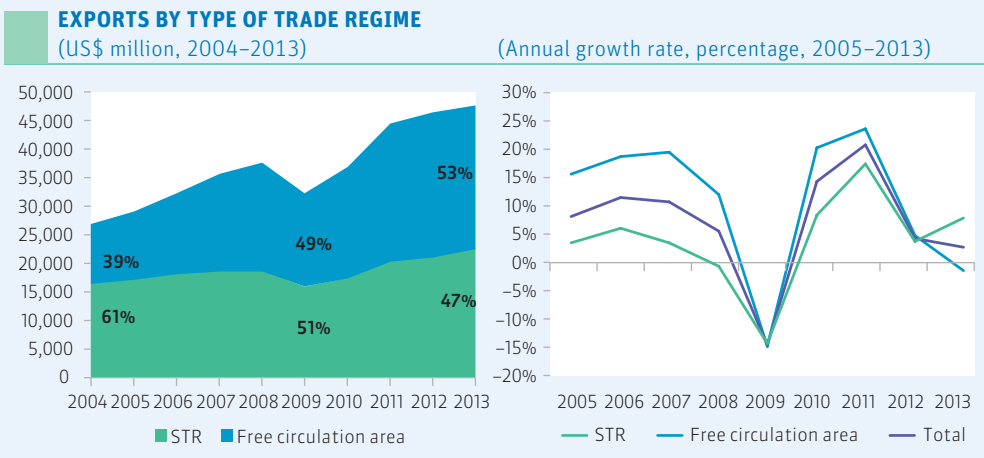
	Growth Rates (%)			US\$ Billion	
	2003–2008	2012	2013	2012	2013
Mexico	10.5	6.1	2.5	370.9	380.1
CENTRAL AMERICA AND DOMINICAN REP.	9.5	5.7	1.6	41.6	42.2
Costa Rica	11.2	10.2	1.9	11.3	11.5
El Salvador	7.6	0.6	2.9	5.3	5.5
Guatemala	10.9	-2.6	-0.3	10.1	10.1
Honduras	18.2	11.6	-10.6	4.4	4.0
Nicaragua	17.7	18.3	-10.3	2.7	2.4
Panama	7.2	4.7	2.7	0.8	0.8
Dominican Rep.	4.1	8.2	15.3	6.9	8.0
ANDEAN COUNTRIES	24.9	1.4	-1.8	218.1	214.2
Bolivia	30.7	27.8	4.8	11.6	12.2
Chile	25.8	-5.0	-0.7	76.7	76.2
Colombia	21.2	5.3	-1.9	60.0	58.8
Ecuador	25.1	6.5	4.9	23.8	24.9
Peru	26.7	-0.1	-8.5	45.9	42.0
MERCOSUR	21.7	-2.8	-1.0	436.2	431.8
Argentina	18.2	-4.5	1.8	80.2	81.7
Brazil	21.9	-5.3	-0.2	242.6	242.0
Paraguay	37.4	-6.4	29.5	7.3	9.4
Uruguay	21.4	9.2	5.1	8.7	9.2
Venezuela	23.6	4.9	-8.0	97.3	89.5
CARIBBEAN	24.3	-5.8	-4.2	21.3	20.4
The Bahamas	10.3	3.6	-2.0	0.8	0.8
Barbados	13.2	46.2	-15.3	0.6	0.5
Belize	10.6	-0.7	1.9	0.4	0.4
Guyana	7.0	22.1	-25.3	1.4	1.1
Haiti	11.8	1.0	13.9	0.8	0.9
Jamaica	13.8	5.7	-8.8	1.7	1.6
Suriname	29.5	3.9	-6.6	2.6	2.4
Trinidad and Tobago	29.9	-13.1	-1.6	13.0	12.8
LATIN AMERICA AND THE CARIBBEAN	17.1	1.2	0.1	1,087.9	1,088.7
LATIN AMERICA	16.9	1.3	0.2	1,066.7	1,068.3
CARIBBEAN	24.3	-5.8	-4.2	21.3	20.4

Source: IDB Integration and Trade Sector with data from INTrade/DataINTAL and national sources. Official data from Argentina and Peru may differ from the microdata. Data relating to the Caribbean originate from the CARICOM Secretariat and official sources. Venezuela was estimated from aggregate data from official sources.

Note: Data for 2012 and 2013 is preliminary and subject to revisions by national sources. For 2003–2008 the rate of change corresponds to the geometric average. Data regarding Costa Rica, El Salvador, Guatemala and the Dominican Republic include Special Trade Regimes (STR). Data regarding Honduras and Nicaragua excludes STR trade and corresponds to sources alternative to INTrade/DataINTAL. Data regarding Panama refers only to national exports and imports.

BOX 2. EXPORTS UNDER SPECIAL TRADE REGIMES IN CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

During 2010 and 2011, the growth of exports from the Free Circulation Areas (FCA), that is, those not originating under the Special Trade Regimes (STR), was higher than the growth of exports under STR: 21.8% versus 12.8%, respectively. This result reflects the favorable evolution of the prices of traditional products exported from Central America and the Dominican Republic during that period. However, this was reversed in the years that followed. Between 2012 and 2013, the growth rate of total exports fell dramatically, averaging only 3.6%, substantially below the 17.5% average registered during the previous two years. Disaggregating the data shows that foreign sales covered by the STR grew by 5.8%, faster than the rest of exports in 2012–2013 (1.7%). Products traded under the STR include textiles, electrical and electronic parts, transport equipment, metal products, paper, plastics, and furniture. The STR thus mitigated the deceleration observed in the exports of this subregion, leading to a shift in the composition of the export basket.



Source: IDB Integration and Trade Sector with data from National Statistical Institutes and Central Banks.

Note: The statistical analysis covers Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. STR exports are exempted from the payment of customs duties and other taxes, while exports from the FCA are not.

the 2013 regional average reflects uneven performance. Argentina posted higher growth than in 2012 (1.8%¹⁴ versus -4.5%), as did Paraguay (29.5% versus -6.4%) while Uruguay's exports grew 5.1%, substantially below the 9.2% of the preceding year. Venezuelan and Brazilian exports, which jointly account for 56% of the MERCOSUR total, declined by 8.0% and 0.2%, respectively.

Lastly, Caribbean exports experienced the largest drop among LAC subregions, falling by 4.2% and extending the contraction of foreign sales that began in 2012 (-5.8%). Excluding

**The Caribbean
suffered the most
marked export
contraction in LAC.**

¹⁴ Data according to the Informe de Comercio Exterior Argentino del Instituto Nacional de Estadística y Censos (INDEC), July 2014.

Trinidad and Tobago, whose exports represent 60% of the subregional total and are mainly composed of fuels and energy, exports of the rest of the group fell by 8.1%, undoing on a net basis the 8.6% growth achieved in 2012.

In conclusion, in the initial months of 2014, the majority of LAC countries demonstrated lackluster export performance, though less acute deteriorations were witnessed in the Mexican and Central American economies. However, a detailed analysis of the sectorial composition of the export basket reveals a general tendency towards concentration in products based on natural resources, to the detriment of manufactures.

Growing Concentration of the Region's Export Basket

In 2003, exports based on natural resources accounted for 49% of the regional export basket, while a decade later, this proportion had increased to 60% (Figure 11).¹⁵ The relative increase came at the expense of textile exports and other manufactures, while exports of transport equipment maintained their share at around 10% (Box 3).¹⁶ Recent export stagnation has not reverted that trend, which dates back to the boom in commodity markets in 2008.

The share of manufacturing exports has declined in Mexico and Central America.

In Mexico and Central America, regions with a relative export concentration in manufactures, the share of goods based on natural resources is also increasing. In Mexico, exported manufactures lost 5 percentage points (pp) in their share of the export basket between 2003 and 2013, falling from 77% to 72%, with marked drops in textiles (4pp) and other manufactures (4.9pp).¹⁷ In Central America, on the other hand, the export diversification in manufactures that occurred in the expansion years has not been sustained. In fact, the share of these products has fallen 12pp over the past decade, to 46% of the export basket in 2013, with substantial reductions in other manufactures¹⁸ (13pp), and virtually no growth in textile exports. In this subregion, the tendency towards the

There is an increased concentration of exports in products based on natural resources.

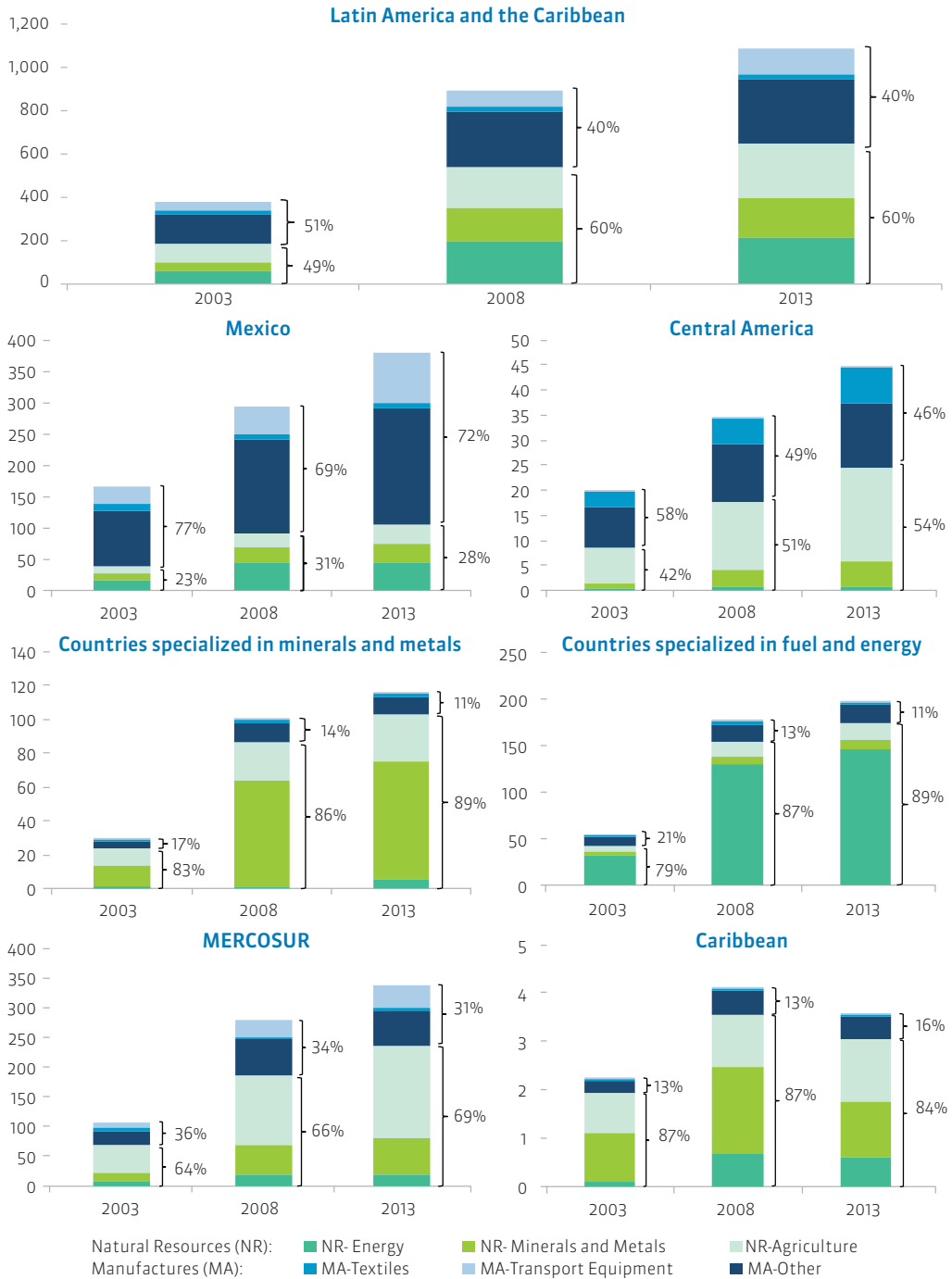
¹⁵ The analysis of the composition of exports by type of product is based on the Standard International Trade Classification (SITC Rev.3). SITC 2- and 4-digit products were regrouped to produce two broad aggregates: natural resources and manufactures.

¹⁶ Excluding Mexico, exports based on natural resources represented 69% of total exports in 2003 and reached 77% in 2013.

¹⁷ Some products included are: machines and machinery (except transport equipment); plastics, chemical and pharmaceutical products; and fertilizers. Specifically, 'other' corresponds to chapters 27, 51–59, 71–77, 81, 82, 87–89, 93, 96 of the SITC Rev. 3.

¹⁸ This estimate does not include exports under the STR of Honduras, Panama, and Nicaragua, and thus the figure underestimates the share of manufactures in the Central American export basket.

FIGURE 11 • EXPORTS BY TYPE OF PRODUCT
(US\$ billion and percentage, 2003, 2008 and 2013)



Source: IDB Integration and Trade Sector with data from INTrade/DataINTAL.

Note: Central America includes Costa Rica, El Salvador, Guatemala, Dominican Republic (including STRs), Honduras, Nicaragua and Panama (excludes STRs). Countries specialized in minerals and metals include Chile and Peru. Countries specialized in fuel and energy include Bolivia, Colombia, Ecuador, Trinidad and Tobago and Venezuela. The Caribbean includes Barbados, Belize, Grenada, Guyana, Jamaica and St. Kitts and Nevis. Product groupings based on SITC Rev.3.

BOX 3: AUTO SECTOR EXPORTS

Automobiles are the main manufactured exports in Latin America. In contrast to 2010, when foreign auto sales compensated the drop in other sectors, exports followed a pro-cyclical pattern in 2012 and 2013. However, there are differences in Mexican and South American performance in this industry.

In 2013, auto exports reached US\$168 billion, representing around 16% of total LAC exports and 39% of manufacturing exports. Most of the Latin American auto industry is located in Argentina, Brazil, and Mexico, and is highly integrated under preferential agreements negotiated in the framework of the Latin American Integration Association (ALADI in Spanish). The substantial integration between Mexico and the US reinforces the importance of the sector in the region. For the period 2007–2013, auto sector exports represented on average 15%, 13%, and 37% of exports from Argentina, Brazil, and Mexico, respectively.

There are however important differences in the export markets of the sector. Auto production in Argentina is mainly oriented to the MERCOSUR market. In 2013, 55% of Argentina's auto output in units produced was sold abroad, and 66% of its value was destined for Brazil. For its part, the Brazilian auto industry produces mostly for the domestic market, with only 15% of units for export, of which Argentina and other MERCOSUR partners are the principal destinations. In contrast, in Mexico the production of automobiles is strongly oriented towards foreign markets. In 2013, Mexico exported 83% of all units produced and 84% of the corresponding export value went to the US.

Despite minor national variations, the overall evolution of exports in the auto sector has coincided with the pattern of total exports of the three countries, suffering abrupt decreases in 2009 as a consequence of the international crisis. However, thanks to stimulus programs in 2010, auto exports recovered more rapidly than total exports, expanding around 40% in the three countries together. Nonetheless, in 2011, the growth rates fell dramatically, beginning a period of deceleration that continued through 2013. In

“primarization” of exports is due principally to substantial growth in agricultural and mineral and metal exports (6pp).

In Bolivia, Colombia, Ecuador, Venezuela, and Trinidad and Tobago, countries with exports intensive in fuels and energy, export shares of natural resources increased by 9.5pp, with an expansion in exports of fuels (13pp), and a mild reduction of 3.5pp in the share of agricultural goods. There are observable declines in shares in almost all manufacturing subcategories, with a marked drop in other manufactures (8.7pp) and in textiles (1.4pp), but a moderate increase in the share of transport equipment. In Chile and Peru, countries specialized in minerals and metals, there is a substantial increase in export shares of energy (3.5pp) and minerals (13.5pp), with decreases in the agricultural (11pp) and manufacturing (6pp) sectors.

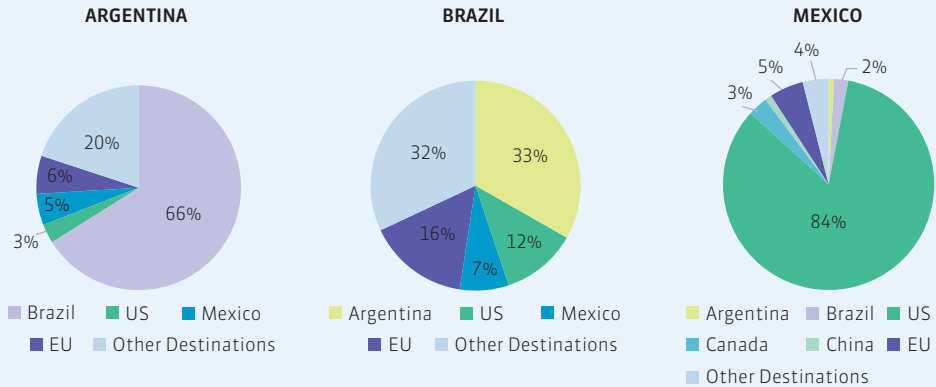
Although following the pattern outlined above, the changes in MERCOSUR exports over recent years have not been very significant. There is a slight increase in the concentration of agricultural and mineral products (4pp and 2pp, respectively) at the expense of other

Andean countries' exports have increasingly concentrated in extractive industries.

particular, auto exports from Brazil and Argentina contracted in 2012 and expanded only marginally in 2013. In Mexico, on the other hand, auto sector exports grew faster than overall exports in the past two years, counterbalancing the overall deceleration: in 2013 auto exports grew 10% compared to 2.5% for total exports. These national trends have so far been maintained in 2014.

AUTO SECTOR EXPORTS BY DESTINATION

(Percentage, 2007–2013)



Source: IDB Integration and Trade Sector with data from INTrade/DataINTAL.

Note: Other Destinations includes all countries or blocs not covered by the selected destinations. Shares are calculated as the average of exports to each destination for 2007–2013.

manufactures and textiles. Furthermore, due to an abundant supply of natural resources, the reduction in the share of manufactures in the export basket during the past decade has been roughly the same as Mexico's (5pp), although starting from different points of comparison (36% to 31% in MERCOSUR and 77% to 72% in Mexico). In the Caribbean, excluding Trinidad and Tobago, the manufactures/natural resources split has been essentially stable over the 2003–2013 period (87%/13% in 2003 and 84%/16% in 2013). However, these aggregate data obscure important changes within the natural resources category, where the share of fuels has increased 12pp and minerals have fallen by 13pp.

In conclusion, following the collapse of trade in 2008–2009 and the subsequent rebound of 2010, the region has been unable to sustain the performance of the export sector in the past three years. At the same time, there is continued growth in the share of products based on natural resources in the export basket of most LAC countries, which in the current environment is emerging as a source of vulnerability.

MERCOSUR and the Caribbean have maintained their export structures.

Terms of Trade, Export Prices and Volumes

The evolution of the terms of trade has strongly conditioned the overall trade performance of the region during the post-crisis period. The terms of trade started with an exceptional initial improvement primarily due to a surge in export prices, but subsequently dropped in the past two years (Figure 12). This trend is observable in almost all subregions, although with some differences. According to IDB estimates,¹⁹ the aggregate regional terms of trade suffered a deterioration of 3.9% and 2.5% in 2012 and 2013, respectively. After having benefitted the most in 2010–2011 (13.9%), the South American economies suffered the greatest terms of trade decline (–4.8%), due to a correction in commodity prices. The recent shock to the terms of trade is derived both from a fall in export prices and, to a lesser degree, to increases in import prices.

The deterioration in the terms of trade has affected most of the region.

Even Mexico, whose exports are strongly concentrated in manufactures, suffered a 1.9% drop in its terms of trade in the past two years. The Central American economies experienced a small improvement (1.3%) in 2012–2013, as they are net importers of fuels and food whose prices fell more than the prices of their exports. In the previous two years, the terms of trade in Central America remained practically unchanged (0.3%). In South America, the recent deterioration of the terms of trade was due to reductions in the prices of exports, except in the case of countries specialized in fuel and energy, where export prices were unchanged and import prices rose. The terms of trade of Chile and Peru (specialized in minerals and metals), Bolivia, Colombia, and Ecuador (specialized in fuels and energy), and MERCOSUR²⁰ (exporters of food and some minerals), declined 5.9%, 2.8%, and 5.5%, respectively.

An analysis of the evolution of export volumes shows that only in 2010, the year immediately following the financial crisis, did the region's real exports grow solidly (8.7%). Though the total regional value of exports continued to grow rapidly (24.2%) in 2011, volumes sold abroad registered only a modest increase of 3.4%. In 2012 and 2013, the growth of export volumes remained in positive territory, but with low and decreasing rates of 3.7% and 1.1%, respectively. Two exceptions include Mexico, where there

The region has experienced a negative terms of trade shock.

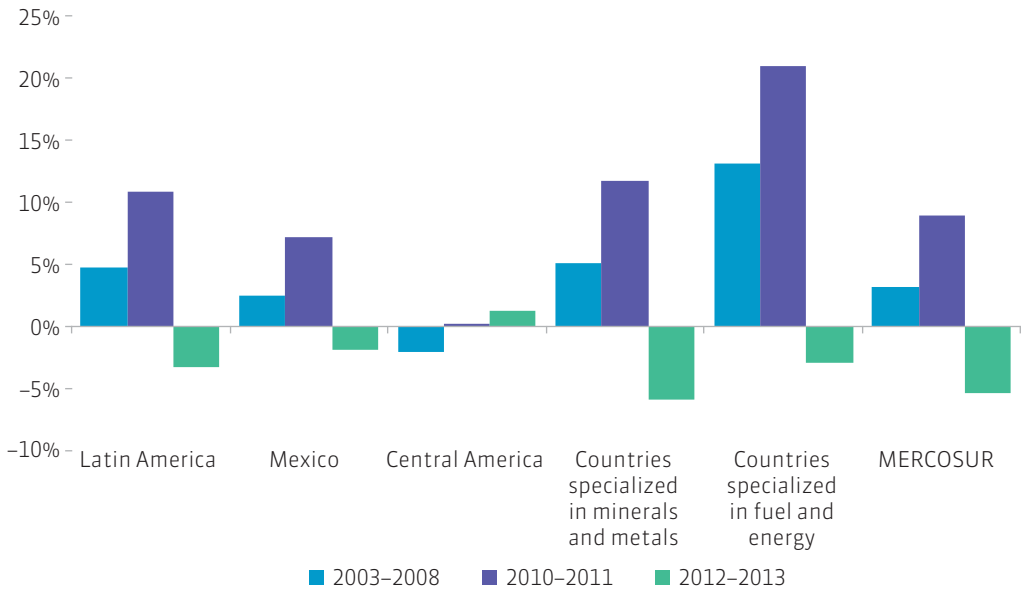
Growth of export volumes has been modest.

¹⁹ The estimation corresponds to a new INTrade indicator that uses disaggregated primary data on the values and physical volumes of traded goods from the DataINTAL database. The price indices are Laspeyres and the volume indices are Paasche. For more detail see Methodological Annex 1. These estimates are subject to official data revisions and are therefore preliminary. Sufficient information is not available to enable estimates for the Caribbean.

²⁰ Excluding Venezuela.

FIGURE 12 • TERMS OF TRADE

(Annual growth rate, percentage, 2003–2008, 2010–2011, 2012–2013)



Source: IDB Integration and Trade Sector with data from INTrade/DataINTAL, Banco de México, and Banco Central de Venezuela.

Note: Central America includes Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua. Countries specialized in minerals and metals include Chile and Peru. Countries specialized in fuel and energy include Bolivia, Colombia, Ecuador, Trinidad and Tobago and Venezuela. MERCOSUR excludes Venezuela.

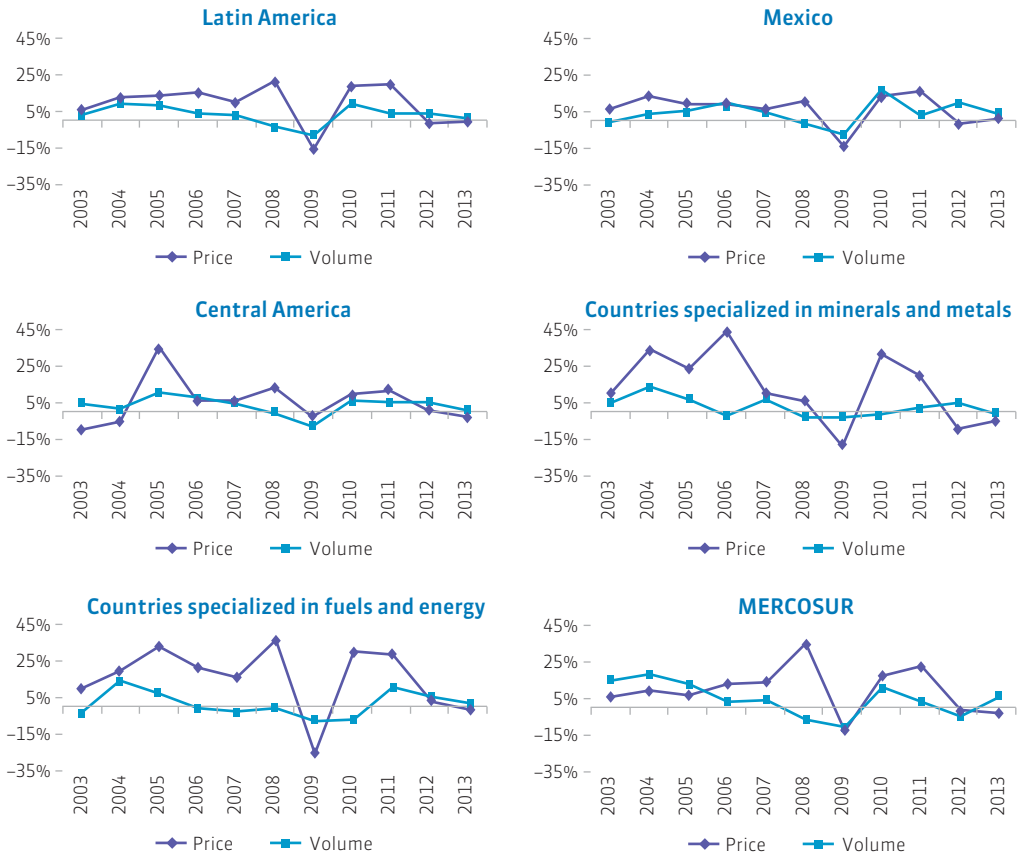
was a substantial average increase in volume exported (5.9%), and MERCOSUR, where growth of export volumes improved from a 5.3% drop in 2012 to a 6.0% increase in 2013, due to climate factors affecting oilseed harvests (Figure 13).

In aggregate terms, while the growth rate of export volumes has declined consistently, unit export prices have fluctuated. After a notable increase of 19.5% in the 2010–2011 period, the region's export prices fell 2.3% and 0.9% in 2012 and 2013, respectively. This abrupt reversal of prices exacerbated the modest performance of export volumes described above, and thereby has led to stagnation in the value of exports. The effect of this contraction of prices on countries and subregions depends on the composition of their export baskets. In LAC, the natural resources component is the most important. Figure 14 illustrates the evolution of international prices of the principal commodity exports of the region.

Preexisting fragility is revealed.

The metals category is one of the most affected by weak global demand. The price of copper has fallen for nearly three years, with the exception of the last quarter of 2012 when it slightly, and briefly, recovered. In August 2014, it was 29.1% below its 2011 peak. This was primarily due to lower demand from China, combined with a greater supply of copper arising

FIGURE 13 • EVOLUTION OF PRICES AND VOLUMES OF LATIN AMERICAN EXPORTS
(Annual growth rate, percentage, 2003–2013)



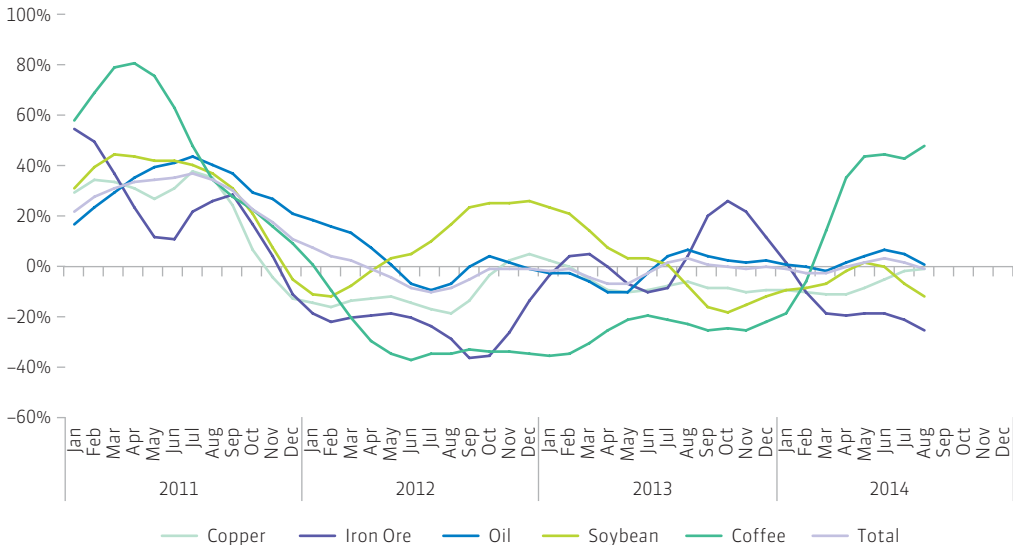
Source: IDB Integration and Trade Sector with data from INTrade/DataINTAL, Banco de México, and Banco Central de Venezuela.
 Note: Central America includes Costa Rica, El Salvador, Honduras, Guatemala and Nicaragua. Countries specialized in minerals and metals include Chile and Peru. Countries specialized in fuel and energy include Bolivia, Colombia, Ecuador, and Venezuela. MERCOSUR excludes Venezuela.

Metals have experienced substantial price declines.

both from new extraction projects begun when price signals were more favorable, and fewer production interruptions in mines. The negative evolution of this market has principally impacted Chile and Peru as the first and third producers of copper worldwide, respectively. Meanwhile, the price of iron ore (an important Brazilian export), although markedly more volatile, has also demonstrated a distinct downward trend. After a large drop of 23.4% in 2012, prices recovered slightly during 2013 (5.3%). In 2014, however, the market fell again. As of August, the price of iron ore had declined 31.8% in eight months and was 50.5% below its 2011 peak.

FIGURE 14 • PRICES OF PRINCIPAL COMMODITIES EXPORTED BY LATIN AMERICA AND THE CARIBBEAN

(Quarterly moving average of year-on-year growth rate, percentage, Jan 2011–Aug 2014)



Source: IDB Integration and Trade Sector with data from IMF.

Note: The total corresponds to the weighted average of the commodity price indices estimated by the IMF.

Oil prices, on the other hand, have remained stable during 2012 and 2013 as production levels adjusted to the weak expansion of international demand. A novel factor is the growing substitution of petroleum imports in the US, the largest global oil consumer, due to the application of new extraction technologies (Box 4).

Weather factors have caused volatility in agriculture prices.

On the other hand, weather conditions have affected prices of agricultural products. In 2012, drought in the main soybean producing regions led to extraordinarily high prices, exceeding even the pre-crisis peaks. However, the recovery of world production in 2013 led to a 3.8% price drop as compared to the previous year. Additionally, the larger harvest of other oilseeds, such as sunflower and canola, contributed

to the decline in soybean prices which have continued to fall in 2014. In fact, in August 2014 soybean prices were 30.5% below their August 2012 historic maximum, a reduction also due to the abundant harvest in the US.

After two years of steady declines, coffee prices have begun to recover during the first half of 2014. The harvests of 2012 and 2013

Oil prices have remained relatively stable.

The coffee market has been in crisis for two years.

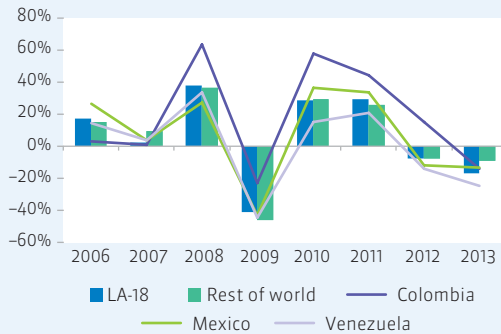
BOX 4: THE EFFECTS OF OIL IMPORT SUBSTITUTION IN THE UNITED STATES

In recent years, the US has begun to adopt new extraction technologies and, as a consequence, to substitute oil imports with domestic production. Indeed, between 2012 and 2013, the volume of US petroleum production has grown at an average rate of 14.8%, while imports have fallen 7.5%. The index of oil imports per unit of output at constant prices has fallen continually. In 2013, it was 35.5% below the maximum of 2005. Consequently, increases in US GDP now have a smaller impact on demand for imported petroleum than has historically been the case.

Mexico and Venezuela have been the principal regional suppliers of petroleum to the US, each with a 35% share of total US oil imports from LAC, followed by Colombia (10%), Ecuador (6%), and Brazil (6%). The past few years have witnessed an increase in the shares of Colombia and Ecuador at the expense of Venezuela, whose sales to China have grown. In 2013, total LAC petroleum exports fell 8.0%, contributing significantly to the stagnation of total regional exports. Lower US demand for petroleum imports has affected its total imports from LAC in the past two years. In 2013, oil exports from LAC to the US fell by 15.1%. The impact is significant because, had 2013 oil exports to the US simply remained at 2012 levels, overall LAC exports would have grown 1.5% in 2013, which is 1.4pp more than they actually grew (0.1%).

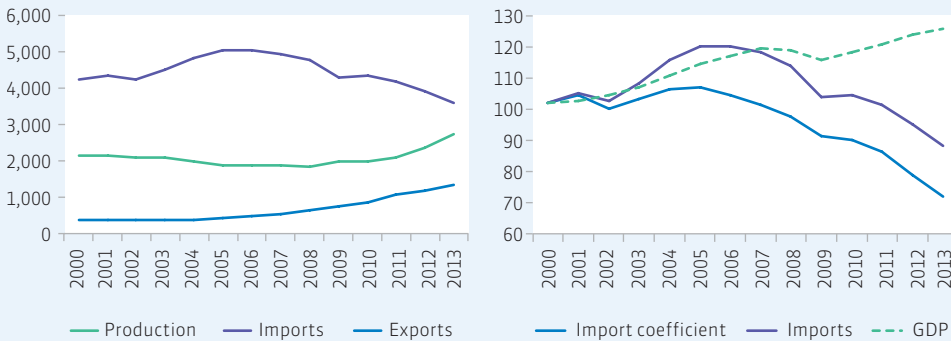
VALUE OF UNITED STATES IMPORTS OF OIL AND PETROLEUM PRODUCTS

(Annual growth rate, percentage, 2006–2013)



Source: IDB Integration and Trade Sector with data from USITC.
 Note: LA-18 includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

US OIL PRODUCTION, IMPORTS AND EXPORTS US OIL IMPORT COEFFICIENT, IMPORTS, AND GDP
 (Millions of barrels, 2000–2013) (Index, 2000=100, 2000–2013)



Source: IDB Integration and Trade Sector with data from the US Energy Information Administration (EIA) and the IMF.
 Note: Production, imports and exports in physical units. The import coefficient is the ratio between imports and real GDP.

reflected the production increases following investments made during price peaks in 2011. The strong increase in supply caused prices to collapse, falling by 31.3% and 24.8% in 2012 and 2013, respectively. Despite the first quarter recovery (up 28.8% compared to the same period in 2013), in August 2014, the price of coffee was still 29.1% below its 2011 peak due to expectations of a smaller harvest in Brazil, the largest global producer and exporter.

In conclusion, the fall in unit export prices coupled with the weak growth of export volumes, led to a visible stagnation of foreign sales between 2012 and 2013. In 2010–2011, the surge in export prices could have been seen as a recovery of the strength of LAC's export sector after the financial crisis. However, between 2012 and 2013 the price trend reversed, making clear the impact of the negative terms of trade shock for the majority of the region. In this context, there is an evident need for policies that strengthen the export competitiveness of the region by reducing border costs and facilitating trade.

Policy Options for Trade Facilitation

3

At the multilateral level, the space for trade promotion policies has been marked by sluggish global trade and the stagnation of the Doha Round. Negotiations have advanced in preferential arrangements, most notably in extra-regional initiatives related to the so-called mega-regional agreements and in some intra-regional initiatives such as the Pacific Alliance. In this context, the WTO Trade Facilitation Agreement is an important milestone, despite the fact that the ratification process has stalled. An assessment of the gap between trade facilitation commitments included in the region's preferential trade agreements and the proposed multilateral reference in this area highlights the significant room for reforms in Latin American and Caribbean countries.

Progress in Multilateral and Preferential Negotiations

In recent years, two main trends have shaped the dynamics of global trade negotiations. First, sluggish world trade has generated uncertainty and at times disagreements among countries. This has tended to hinder negotiations and prevented the perception of mutually beneficial equilibria in the long term. Second, the lack of progress in the Doha Round, initiated in 2001, has created a vacuum in the multilateral space that has been filled by a fragmented approach based on regional initiatives. Due to the economic importance of the actors involved, the most significant are the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP). Though established by a small group of countries, these so-called “mega-regional agreements” will have a global impact given the size of the parties and their ambitious regulatory agendas. Regardless of the outcome of these negotiations, it is clear that the design of the global trade architecture of the 21st century began under challenging circumstances, and is being led by a limited group of countries, with little representation from LAC.

The 21st century trade architecture is being designed outside of the region.

²¹ The TPP includes: Australia, Brunei Darussalam, Canada, Chile, Japan (recently incorporated), Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TTIP includes the European Union and the United States.

The mega-regionals will affect the regulatory fabric of the entire multilateral trading system.

The conclusion of mega-regional agreements would have spill-overs on the regulatory fabric of global trade, affecting even those not participating. The effects for countries excluded from agreements will vary according to whether they have preferential trade agreements (PTAs) with the members of the mega-regional agreements. Countries without such PTAs could experience trade diversion in two ways. First, the members of the initiative would be granted preferences to the detriment of non-participants. Second, the mega-regional agreements could establish a set of regulations and standards (sanitary, technical, etc.) that may act as barriers or entail costs that would raise the threshold for

accessing these markets, including those of third parties who adopt these regulations voluntarily. On the other hand, those countries that have existing PTAs with members of the initiative could see their preferences eroded, or be subject to regulations different from those already negotiated.

Only three LAC countries are participating in the Trans-Pacific Partnership mega-regional negotiations: Chile, Peru and Mexico. These same countries have partnered with Colombia to form the Pacific Alliance (PA), which began negotiations in 2011 (Costa Rica and Panama requested accession in 2014).²² The PA is conceived as a Latin American initiative that establishes a regional platform for taking advantage of the dynamic opportunities available in the transpacific economy. However, this block does not only have extra-regional facets,

The Pacific Alliance is becoming a point of reference in the region.

but it has also become a reference point within the region in two dimensions: by rationalizing existing PTAs and by giving rise to new negotiations. For example, as regards the first aspect, the PA Trade Protocol signed in February 2014 established an agreement on rules of origin which includes a cumulation mechanism aimed at enhancing international production chains. This innovation, already in place in the Mexico-Central America Free Trade Agreement of 2011, contributes to the convergence of preexisting PTAs.²³ Second, the PA countries are promoting integration in a novel way through the elimination of restrictions on trade in services and on capital movements.

On the other hand, recent negotiating activity in LAC since 2013 has been quite limited,²⁴ with the PA standing out as a pragmatic response to extra-regional initiatives (Table 2). During

²² To date, Costa Rica and Panama are on track to join as member states. Costa Rica signed the Protocol to the Framework Agreement in February 2012 which established the roadmap for entry once the FTA with Colombia (2013) has been ratified. The scenario is more complex for Panama as accession is subject to the resolution of some outstanding trade and customs issues which have prevented the ratification of FTAs with Colombia (2013) and with Mexico (2004). The PA has 30 observer states from all continents, including several European countries, the United States and China.

²³ In more traditional agreements, using an input originating in member A in the production of the good by partner B may disqualify this good from being considered “originating” in the PTA when exporting to C, a third partner. The convergence of rules of origin in the PA eliminates this restriction.

²⁴ During this period, a total of 20 PTAs were signed or entered into force, while negotiations were initiated or continued in 12 cases, 6 of which are new initiatives. As the number of new or ongoing initiatives is less than those completed, a decreasing number of future PTAs is expected.

TABLE 2 • LATIN AMERICA AND THE CARIBBEAN: TRADE AGREEMENTS ENTERED INTO FORCE, SIGNED, AND UNDER NEGOTIATION

(January 2013–October 2014)

	Negotiations			
	Entered into Force	Signed	Ongoing (Initiated before 2013)	New
Extra-regional Agreements	Panama-Canada (01/04/2013)	Colombia-Rep. of Korea (21/02/2013)	MERCOSUR-EU (06/04/2000)	Ecuador-EU (17/01/2014)
	Peru-EU (01/07/2013)	Colombia-Israel (30/09/2013)	Canada-CARICOM (09/11/2009)	Peru-Turkey (28/01/2014)
	Costa Rica-Singapore (01/07/2013)	Chile-Thailand (04/10/2013)	TPP (15/03/2010)	Panama-Israel (11/05/2014)
	Colombia-EU (01/08/2013)		Guatemala-Nicaragua-EFTA (01/03/2012)	Chile-Indonesia (26/05/2014)
	Central America-EU (01/08/2013)		Colombia-Japan (17/12/2012)	Mexico-Turkey (14/07/2014)
	Chile-Vietnam (04/02/2014)			
	Costa Rica/Panama-EFTA (05/09/2014)			
	Honduras-Canada (01/10/2014)			
	Chile-Hong Kong (01/10/2014)			
	Negotiations			
	Entered into Force	Signed	Ongoing (Initiated before 2013)	New
Intra-regional Agreements	Ecuador-Guatemala (19/02/2013)	Colombia-Costa Rica (22/05/2013)	Honduras-Peru (10/09/2010)	El Salvador-Belize (19/02/2013)
	Costa Rica-Peru (01/06/2013)	Colombia-Panama (20/09/2013)		
	Peru-Venezuela (01/08/2013)	Panama-Trinidad and Tobago (03/10/2013)		
		Mexico-Panama (03/04/2014)		

Source: IDB Integration and Trade Sector based on data from INTrade/IJI.

Notes: The dates when these PTAs were initiated, signed, or entered into force are in parentheses. In the case of Ecuador-EU, the date corresponds to the re-launching of the negotiations. EFTA refers to the European Free Trade Association and TPP stands for the Trans-Pacific Partnership.

this period, the vast majority (10 of 12) of the extra-regional PTAs signed or entered into force in LAC include members (or acceding members such as Costa Rica and Panama) of the PA. Colombia signed agreements with the Republic of Korea and Israel, and is negotiating with Japan. Chile's agreements with Vietnam and Hong Kong entered into force and a Free Trade Agreement (FTA) with Thailand has been signed. The FTA between Costa Rica and Singapore entered into

effect. FTA negotiations launched in 2014 include Chile, Mexico, Peru and Panama with extra-regional partners such as Turkey, Israel and Indonesia. Meanwhile, the PA has stimulated the completion of several intra-regional PTAs. For example, in 2013, as a prerequisite for the accession of Costa Rica and Panama to the PA, FTAs were signed between Costa Rica and Colombia, Panama and Colombia, and Panama and Mexico. In addition, the FTA between Costa Rica and Peru entered into force.

Signs of rapprochement are appearing between the Pacific Alliance and MERCOSUR.

In 2014, though not yet at the negotiations stage, Brazil and Chile initiated discussions to identify areas of common interest between the PA and MERCOSUR. In July 2014, during the MERCOSUR Presidential Summit, with a view to creating a free trade area in South America by 2016, Brazil proposed accelerating tariff reduction schedules in force with Peru and Colombia and to deepen productive integration. The latter two countries had previously signed Economic Complementation Agreements (ECA)²⁵ No. 58 and No. 59 with MERCOSUR which mandate the liberalization of nearly all bilateral trade by 2019.

Apart from movements associated with the PA, the other significant negotiating trend since 2013 is the advancement of existing initiatives, in particular with two extra-regional partners: Canada and the EU. In the case of Canada, agreements entered into force with two more Central American countries, Honduras and Panama, adding to the existing agreement with Costa Rica. In the first half of 2014, Canada and the CARICOM countries advanced their trade talks by completing two rounds of negotiations. The network of agreements with the EU also expanded in 2013. In addition to the agreement with the Caribbean, the trade chapter of the Association Agreement between Central America and the EU, signed in 2012, entered into force. That same year all countries of the Pacific Alliance completed their negotiations with the European Union: the agreements with Peru and Colombia were added to those already in force with Mexico and Chile since the early 2000s. In addition, between January and July 2014, negotiations between Ecuador and the EU were completed, driven by the expiration of the Generalized System of Preferences (GSP+). Lastly, in July 2014, after long technical discussions, MERCOSUR countries (except Venezuela) committed to a joint proposal for a bi-regional Association Agreement with the EU. The exchange of proposals between the two trading blocs is pending.

The Pacific Alliance has created incentives for both extra- and intra-regional relations.

The network of agreements is expanding between LAC countries and both Canada and the EU.

²⁵ The ECAs refer to bilateral agreements negotiated by Latin American countries to mutually open their goods markets within the legal framework of the ALADI. These generally undertake greater market opening than Partial Scope Agreements, but less than FTAs.

In conclusion, what is evident from the events of the last two years is that the large-scale and dominant initiatives, the mega-agreements, are defining the 21st century trade landscape with limited involvement from LAC. Since 2013, the regional spotlight has been on the PA, an initiative that has mobilized integration processes both inside and outside of the region. The movements witnessed in other negotiations in the region are responding essentially to the dynamics of previous negotiations.

Regional Commitments in Trade Facilitation

At the multilateral level, the strategy for creating momentum in the Doha Round appeared successful when the so-called Bali Package²⁶ was agreed during the WTO's Ninth Ministerial Conference in December 2013. However, this advancement—even though limited in relation to the existing challenges—was short-lived as the July 31, 2014 deadline passed without entry into force of the Protocol of Amendment to the Trade Facilitation Agreement (TFA),²⁷ the latter being the principal component of the wider negotiations. Progress was not stalled due to elements of the TFA itself but rather due to a failure to resolve issues raised by India on the rules for public stockholding for food security purposes, an issue related to other aspects of the political economy of the negotiations. Despite this impasse in the Doha Round, the TFA remains a landmark achievement at the multilateral level. As tariffs have declined globally, efforts to reduce trade transaction costs are becoming a priority item on the agenda. Since these constraints are less complex, the benefits—increased speed, efficiency, and transparency of trade transactions—could be achieved in a relatively short period.

The Trade Facilitation Agreement is a milestone and a reference.

In this context, it is relevant to evaluate the progress on trade facilitation issues within the scope of LAC preferential trade agreements (PTAs).²⁸ Using the Legal Instruments of Integration (IJI by its Spanish acronym) and the Indexed Texts tools, both available in the IDB's INTrade

²⁶ The Bali package includes agreements on trade facilitation, food security, cotton, export subsidies and tariff rate quotas on imports of agricultural products, and market access for LDC exports.

²⁷ The TFA (WT/MIN(13)/W/8) is organized into two principal sections. Section I consists of 12 articles, which relate to key GATT articles: Publication and Administration of Trade Regulations (Art. X GATT), Fees and Formalities connected with Importation and Exportation (Art. VIII GATT) and Freedom of Transit (Art. V GATT). Section II consists of 10 provisions on Special and Differential Treatment for developing country members and least developed members. The central rationale governing Section II is the principle of functional dependency between developed countries and both developing countries and LDCs. This transcends the conventional approach to technical assistance used thus far by the WTO as it recognizes that the implementation of commitments by members (specifically developing and least-developed countries) depends on their capacity to meet this obligation. The assistance of developed countries contributes to building this capacity thus creating a direct relationship between the obligation taken and the access to assistance.

²⁸ See [Agreement Profiles](#)

Preferential provisions on trade facilitation are compared to the multilateral benchmark.

information system, an analysis²⁹ was carried out regarding the presence of 12 TF provisions selected from Sections I and II of the TFA (See Box 5),³⁰ in a sample of 48 LAC PTAs signed since 1995. The sample includes 18 countries from Latin America and 15 from the Caribbean, 26 intra-regional agreements and 22 agreements negotiated with LAC's 5 primary extra-regional partners: Canada, China, the European Union, Japan, and the United States. The sum of exports covered by both the intra- and extra-regional agreements in the sample represents 87.6% of total LAC exports in 2012. Specifically, the analysis identified the presence of provisions representative of those present in the TFA, providing an x-ray of the level of TF commitment in the PTAs analyzed. A methodological limitation is that the comparison is based on the underlying texts of the PTAs, not including any secondary trade facilitation-related legislation implemented afterwards.³¹ In addition, the comparison restricts its focus to the legal commitments on trade facilitation found in PTAs, which is one of many ways that countries can advance in this area. It does not consider complementary initiatives that transcend PTAs, nor does it take into account the degree of implementation of these commitments.³²

Three quarters of the PTAs surveyed contain at least one trade facilitation commitment (Figure 15). All extra-regional PTAs (22 in the sample) contain this type of commitment, while 11 of the 26 (44%) intra-regional PTAs lack them, primarily those within the ALADI framework.³³ Within the sample, 244 commitments on trade facilitation were identified, for an average of 5 commitments per agreement. This is less than half of the 12 selected from the TFA listed above. The average number of commitments differs markedly between intra-regional PTAs (3.4 commitments per agreement) and extra-regional ones (7 per agreement). This finding is not surprising given that TF provisions were introduced precisely in the negotiation of the extra-regional PTAs. In particular,

The majority of trade facilitation commitments undertaken by the region are found in extra-regional agreements.

²⁹ The analysis presented here is similar to that of Neufeld (2014). However, it comprehensively covers only LAC countries, uses a different selection of provisions, and takes into consideration those that are most relevant variables to the region.

³⁰ The TFA negotiations are undertaken in the framework of the mandate in Annex D ("Modalities for Negotiations on Trade Facilitation") of the Package of July 2004. This establishes that the negotiations in this matter will seek to clarify and improve aspects pertinent to Articles V, VIII, and X of the GATT 1994. Thus, to identify provisions evaluated in the PTAs the terminology of the GATT is used, which does not always coincide with the terminology used for these provisions in the TFA, despite having the same content.

³¹ These might be particularly relevant for agreements such as the Andean Community and MERCOSUR.

³² Additional details on procedures and indicators can be found in Methodological Annex 2.

³³ Save in rare exceptions, and by design, the ALADI Partial Scope Agreements (PSAs) and the Economic Complementarity Agreements (ECAs) do not incorporate trade facilitation provisions. However, these were included in the sample given their importance to the negotiating agenda of the region.

BOX 5: SUMMARY OF SELECTED PROVISIONS FROM THE TRADE FACILITATION AGREEMENT

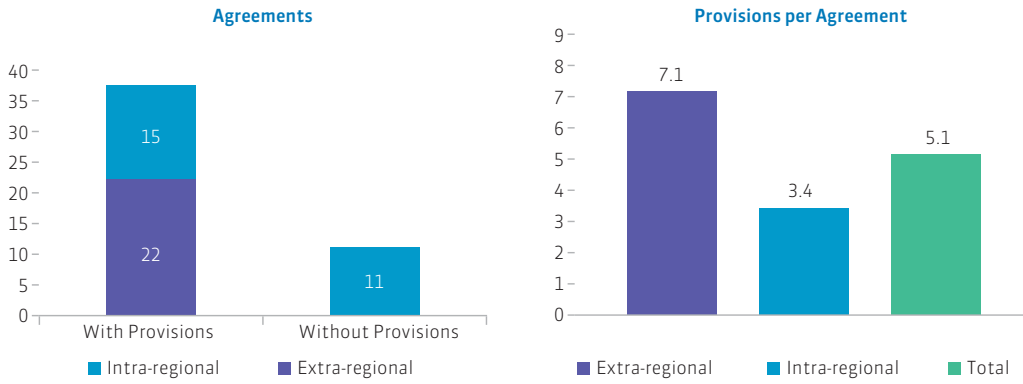
The following provisions are a selection of those included in the TFA framework considering the presence of analogous measures in the sample of LAC PTAs. As such, the comparison between these agreements and the TFA is therefore a limited one, as it excludes from the analysis those provisions not included in the region's PTA network. Each provision references the corresponding TFA paragraph.

1. **Publication and availability of information:** Prompt publication of customs-related rules and legislation. (Art. 1)
2. **Enquiry Points:** An official or office in a member government designated to deal with enquiries from other WTO members and the public on customs procedures. (Art. 1.3)
3. **Review and Appeal:** Guarantee, for each customs decision, importers' access to administrative review and judicial decision. (Art. 4)
4. **Advance Rulings:** Binding decisions by Customs at the request of the person concerned on specific particulars in relation to the intended importation or exportation of goods. Advance rulings can be requested with regard to the classification, the origin or the Customs value of the goods in preparation for importation or exportation. (Art. 3)
5. **Expedited Shipments:** Procedures allowing for expedited release of at least those goods entered through air cargo facilities to persons that apply for such treatment, while maintaining customs control. (Art. 7.8)
6. **Border Agency Cooperation:** Cooperation and coordination amongst the authorities and agencies responsible for border controls and procedures dealing with the importation, exportation and transit of goods in order to facilitate trade. (Art. 8)
7. **Risk Management:** Systematic application of management procedures and practices which allow Customs to address movements or consignments without unjustifiable or arbitrary restrictions of international trade. (Art. 7.4)
8. **Penalty Disciplines:** Penalties imposed by a Member's customs administration for a breach of the Member's customs law, regulation, or procedural requirement. (Art. 6.3)
9. **Single Window:** Establish a mechanism for simplification, harmonization, and automation of trade management processes. (Art. 10.4)
10. **Freedom of Transit:** Allow movement of goods through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. (Art. 11)
11. **Special and Differential Treatment:** provisions which give developing countries special rights and which give developed countries the possibility to treat developing countries more favorably than other WTO Members. (Section II.1)
12. **Assistance and Support for Capacity Building:** Provision of technical, financial, or other form of mutually agreed assistance. (Section II.9)

those PTAs with the larger economies such as the US or the EU have given traction to the trade facilitation agenda, as evidenced in their PTAs with Chile, Colombia, Panama, and Peru.

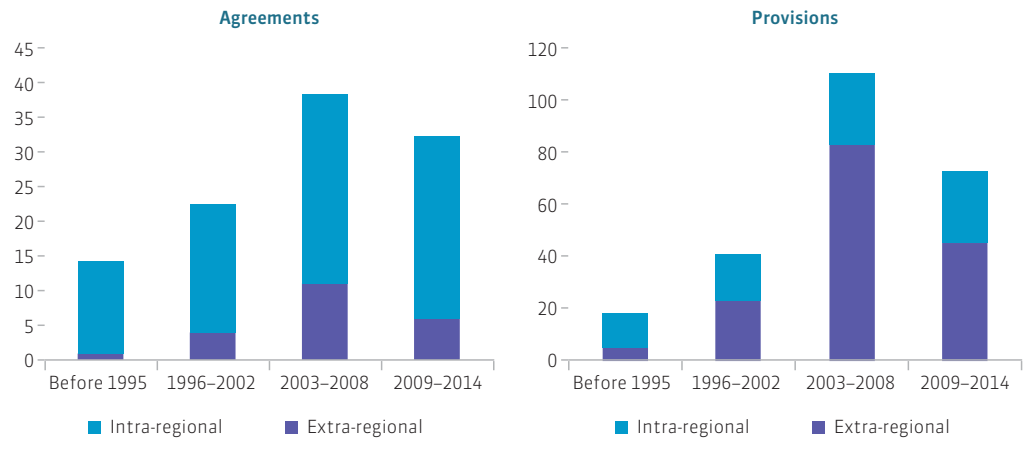
The categorization of the agreements and of the trade facilitation commitments by time period highlights the evolution of the issue in the region (Figure 16). The greatest momentum for negotiations on trade facilitation was during the 2003–2008 period, when trade was expanding

FIGURE 15 • TRADE FACILITATION PROVISIONS IN SELECTED PREFERENTIAL AGREEMENTS
(Number of agreements and provisions by agreement, in force in 2014)



Source: IDB Integration and Trade Sector with data from INTrade/IJI.
Note: The presence of 12 provisions in the Agreement on Trade Facilitation was identified in the 48 selected PTAs.

FIGURE 16 • TRADE FACILITATION PROVISIONS IN SELECTED PERIODS
(Number of agreements and provisions)



Source: IDB Integration and Trade Sector with data from INTrade/IJI.

Most commitments were undertaken between 2003 and 2008.

and the issue was identified in the Doha agenda. A total of 111 commitments (45.5% of the sample total) were undertaken during this time. Fewer commitments were made in the six years that followed this expansionary period (72 commitments or 29.5% of the total) due to cyclical factors and the slow progress of the multilateral and regional negotiating agendas.

The commitments can be evaluated according to the type of provision (Table 3). At the aggregate level, the most frequent commitments relate to Articles X

TABLE 3 • PREFERENTIAL PROVISIONS ON TRADE FACILITATION BY TYPE OF MEASURE
(Provisions, number and percentage)

Trade Facilitation Provision	Intra-regional Preferential Trade Agreements		Extra-regional Preferential Trade Agreements		Total	
	Number	Share	Number	Share	Number	Share
Publication and Availability of Information	13	15%	21	13%	34	14%
Enquiry Points	6	7%	12	8%	18	7%
Review and Appeal	13	15%	21	13%	34	14%
Advance Rulings	13	15%	17	11%	30	12%
Expedited Shipments	6	7%	12	8%	18	7%
Border Agency Cooperation	12	14%	21	13%	33	14%
Risk Management	7	8%	18	12%	25	10%
Penalty Disciplines	7	8%	14	9%	21	9%
Single Window	3	3%	1	1%	4	2%
Freedom of Transit	2	2%	5	3%	7	3%
Special and Differential Treatment	0	0%	4	3%	4	2%
Assistance and Support for Capacity Building	6	7%	10	6%	16	7%
Total	88	100%	156	100%	244	100%

Source: IDB Integration and Trade Sector with data from INTrade/JII.

Note: The table measures the presence of each of the twelve trade facilitation provisions selected from the text of the TFA in the 48 sampled PTAs, classified according to the type of partner (intra- or extra-regional).

The most frequent commitments relate to transparency of customs procedures.

(Publication and Administration of Trade Regulations) and VIII (Fees and Formalities connected with Importation and Exportation) of the GATT. Commitments related to Article X represent 47% of the total, where those relating to the publication and availability of information on laws, regulations, legal decisions and administrative rulings (14%), and the right of review and appeal of administrative actions (14%) feature prominently. Cooperation between border agencies (14%) as well as risk management practices and the prevention of contingencies in export and import procedures (10%) stand out as commitments to provisions established under Article VIII. Importantly, few commitments (2% of total) have been made with respect to Electronic Single Windows (ESWs) even though it is one of the principal trade facilitation instruments. ESWs have been promoted recently by several countries in the region³⁴ but have yet to become a standard part of PTA negotiations. Lastly, the provisions related to Section II of the TFA (Special and Differential Treatment and Technical Assistance for Capacity Building) are infrequent in PTAs, which is natural given the novelty of the subject and its relevance primarily in the multilateral arena.

To assess the degree to which PTAs already establish commitments with respect to the provisions of the TFA, the commitments undertaken were assigned to the relevant bilateral relationships among the parties to each agreement. These commitments were classified in a matrix of bilateral relations³⁵ and compared to those which would be adopted should the twelve provisions identified above become part of the multilateral rules.³⁶ With respect to bilateral relations, trade facilitation commitments undertaken in PTAs represent only 20% of the total potential multilateral coverage, with 22% coverage in extra-regional agreements and 19% in intra-regional PTAs. As 70% of extra-regional PTAs are with the US or the EU, the low incidence of trade facilitation commitments in extra-regional agreements is due to the relative scarcity of PTAs with the other three selected extra-regional partners. Inclusion in the analysis

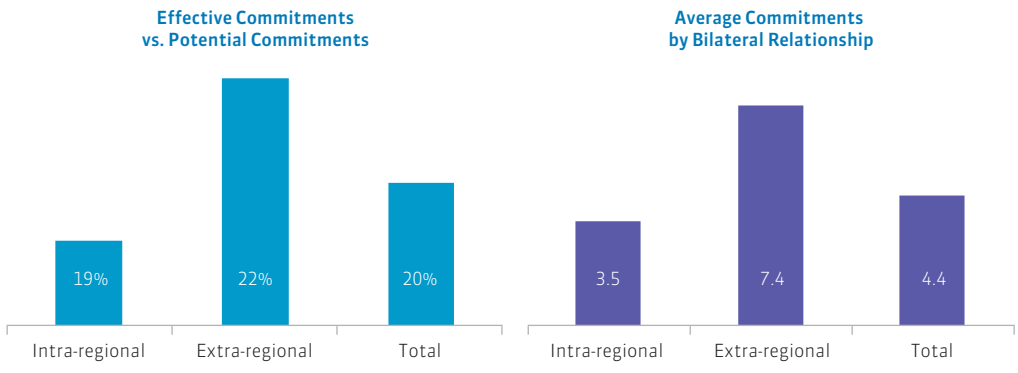
The gap between regional and multilateral commitments is significant.

³⁴ As mentioned earlier, though this is a non-exhaustive analysis of legal commitments in PTAs, there are a number of initiatives where LAC countries are making progress: the modernization and interoperability of electronic single windows, procedures facilitating the international transit of goods and the implementation of Authorized Economic Operator programs, among others.

³⁵ See Methodological Annex 2 for more details.

³⁶ Since the 15 Caribbean countries have near uniform trade facilitation agreements (they assume the same obligations between themselves as with other partners outside of the region), these were treated as a single entity. This created a dataset of 19 countries in the region (18 Latin America countries plus the Caribbean) and 5 extra-regional partners, for a total of 24. This defined 171 intra-regional bilateral relationships and 95 bilateral relationships between the region and the 5 extra-regional partners considered. If the provisions of the TFA are adopted by the region, this would create $12 \times 171 = 2,052$ bilateral commitments within the region and $12 \times 95 = 1,140$ bilateral commitments with extra-regional partners. These are the benchmarks for estimating the degree of trade facilitation coverage within the region.

FIGURE 17 • COVERAGE OF PROVISIONS ON TRADE FACILITATION
(Percentage and number by bilateral relationship, 2014)



Source: IDB Integration and Trade Sector with data from INTrade/IJI.

Note: "Effective commitment" implies commitments made by countries in the region in the framework of PTAs. "Potential Commitments" refers to those that could eventually be assumed with potential partners, including within the region selected and outside of it.

of potential PTA partners Canada, China, and Japan adds a large number of potential commitments to be undertaken but fail to contribute to actual commitments. What is evident from this indicator is that there is an 80% gap between the trade facilitation commitments undertaken within the PTA framework and those specified in the WTO TFA, hence the relevance of the multilateral agreement for the region. The second indicator relates to the number of commitments undertaken per bilateral relationship, taking into account only those bilateral relationships where commitments have been made. For the total sample of PTA commitments, the average is 4 commitments per bilateral relationship, with a net difference between LAC extra-regional (7 commitments per bilateral relationship) and intra-regional agreements (4 commitments per relationship). The gap relative to the TFA is significant given that it includes LAC extra-regional agreements where the difference from the full 12 provisions is around 40%.

In conclusion, the sample of trade facilitation commitments reviewed in LAC PTAs reveals that while these are found in three quarters of the agreements, LAC still has significant ground to cover to fully implement the provisions laid out in the TFA. The commitments are heterogeneous, which is largely explained by the coexistence of instruments from different generations and the greater relevance of trade facilitation commitments in more recent agreements. Thus, there is significant space to expand and deepen trade promotion policies at a time when the regional cooperation agenda should be focused on offsetting adverse global conditions that are emerging in the post-crisis period.

Conclusions

Since mid-2011 Latin American and Caribbean countries have faced global headwinds leading to a virtual stagnation of regional exports, a situation that to varying degrees affects the majority of countries. Three trends emerge: first, modest growth in Mexico and Central America characterized by a greater share of manufactures in their export supply, with the US as the principal export destination; second, moderate declines in exports from South American countries where primary products play a strong role in exports and the orientation is more towards Europe and emerging markets, particularly China; and third, a significant contraction of exports from the Caribbean.

The deceleration of regional trade is due to weaknesses in the real demand of the region's principal trading partners and to a decline in the region's terms of trade. This adverse context is unlikely to be reversed in the near future. Furthermore, there are other cyclical factors in the global economy that may limit the growth potential of regional exports in the medium term. Looking forward, greater growth of the US economy may favor exports from the economies of the region with which it has closer ties and, to the extent that it generates stronger global demand, invigorate other trading partners and thereby indirectly boost regional exports.

Nevertheless, the short term outlook exposes some preexisting vulnerabilities in the external sector. Growth rates of export volumes have been low and decreasing for several years now, with the exception of the rebound that followed the Great Recession. During the post-crisis period, this warning signal was initially obscured by increases in export prices that have now been falling since mid-2011. Recently the prices of several key regional export products, particularly natural resource-based commodities, have fallen or have stagnated, and are not expected to grow in the short term. In a broader perspective, over the last ten years, LAC's export basket has become more concentrated in primary products and their derivatives and, thus, the region is more vulnerable to weakness in those markets. It is therefore urgent to promote the diversification of exports and the incorporation of greater value-added by means of effective integration into global and regional value chains.

Although these trends may improve, they are a warning to policymakers. The implementation of an ambitious program to counter the economic headwinds coming from the global economy is needed to improve the region's trade performance. Given the impasse in multilateral negotiations,

countries have room to advance in preferential negotiations and particularly in unilateral initiatives. One part of this effort undoubtedly revolves around the adoption of a modern agenda on trade facilitation, an area in which the negotiation costs are relatively low and the benefits of reforms should be rapidly captured.

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Methodological Annex 1

Price and Volume Indices and Terms of Trade

This Annex summarizes the methodology used to decompose the current values of exports and imports of goods in terms of variations in their prices and volumes. This information provides a measure of the evolution of trade flows at constant prices (that is, in terms of volume, or “real” trade flows), and at the same time allows an analysis of the impact of changes in international prices on the values of aggregate trade flows. The result of applying this methodology is a set of annual price and volume indices of exports and imports for a group of countries in Latin America.

The export and import price indices are used to calculate the evolution over time of the terms of trade, a relation that measures the changes in the average purchasing power that a country’s exports provide in terms of the goods they import, or equivalently, it represents the variations in the relative prices that countries face in their foreign trade.

The principal criteria followed in the calculation of the indices are:

- The indices are calculated at the Heading level of the Harmonized System (4 digits).
- All items with a value of less than US\$ 1 million are excluded.
- Items without available data on quantity are excluded.
- The series begins in 2002 and uses 2005 as a base year.

The calculations include information from 17 Latin American countries. For 14 countries,³⁷ the export and import price and volume indices were elaborated from data based on trade flows at the maximum level of disaggregation (“microdata”), both for current values and physical volumes. This data was reported by official sources to INTrade/DataINTAL as of March 2014. The calculations were made according to the formulas presented below at the 4-digit level of the Harmonized System, and aggregated to the total national level. In the case of Mexico, aggregate indices obtained from the Central Bank (Banco de México) are used due to the fact that, as of the closing date of the estimates, no reliable disaggregated data on physical volumes was available for several years. For Venezuela, no microdata were available, and estimations are based on official figures published in the National Accounts. Sufficient data was also not available for any

³⁷ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru and Uruguay.

country of the Caribbean. Data for the last two years are subject to revisions by the respective sources and do not necessarily coincide with figures published by these sources at the aggregate level. The estimates must therefore be considered preliminary.

Indicators for the groups of countries presented in Figures 12 and 13 were obtained from weighted averages of the respective national price and volume indices. The relative weights of exports or imports of the countries in each group were used as weights in each year.

Price Index

Laspeyres price indices were estimated separately for imports and exports:

$$P_t = \frac{\sum_i p_t^i * q_0^i}{\sum_i p_0^i * q_0^i}$$

Where $p_t^i = \frac{v_t^i}{q_t^i}$, the unit values of item i in period t ,

- Value, v_t^i , (thousands of US\$)
- Volume, q_t^i , (thousands of kilograms)

The Laspeyres price index compares the value of a basket of goods corresponding to the base year at the prices in period t with the value of the same basket at prices of the base year. When $P_t = 1$, the basket in t costs the same as in the base year.

Volume Index

Paasche volume indices were estimated separately for imports and exports:

$$Q_t = \frac{\sum_i p_t^i * q_t^i}{\sum_i p_t^i * q_0^i}$$

Where $p_t^i = \frac{v_t^i}{q_t^i}$, the unit value of item i in period t ,

- Value, v_t^i , (thousands of US\$)
- Volume, q_t^i , (thousands of kilograms)

The Paasche volume index compares the value of a basket of products in period t to the prices of that same period with the value of the basket in the base year valued at the prices of period t . When $Q_t = 1$, the current basket is composed of the same quantities as in the base year.

Terms of Trade

The terms of trade ratio is defined as:

$$TI_t = \frac{P_{x,t}}{P_{m,t}} * 100$$

Where $P_{x,t}$ and $P_{m,t}$ correspond, respectively, to the price indices of exports and imports of country in period t .

Methodological Annex 2

Trade Facilitation Indicators

This Annex summarizes the methodology applied to calculate the indicators on Trade Facilitation. The objective of these indicators is to evaluate the effective presence of the commitments in this area in a selected group of PTAs signed in the countries of the region with intra- and extra-regional partners. The calculations take as a reference twelve provisions from the Agreement on Trade Facilitation, measuring the degree to which these types of dispositions are already included in the selected PTAs. The TFA establishes a potential frontier of commitments in this matter (that would be reached at the multilateral level if the TFA was fully agreed and implemented) against which the commitments already in force in the PTAs can be assessed.

Sample of PTAs

The PTAs and the TF commitments are derived from a sample of 48 PTAs included in the Legal Instruments of Integration (INTrade/IJI) system in force in 2014. The selected agreements include as signatories 33 countries of the region (18 of Latin America and 15 of the Caribbean) and five extra-regional partners (Canada, China, the US, Japan, and the EU). The fifteen countries of the Caribbean were considered as a single national unit due to the fact that they would apply the TFA in a uniform manner, with each assuming the same commitments among them and with other partners outside the subregion.

Countries Included in the Sample

LAC	Caribbean	Extra-regional
Argentina	Antigua and Barbuda	Canada
Bolivia	Bahamas	China
Brazil	Barbados	EU
Chile	Belize	Japan
Colombia	Dominica	US
Costa Rica	Granada	
Ecuador	Guyana	
El Salvador	Haiti	
Guatemala	Jamaica	
Honduras	Montserrat	
Mexico	Saint Kitts and Nevis	
Nicaragua	Saint Lucia	
Panama	Saint Vincent and the Granadines	
Paraguay	Suriname	
Peru	Trinidad and Tobago	
Dominican Republic		
Uruguay		
Venezuela		

The intra-regional agreements were selected based on the importance of the trade they cover, the dynamism of the PTA, and the date of signature, attempting to cover the different historical stages of the integration process. All PTAs signed by LAC countries with the five extra-regional partners mentioned were included. LAC exports to the regional and extra-regional partners included in the sample cover 87.6% of total exports as of 2012. The PTAs were classified in two large groups according to whether the signatories were exclusively intra-regional or whether some of them were outside the region. In the PTAs selected, the effective presence of TF commitments was identified with respect to the twelve provisions extracted from the TFA.

The selected provisions correspond to Sections I and II of the TFA. With respect to Section I, the following GATT articles are concerned: Article V (Freedom of Transit); Article VIII (Expedited Shipments, Border Agency Cooperation, Risk Management, Penalty Disciplines and Single Window); Article X (Publication and Administration of Trade Regulations, Enquiry Points, Appeals and Advance Rulings). Section II includes provisions related to Special and Differential Treatment for developing countries and LDCs as well as Technical Assistance for Capacity Building

Indicators

To estimate the indicators of the *degree of coverage* in TF, the number of commitments identified in the PTAs sampled was assigned to the *bilateral relationships* among the signatory countries. For this, a matrix of bilateral relationships M was constructed that includes p countries of which r are from the region and e are extra-regional, $p = e + r$.

An example of M with $p = 10$, $r = 7$, and $e = 3$ is the following:

MATRIX OF BILATERAL RELATIONS

	Intra							Extra		
	1	2	3	4	5	6	7	8	9	10
Intra	1	X								
	2	X	X							
	3	X	X	X						
	4	X	X	X	X					
	5	X	X	X	X	X				
	6	X	X	X	X	X	X			
	7	X	X	X	X	X	X	X		
Extra	8	X	X	X	X	X	X	X		
	9	X	X	X	X	X	X	X	X	
	10	X	X	X	X	X	X	X	X	X

The number of total bilateral relationships $B_t = \frac{1}{2}p(p-1)$ can be decomposed into three groups: the intra-regional bilateral relationships (B_r), the relationships between countries of the region and extra-regional partners (B_{re}), and the bilateral relationships among the extra-regional countries (B_e). These aggregates correspond, respectively, to the upper stepped triangle (dark blue), the rectangle (light blue), and the lower stepped triangle (black).

Therefore:

$$B_t = B_r + B_{re} + B_e$$

Where $B_r = \frac{1}{2}r(r-1)$, $B_{re} = re$, and $B_e = \frac{1}{2}e(e-1)$. In these calculations, only commitments assumed in the bilateral relationships that involve countries of the region among themselves and with extra-regional partners were considered, excluding the relationships among the

extra-regional countries. Therefore, the number of bilateral relationships considered is a subset k of the total t :

$$B_k = B_t - B_e = B_r + B_{re}$$

If in this limited universe the countries of the region agreed on the 12 provisions of the TFA put forth in this analysis, they would assume a total $C = 12*Bk$ commitments. This is the reference value with respect to which the number of actual commitments undertaken will be evaluated, that is, the frontier of possible commitments given by the TFA.

The number of effective commitments in each one of the selected PTAs is assigned to the respective bilateral relationships among the signatory partners. Taking into account that two countries may have signed the same TF commitments in several different PTAs, those duplicates were discarded, thus controlling for potential double counting. Hence, the maximum number of commitments possible in a bilateral relationship is 12.

To estimate the first coverage indicator reported in Figure 17, the sum of potential commitments (according to the formulas indicated above) and effective commitments (counted in the PTAs) corresponding to the bilateral relationships in each area of M is calculated. For example, the sum of commitments included in the relevant cells of columns 2 through 7 of M is the total corresponding to the intra-regional bilateral relationships; the sum of the columns 8 through 10 (excluding the bilateral relationships among extra-regional countries) is the total corresponding to the commitments assumed by the countries of the region with extra-regional partners.

The first coverage indicator is the quotient of the sums of effective commitments and potential commitments for each group and for the total.

The second indicator of Figure 17 (commitments by bilateral relationship) corresponds to the sum of the number of effective commitments in each group divided by the number of bilateral relationships in which there are TF commitments (excluding the bilateral relationships in which there are no commitments of this type).



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