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Integration Ideas

Exporta Fácil: A New Online Tool for Exporter SMEs

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The regional online tool on the Exporta Fácil program has been launched to help micro, small, and medium-sized enterprises (MSMEs) on the path to internationalization. This website is the first port of call on the road to exporting via the postal service and is the result of work by over 18 institutions connected with foreign trade, MSMEs, and postal logistics in Brazil, Colombia, Ecuador, Peru, and Uruguay. The development of the site was coordinated by INTAL in its role as the Secretariat of the COSIPLAN/IIRSA Technical Coordination Committee.

Information that is Priceless

MSMEs in Latin America and the Caribbean now have a fast, easy way to access information that could help them become exporters. In as little as six minutes they can get a sense of the range of cultural and commercial possibilities that they could gain access to through this innovative new tool. Traditional export methods tend to be complicated, costly, and slow, and MSMEs often don't acquire any new knowledge during these processes. Exporta Fácil has changed all of this. Users experience a remarkable learning curve which has a positive impact on other areas of their business as they get to know new markets directly, for example.

The new website is an SME's first step towards exporting. By logging on, users are daring to transform their ideas into actions and make something that once seemed hard to achieve a reality.

Trade Integration and Internationalization Are Just a Click Away

The idea of creating a regional website grew from the different countries' desire to explain together clearly and simply what Exporta Fácil is and how it works. Although each country's Exporta Fácil program has its own particular traits, certain common principles underlie the tool which it may be helpful to identify and explain. This new online space can benefit both MSMEs and current and potential clients, who need to understand how Exporta Fácil works, on the one hand, and how to identify which countries they can export from quickly and easily, on the other.

To interact with current and potential Exporta Fácil users, three videos were created which introduce the core concepts of the program, provide a step-by-step explanation of how to export merchandise using the tool, and give an example of a firm that has successfully done so.

The "user experience" is at the heart of the design of this regional online space, so the aim was for those who visit to be able to experience the exporting process in a few steps though a simulation tool.

The site also includes a section where users can share their experiences of Exporta Fácil. Special templates were created to make it simple for them to do so.

Finally, the events section lists activities related to Exporta Fácil, including those run by institutions that are involved in the initiative in the different countries, and meetings of the COSIPLAN/IIRSA Executive Technical Group (GTE).

What is Exporta Fácil?

The share of micro, small, and medium-sized enterprises in Latin American exports is much lower than is the case in developed countries (ECLAC/OECD, 2012). On the one hand, MSMEs face major obstacles to taking part in international trade due to the small scale that they—by definition—operate on. These difficulties include access to financing and information, the high fixed costs of establishing and maintaining marketing networks abroad, and restrictions relating to management capacity and technology.

Note: “¿Qué es Exporta Fácil? [What is Exporta Fácil]” created by Exporta Fácil users from Perú and representatives from the institutions in the region that are involved in the program. GTE, Lima, 2015.

In this sense, Exporta Fácil helps reduce transaction costs for MSMEs and contributes to regional integration by fostering the integration of such firms into the international market. It seeks to facilitate the internationalization process for MSMEs in distant locations through a simplified import/export process via the postal system using the designated postal operator’s logistics platform.
The decision to use the postal service platform to strengthen trade for MSMEs from South America and promote their integration into the international market originated in the Postal Exports for MSMEs program implemented by Brazil’s Ministry of Communications in 1999, which became

known as Exporta Fácil. Building on the results achieved there, the program has now been implemented in five more countries, within the COSIPLAN/IIRSA framework, and another four have started working towards also doing so.

ALPACAMONTOYA S.A.C.[2]
Pueblo Libre, Lima, Perú
www.tualpaca.com

The firm ALPACAMONTOYA S.A.C. and its brand tualpaca.com were started in 2008 by Nancy's father, Andrés Montoya. It is a family-owned company that exports alpaca garments and alpaca skin products. At first, the company was made up of only three people: Nancy, her father, and a nephew who dealt with the website and marketing. Now five people work there, but they think of their suppliers as strategic partners, and these include craftspeople from Lima, Arequipa, and Cusco.

Nancy first heard of Exporta Fácil through an advertisement in Lima's newspapers but she found out more when she went to drop off an order at Serpost, Peru's postal system. She found that Exporta Fácil provided benefits such as being able to send small packages, a compensation system if packages are lost (which is not the case with a private courier), forms that are easy to fill out from any computer, and a simple process for requesting general sales tax (IGV) refunds. Private courier services cannot provide the latter as export documentation is not included when they are used.

Nancy's first export went to Australia. She attached all the necessary paperwork. Then she took the hefty package to Serpost, where everything went smoothly. However, the package didn't appear to have been delivered. So Nancy got in touch with the client, who explained that as the declared value was greater than US$1000, it was subject to certain taxes. That was when she began to understand that she also needed to study import regulations in her destination markets so as to be able to notify buyers where appropriate.

Sometimes it can be difficult for new firms to find clients, but through Exporta Fácil they can start increasing their sales gradually. Alpaca Montoya recommends the tool to other firms as it believes that firms need to go international and that this is a chance for them to get their products to many locations.

[2] User experience included on the Exporta Fácil website.

Synergies with Mexico: Beyond the Automotive Sector

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With Mexican president Enrique Peña Nieto due to visit Argentina in July, the two countries' intentions to build closer trade links are being consolidated, both at the bilateral level and in terms of Mexico's relationship with the MERCOSUR.

Trade relations between MERCOSUR and Mexico fall within the Economic Complementarity Agreement (ECA 54) signed in 2002, which establishes the foundations for negotiations towards a free trade agreement between the two parties. ECA 54 also covers the Automotive Sector Agreement (ECA 55) and bilateral negotiations between the two countries. On the basis of this agreement, Mexico reached a free trade agreement with Uruguay, which has been in force since 2004, at which point the agreement which had governed trade relations up to that point, ECA 5, ceased to be effective. Mexico is also in the process of expanding the scope of ECA 6 with Argentina and ECA53 with Brazil.

In this regard, and in line with the statements made by the presidents of both countries at the World Economic Forum in Davos in February 2016, government authorities from Mexico and Argentina have recently announced that they are seeking to give fresh impetus to bilateral relations by starting conversations to expand ECA 6. Likewise, they are hoping to move forward with the possibility of working on an automotive sector agreement with broader scope that will allow the two countries to boost trade in an industry that is key for both parties.

ECA 55 between the MERCOSUR and Mexico governs bilateral trade in the automotive sector, and like ECA 54 with relation to all trade between the two parties, its goal is to lay the foundations for free trade in this sector. However, through an Additional Protocol—which was renewed in March 2015—the two countries bilaterally negotiated annual import quotas for the duty-free entry of automotive and auto parts, provided that they comply with certain levels of regional content (35% until 2019, after which it will increase to 40%), with the commitment to begin free trade in the automotive sector when the protocol expires in March 2019. For example, in the case of trade between Argentina and Mexico, the agreement establishes a rising quota that started at US$575 million for the first year (from March 2015) and will reach US$640 million during the fourth year (up to March 2019).

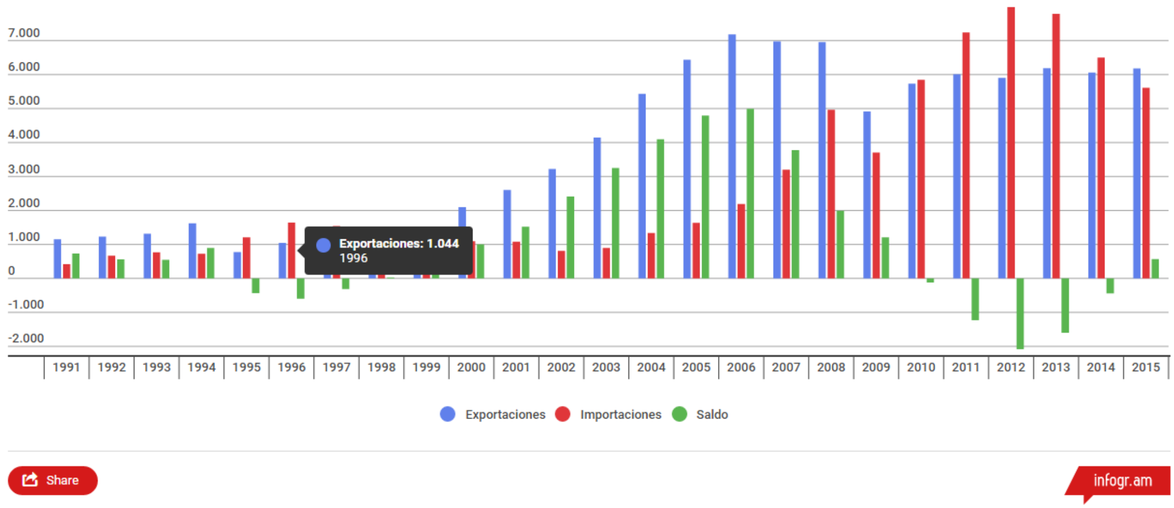
Total Trade between the MERCOSUR and Mexico

Since it was founded in 1991, the MERCOSUR[1] has multiplied its trade with Mexico by a factor of six, going from an average of US$2.1 billion in the 1990s to US$7 billion in the first decade of the 2000s, until reaching an average US$12.8 billion between 2010 and 2015. However, the MERCOSUR's share in Mexico's total trade (exports plus imports) has always remained at very low levels and has grown by barely 0.3 percentage points in the last 25 years (the MERCOSUR accounted for an average 1.5% of Mexican trade in the 1990s, 1.6% in the first decade of the 2000s, and 1.8% between 2010 and 2015.

Furthermore, the MERCOSUR has mostly maintained a surplus balance with Mexico (Figure 1). In 2015, the surplus totaled US$569 million, the result of exports worth US$6.18 billion (up 2% from 2014) and imports worth US$5.61 billion (down 14%). However, it is worth highlighting that between 2010 and 2014, there was a trade deficit for the MERCOSUR, a consequence of the growth in imports from the Mexican market between 2007 and 2013 (an average 24% increase), while exports dropped by 1%.

Figure 1. Evolution of Trade between the MERCOSUR and Mexico

In millions of US$



Source: COMTRADE.

What this behavior mainly reflects is Mexico’s trade with the largest MERCOSUR member, Brazil. Indeed, the return to a bilateral trade surplus in favor of the MERCOSUR in 2015 coincided with a positive balance for Brazil for the first time in four years, and bilateral surpluses for Uruguay and Paraguay, while Argentina accumulated six consecutive years of deficit with Mexico.

Although most of Mexico’s trade is with the US (81% of its exports and 47% of its imports, according to data from 2015), the MERCOSUR still occupies a prominent position: Brazil is Mexico’s seventh-most-important trade partner (it ranks tenth as a supplier and fourth as a buyer), while Argentina is twenty-first on the list (ranking 28th as a supplier and 20th as a buyer).

As can be seen in Figure 2, Brazil plays a leading role in Mexico’s relationship with the MERCOSUR. In 2015, Brazil was the destination market for two-third of Mexico’s exports to the MERCOSUR and the origin of three-quarters of its imports from there, while Argentina accounted for 26.7% of exports and 17.1% of imports. With regard to Mexico’s trade with Uruguay and Paraguay, the two countries’ combined share falls short of 10% in terms of both imports and exports.

Figure 2. Trade between Mexico and the MERCOSUR by country 2015

Share in %

Source: COMTRADE.

Over the last decade, there has been a gradual but marked decrease in Argentina's portion of MERCOSUR trade with Mexico. In contrast to Argentina's shrinking share—in 2005 it was the destination market for 41% of Mexican exports to the MERCOSUR—Brazil's share has increased by over 13 percentage points—ten years ago it accounted for 54.2% of Mexico's external sales to the MERCOSUR. In contrast, the distribution of Mexican imports to the MERCOSUR among the four member countries has remained practically unchanged in the same period.

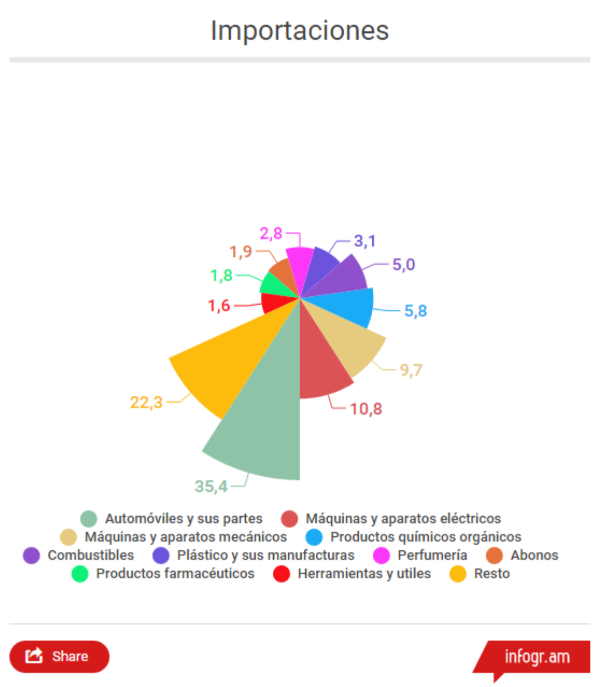
Sectoral Trade between the MERCOSUR and Mexico

As is demonstrated by the bilateral agreements the two parties have signed to regulate trade between them, the greatest trade flows lie in the automotive sector. In 2015, motor vehicles and auto parts accounted for 18.7% of MERCOSUR exports to Mexico and 35.4% of imports. Other key sectors are machinery and mechanical appliances (15.7%) and hides and skins (8.4%) in terms of external sales, and electrical machinery and equipment (10.8%) and machinery and mechanical appliances (9.7%) in terms of foreign purchases.

Figure 3. Sectoral Composition of Trade between the MERCOSUR and Mexico 2015

Share in %

Source: COMTRADE



Over the last ten years, the behavior of bilateral trade flows in the automotive sector has gone in the opposite direction. Although MERCOSUR exports of motor vehicles and auto parts to Mexico have dropped significantly (55%), from US$2.57 billion in 2005 to US$1.16 in 2015, imports have grown considerably, going from US$169 million to US$1.99 billion in the same period. In 2005, motor vehicles and auto parts accounted for 40% of MERCOSUR exports to Mexico and just 10% of imports.

Argentina, Brazil, and Mexico are home to most of the Latin American automotive industry, and there is strong productive complementarity and regional integration between them that benefits from the existing Economic Complementarity Agreements. In addition to this intra-zone connection, there is a major extra-zone connection between Mexico and the US.

Despite being the second-most-important sector, the share of electrical machinery and appliances in MERCOSUR imports from Mexico fell by over 20 percentage points in the last decade—in 2005, 32.2% of the MERCOSUR's foreign purchases from Mexico were from this sector.

As can be observed at the sectoral level, a breakdown by product reveals greater concentration in MERCOSUR imports from Mexico than in its exports there. A single product—passenger cars—accounted for over 25% of foreign purchases in 2015.

The main products that make up trade in the automotive sector are, in terms of MERCOSUR exports to Mexico, motor vehicles for the transportation of goods (US$530 million in 2015, of which export values distributed almost equally between Argentina and Brazil) and, to a lesser extent, passenger vehicles (US$ 320 million, exclusively Brazilian exports). With regard to imports, the key products are passenger vehicles (which totaled US$1.4 billion, 63% of which were to Brazil, 33% to Argentina, and 4% to Uruguay), and auto parts and accessories (US$460 million, 87% to Brazil and 13% to Argentina).

Final considerations

Trade relations between the MERCOSUR and Mexico have been characterized by their low levels and the diversity in bilateral relations. Some of the factors that have complicated this relationship include differences that arose within the framework of the Montevideo Treaty due to Mexico's membership of the North American Free Trade Agreement (NAFTA), decisions within the MERCOSUR that have prevented member states from negotiating with Mexico as a bloc, and conflicting interests around market access, particularly between Brazil and Mexico (Juárez, 2014). These have limited bilateral trade relations mainly to bilateral agreements that imply extensions to agreements made within the ALADI framework.

The new momentum needed by relations between the MERCOSUR and Mexico would require that treaties currently in force be reviewed, the Economic Complementarity Agreements be extended by incorporating new products, and that new investment proposals be analyzed. Renegotiating tariff preference agreements would allow the two partners to stimulate bilateral trade, which shows great potential for growth despite its current low levels. Homogenizing existing relations would be fundamental for a successful transition from the Economic Complementarity Agreements that are currently in force to a Free Trade Agreement.

In short, the main challenge ahead is establishing mechanisms that can adapt to the specific situations in each country while also deepening regional integration by boosting existing complementarity.

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[1] Argentina, Brazil, Paraguay, and Uruguay. Trade flows between Mexico and Venezuela and Bolivia were not included in the data analyzed in this article.

Invisible innovation as a driver for development

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China's capacity in the sphere of science and technology is growing rapidly but what is causing this growth? This article analyzes the drivers for China's rapid growth in innovation inputs (such as R&D) and innovation outputs (such as patents and research). A review of the literature on the subject reveals that policies that incentivize innovation inputs and market forces are the key drivers for Chinese innovation. In contrast, those Chinese policies that seek to boost patent output are largely ineffective. However, the most innovative advances made cannot be measured in terms of numbers of patents or research papers. China has seen the rise of a form of innovation that is hard to measure, which includes incremental or modular innovations, or innovations which imply new process or product architecture (Ernst and Naughton, 2007; Breznitz and Murphree, 2011; Nahm and Steinfeld, 2014). By way of conclusion, the article suggests ways that other developing countries can foster these forms of innovation within their borders.

China's technological transformation process has sped up considerably in the last decade. As part of the country's national plan to become the world leader in science and technology, this transformation has prioritized a shift from government- to firm-led research and from adopting of foreign technology to an "indigenous innovation" model (Ministry of Science and Technology of the People's Republic of China, 2006; McGregor, 2010). There are three main drivers for innovation in China: competition in the market, policies that foster the production of innovation inputs, and policies that incentivize innovation outputs (Warner, 2015).

China has moved from a centralized innovation system to a network of innovation policies that focus on stimulating research by private firms to improve trade in new technologies (Cao, Suttmeier, *et al.*, 2006; Liu, Simon, *et al.*, 2011). China historically depended on the use of foreign technology, but the country has acknowledged its own shortcomings when developing new business technologies and has drafted plans to compensate for these by promoting indigenous innovation (Cao, Suttmeier, *et al.*, 2006). This political initiative fosters China's development of new technologies and replaces previous policies that revolved around the use of foreign technology (Cao, Suttmeier, *et al.*, 2006). The new innovation policies were designed to spur China on towards fulfilling its goal of becoming the world leader in technology in terms of patent and research paper output ((Ministry of Science and Technology of the People's Republic of China, 2006).

This ambitious plan to develop the country's science and technology capacity was preceded by forms of innovation that evolved organically. These forms of innovation, which are not easy to measure, focus on minor costs, speed to market, modular technology, or product architecture (Ernst and Naughton, 2007; Breznitz and Murphree, 2011; Nahm and Steinfeld, 2014). Chinese firms have achieved this by integrating segments from across the spectrum of research and development, manufacturing, and aspects of product design (Ernst and Naughton, 2007; Nahm and Steinfeld, 2014). Unlike disruptive innovation or radical product innovation (Christensen, 1997), these other forms of innovation are more within the reach of most countries and are based on the strength of each nation's economic conditions and technical capacity levels.

The article is divided into three sections: indicators for Chinese innovation and international comparisons, the drivers for this innovation, and lessons for other countries.

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Inspiring Activities

Smart Foods: China and the Future of Latin America

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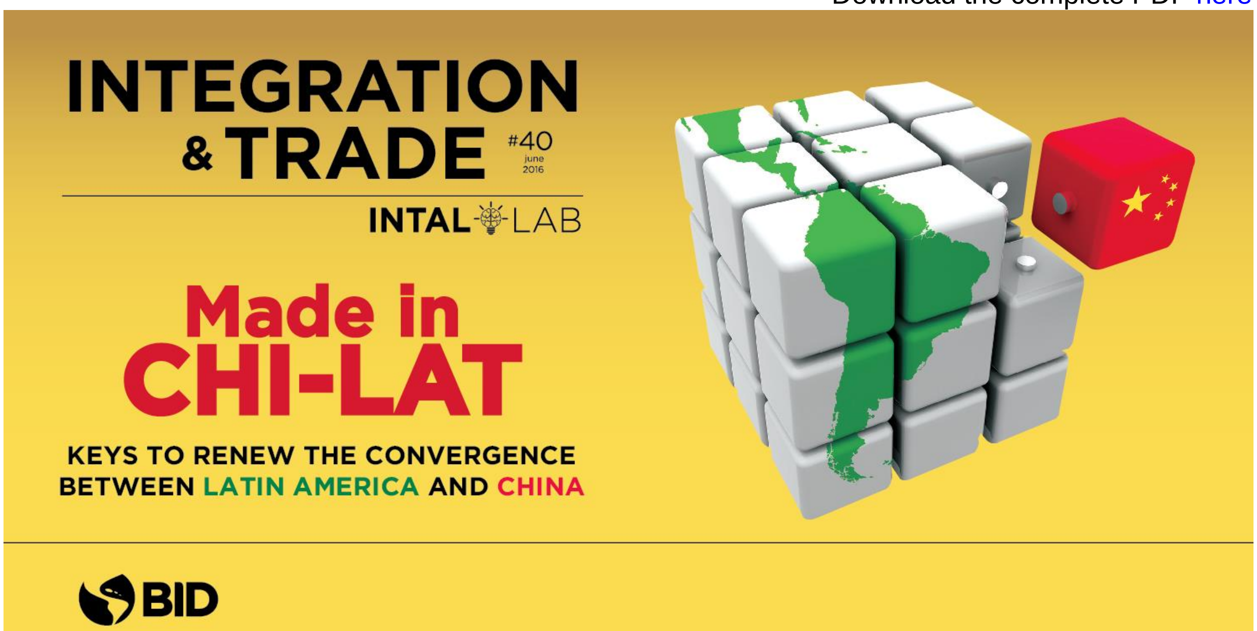
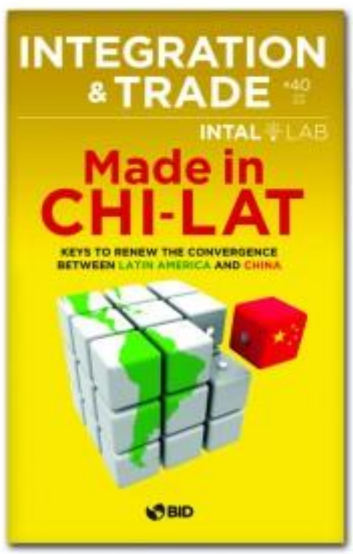


The seminar on the outlook for relations between China and Latin America (link in Spanish) took place on June 8, 2016. Over the last decade, China has become the main trading partner for many countries in Latin America and the Caribbean. Between 2003 and 2014, its trade with Latin America grew at an average rate of 18%, but 50% of exports were concentrated in four primary sector products: soy, copper, iron, and oil. Despite slower growth rates and lower commodity prices, the upward trend continues, and trade with China is expected to pass the US$500 billion mark by 2024.

The broadening of relations between China and Latin America and the Caribbean poses many challenges of a strategic and legal nature, and illustrates the need for a regional approach that will allow **different experiences and integration efforts to converge**.

The main focus of the latest issue of the *Integration & Trade Journal,* which was presented at the seminar, was identifying keys to consolidating the region's connection with China during this new phase. At INTAL-Lab, the space for the co-creation of inspiring ideas run by the Institute for the Integration of Latin America and the Caribbean (INTAL), academics who specialize in different aspects of this bilateral relationship analyzed the recent transformations that China has undergone, how these could impact the region, and what the alternatives are in terms of building a more mature relationship that would move beyond the **mere exchange of primary products for industrial goods**.



The new issue of the *Integration & Trade Journal* was presented by INTAL Director Gustavo Beliz and Wang Liang, Commercial Attaché at the Chinese Embassy in Argentina. Those who took part in a panel discussion on the future of the demand for food, which analyzed how to add value to natural resources, included Martín Piñeiro, Director of the Committee on Agriculture at the Argentine Council for International Relations, and Eduardo Bianchi, Co-Holder of the WTO Chair at FLACSO, Argentina. The panel was moderated by Félix Peña, Director of the International Trade Institute at the ICBC Foundation, Argentina.

Certain strategic aspects of Latin America's relationship with China were analyzed in presentations from Carlos Escudé, Lead Researcher at CONICET; Pablo Ferrara, former professor at Xiamen University, China; Luciano Bolinaga, Interamerican Open University; Marcos Jaramillo Contreras, Catholic University of Chile; and Juan Ignacio Stampalija, Austral University, among other experts present.

For more information and to download the complete program, please visit INTAL's website (link in Spanish).

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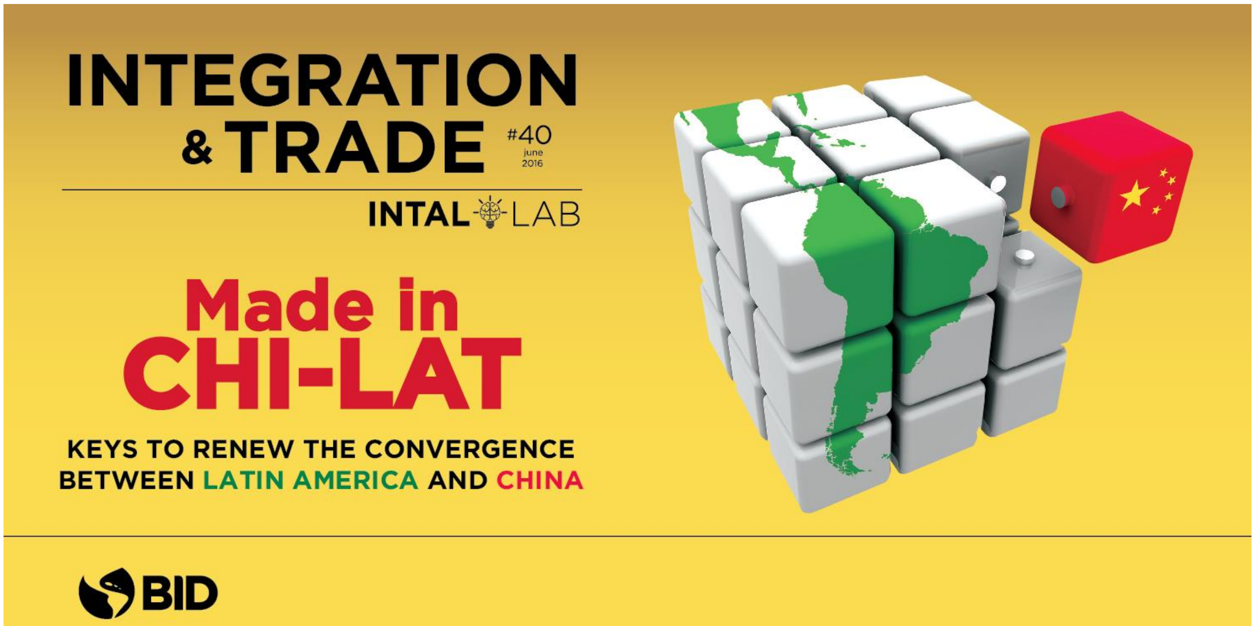

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Confucius wisely said that he who neglects the future will probably encounter worries very soon. Few topics are as relevant to the future of Latin America and the Caribbean as its integration strategy with China and the impact that the new geopolitical chessboard will have on the region's economies.

This is why the Institute for the Integration of Latin America and the Caribbean (INTAL) has focused the latest issue of the *Integration & Trade Journal* on rethinking relations between Latin America and China. The 40th issue of the journal includes exclusive interviews with Nobel Prize winners and other high-profile figures, unpublished academic papers, and case studies of Latin American firms that have managed to triumph in the Chinese market.

We analyze the recent transformations in the Chinese economy, how these have impacted Latin America and the Caribbean, possible outlooks for China's demand for food, and the public policies that might contribute to promoting innovation and closing the technological divide between China and our region.

From this issue onwards, as the result of a new partnership with the publishing house Editorial Planeta, the *Integration & Trade Journal* will be available in book format in all good bookstores to make it easier to read and its contents more widely available.

The link between China and Latin America and the Caribbean needs to be renewed in the light of current geopolitical transformations. This agenda is essential to development: in only a few years, China has gone from being a relatively minor market to becoming one of the region's main trading partners, taking the place of more traditional destination markets for exports and starting to provide vital flows of financing to the region.

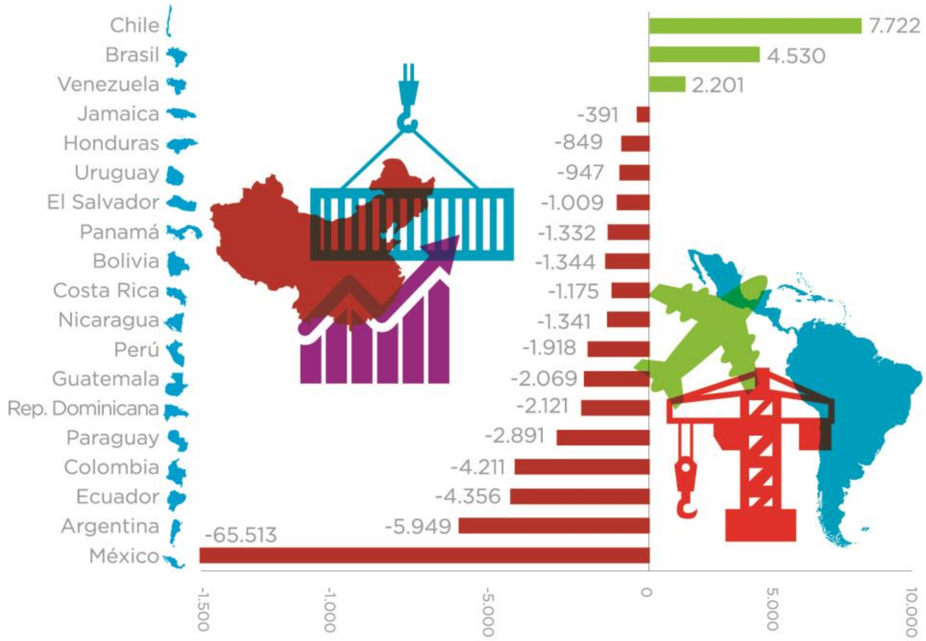
Most countries in Latin America and the Caribbean have taken advantage of China's growing needs for raw materials and foodstuffs, some more directly than others, and have decided to ride the wave from the Far East by simply cashing in on their natural endowments.

A series of factors has enabled China's exponential growth in recent decades: the pursuit of innovation, increased productivity, and an outlook that focuses on the long term, to name but a few. In 2010, China overtook Japan to become the second-largest economy in the world, with a share of approximately 15% in global GDP. In 2015 it completed its 12th Five-Year Plan, which aimed to consolidate the country as a world power. In 2016, the 13th Five-Year Plan was launched, which focuses on strengthening domestic consumption and private investment and positioning capital in strategic sectors.[1]

The convergence was almost automatic. Bilateral trade went from US$18 billion in 2004 to US$260 billion in 2014. At present, 36% of LAC's total mining exports, 12% of its food exports, and 10% of its energy exports are to the Chinese market.

Figure 1. Balance of trade with China

In millions of US$, selected countries from Latin America, 2014



Source: Prepared in-house with data from INTradeBID.

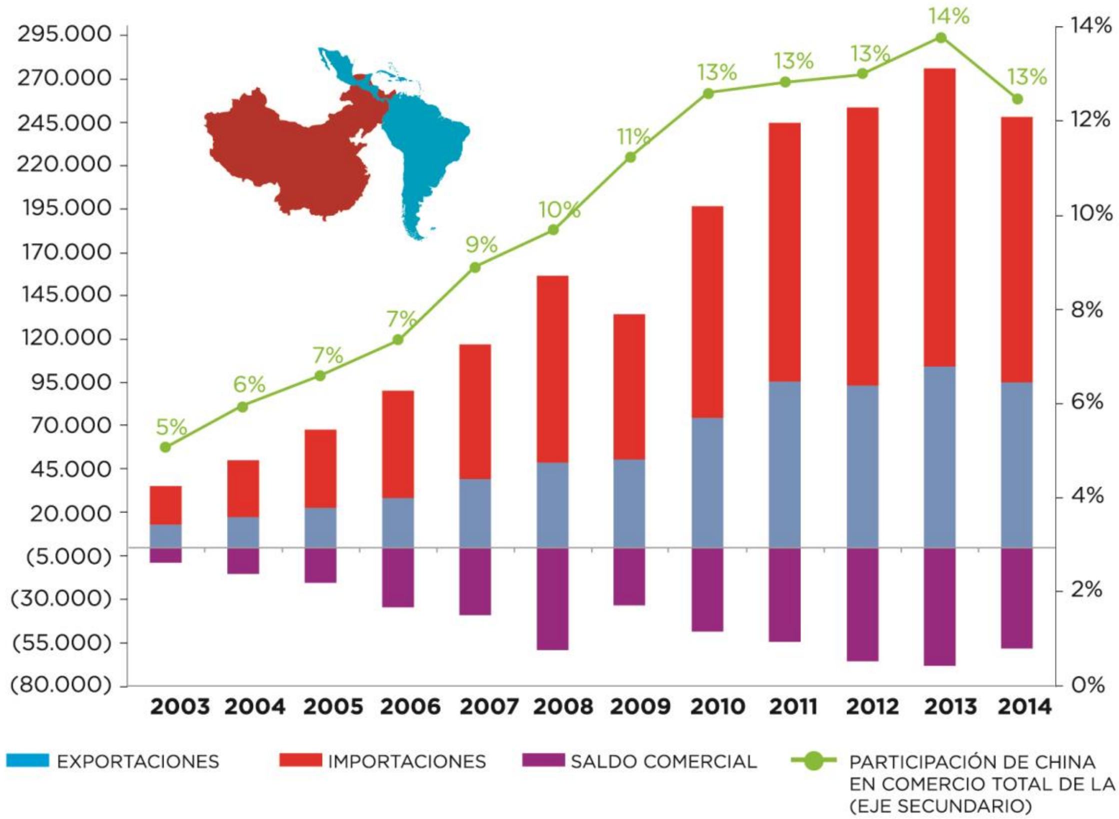
However, China is going through a process of transformation that raises many questions, one in which three patterns are simultaneously at work.

First, China has redesigned its trade strategy, driven by the explosive growth in its productivity and its expansion into other sectors and markets. There is a correlation between the density of its trade ties and the influx of Chinese investment in other countries for financing infrastructure and other public works projects, as Song and Wagner at the University of Chile have shown.[2]

After extraordinary growth, the Chinese economy is now expanding at a lower rate than in the last 30 years, which has been putting the brake on global markets. The consequences for Latin America and the Caribbean are immediate: 60% of the region’s external sales are made up of commodities and almost 20% are hydrocarbons. The drop in the prices of raw materials (especially oil) has abruptly reduced the value of exports from the region.[3]

Figure 2. Latin America's Total Trade with China

In millions of US$



Source: Prepared in-house with data from INTradeBID.

There is, therefore, a growing risk of suffering the backlash of increased dependence and the primarization of exports. These are the effects that come from a boom followed by a shift in the cycle, which is reflected in a decrease in commodity prices, as has been seen in recent years. The commodity boom could have given rise to a typical case of Dutch disease and the exposure and vulnerability that tend to follow it. The difficult remedies to this would have been the early establishment of counter-cyclical funds and the launching of active policies to encourage export diversification so as ease the problems of a trade profile that has come to revolve around primary products.

The second prevailing tendency is taking place within the financial sphere and is another key piece of the transformation that is underway. With new banking institutions (AIIB, NDB), the gradual opening up of capital markets, and greater exchange rate flexibility, China has set out to internationalize its finances.

The risks for Latin America and the Caribbean are associated with the potential contagion of financial volatility and spillover effect of sudden market movement. In this sense, macroeconomic stability, reputation, and clear rules of play are potent antidotes when risk aversion begins to rise and capitals start a flight to quality. What lies ahead is the challenge of resisting the temptation to reduce China's role to that of a lender of last-resort and to instead rationally optimize available resources for financing infrastructure.

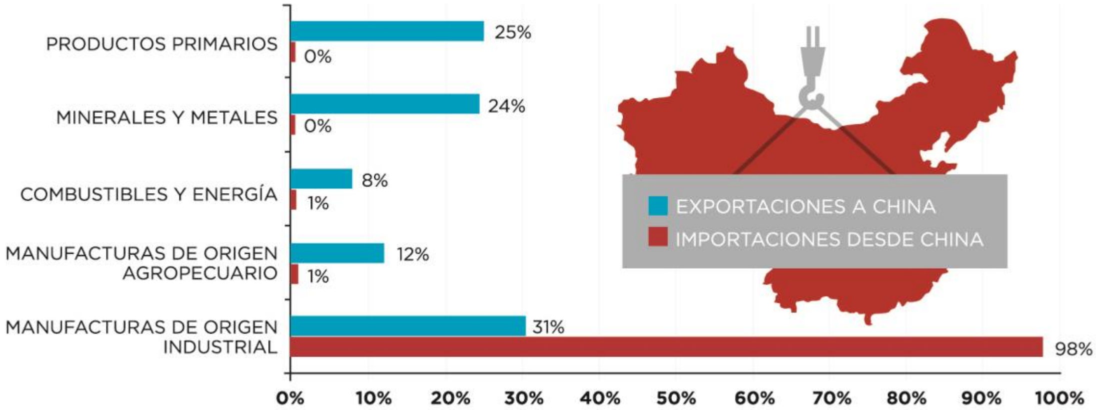
The third tendency is technological change, which could modify the way we relate to the world, just as the advent of the car, the telephone, or the internet did. China is at the forefront of that disruption. According to a recent report from the Oxford Martin School, China has replaced the United States as the leading market for industrial automation. Some 77% of Chinese jobs are at risk from automation, which is much higher than the 57% average for OECD countries.[4]

How will these exponential technological changes impact Latin America and the Caribbean? In November 2015, *China Daily* reported that a Chinese consortium will open the largest cloning laboratory in the world in the city of Tianjin, where it expects to produce a million heads of cattle per year.[5] The vision of a China that specializes in products intensive in cheap labor and is a food importer is turning out to be somewhat naïve.

During his presentation at INTAL 50, the event to mark the institution's 50th anniversary, Raymond McCauley (video in Spanish) of Singularity University argued that before long supermarkets will be stocking hamburgers made in labs through genetic and biotech processes. Firms such as Memphis Meats, Mosa Meat, and Modern Meadow are competing in Silicon Valley to be pioneers in popularizing and lowering the cost of artificial meat. We need to pay attention to this: the MERCOSUR alone exports US$9 billion of beef per year.

Figure 3. Breakdown of Trade with China, by Major Items

Share in percentages, 2003–2004, in millions of US$

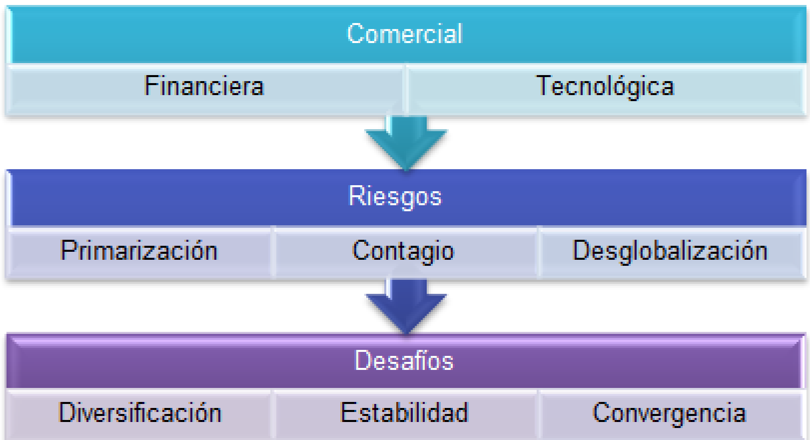


Note: China includes trade for the mainland territory of the People's Republic of China in addition to Taiwan and the Macau and Hong Kong Special Administrative Regions.
Source: Prepared in-house with data from INTradeBID.

Estimates show that a 10% increase in R&D investment translate into an almost 2% surge in total factor productivity, and China is planning to raise its R&D investment from 2% to 3% of its GDP (a 50% increase) by 2020.[6]

Latin America and the Caribbean urgently needs to keep up with the pace of global innovation and establish technology exchanges and knowledge transfers that enable it to avoid technological deglobalization, while also analyzing the future impact of new technologies on its productive structure and trade.[7] Cooperation to close the technological divide between the two regions could be achieved through mutually beneficial agreements.

Figure 4. The Chinese Economy: Trends, Risks, and Challenges for Latin America and the Caribbean



Source: Compiled by the author.

In addition to the risk of technological deglobalization, there are other forces at work in a similar direction, such as currency wars or the oligopolistic concentration of production techniques.[8]

In this context, the question that guides this issue of the *Integration & Trade Journal* is what position Latin America and the Caribbean should take vis-à-vis the new outlook for China. In it, we emphasize new problems in order to construct a point of reference regarding how the region should face these three tendencies.

We begin our exploration by getting the lay of the land from the perspective of **structural transformations**, as Margaret Myers (Inter-American Dialogue), Carlos Moneta (University of Tres de Febrero), Evan Ellis (US Army College), Dominik Hartman (MIT), and Rhys Jenkins (University of East Anglia) explain the keys to China's progress, the outlook towards 2030, the opportunities associated with the New Silk Road, and the relationship between growth and social inclusion.

From the perspective of **trade,** Kevin Gallagher (Boston University), Mauricio Mesquita Moreira (BID), Tang Jun (Zhejiang International Studies University), and Romina Gayá and Rosario Campos (INTAL) analyze the future of trade with China and the prospects opened up by its market economy status at the WTO.

From the perspective of **food security and energy sustainability**, Yang Wanming (China's ambassador to Argentina), Nelson Pizarro (CODELCO), Martín Piñeiro and Eduardo Bianchi (Grupo CEO), and Iacob Kosh-Weser (US Department of Commerce) examine the synergies between Latin America and the Caribbean and China in mining, energy, and food.

From the perspective of **innovation,** Eric Warner (Rand Corporation), Gary Gereffi (Duke University), and Pamela Aróstica (Free University of Berlin) explore China's decisive move towards the knowledge-based society, new production processes, development financing, and Latin America and the Caribbean's capacity to move forward towards the knowledge-based society.

Throughout this issue of the journal, it will become clear that the relationship needs to move beyond the easy, automatic complementarity phase (2000–2008) and the post-crisis impasse (2009–2014), to a new stage of intelligent convergence. The years of passive adaptation are over. Instead, a change of strategy is required that will come hand-in-hand with strong initiatives. The partnership that was once natural must now be sought out through public policies for active integration. Edmund Phelps, winner of the Nobel Prize in Economics, uses the perfect metaphor for this in the first article in this issue: the low-hanging fruit has already been picked and we will now need to work harder to achieve the same results.

The characteristics of this new phase are very different to those that went before it, and it thus demands that we take a different approach. Macroeconomic and financial volatility, low commodity prices, and lower growth rates are just some of the factors that are weakening the link between China and Latin America and the Caribbean, which is based entirely on trade.

Likewise, it will be more difficult to reap the benefits of the integration with China that countries in the region previously achieved at the individual level. The new forces of globalization are unfolding in the form of regional mega-agreements, in which negotiation and cooperation between countries occupy prime positions on the agenda.

In a changing world, this journal provides information and research from world-class authors and suggested reading for those who are interested in the complexities of the relationship between China and Latin America. It puts forward different visions of how to forge deeper ties between the two regions, learn from experience, and take advantage of the new context. We need to rethink and strengthen our connection with China so that it can grow to maturity on the basis of mutual trust.

We are not starting from scratch. In terms of multilateral cooperation, there are relevant past experiences such as the MERCOSUR–China dialog, which began in Beijing in 1997 and which led to successive rounds of meetings in 2000, 2003, and 2004. In mid-2012, former prime minister of China Wen Jiabao visited Brazil, Uruguay, and Argentina and expressed his interested in moving towards a free trade agreement with MERCOSUR countries, which led to a feasibility study. But the idea of joint negotiation lost momentum, and bilateral agreements proliferated, such as the Strategic Partnerships with Argentina and Brazil, or the different Cooperation Agreements currently in force with Uruguay and Venezuela, to mention only those with the MERCOSUR.

As is revealed in the article by Renato Baumann (IPEA) and the negotiation experiences of Costa Rica, Peru, and Chile, the new type of "made-to-measure" agreements that we describe here are vital precedents from any regional perspective.

In November 2015, experts from China and Latin America took part in the international seminar entitled The Economic Relations between China and Latin America and the Caribbean: a Prospective Vision, organized by INTAL. At the event, there was debate around the potential of non-traditional exports, the cultural challenges that businesspeople face when entering new markets, and the need to reduce logistics and transportation costs so as to improve the region's competitiveness. Trade, not aid, was the motto that representatives from both regions agreed on.[9]

The recipe to mitigate crosswinds may contain multiple ingredients: diversifying exports, integrating into global value chains, supporting small and medium-sized enterprises, reducing trade frictions, training government officials, moving towards regulatory transparency,[10] increasing the incentives for local competition and external cooperation, broadening the scale of policy transfers, improving environmental standards, promoting food security, social inclusion, investment in innovation and technology, incorporating value added, and generating quality employment.

The time of plain sailing on fair winds from the east is over. It is time to plot a creative route forward and lucidly calibrate an integration strategy that will allow us to move past the difficulties that the stormy waters of 21st-century globalization have laid before us. To return to Confucius, we need to do more so that we can worry less. The opportunities are out there.

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[1] IDB/INTAL (2015).

[2] Between 2005 and 2014, 40% of the loans Latin America and the Caribbean received from China were for infrastructure projects. For more on this, see Gransow (2015).

[3] Giordano (2015). The report shows that between July 2014 and June 2015, the value of global trade went down by 11.8%, which represents a downturn one-third the size of the trade collapse of 2008–2009.

[4] Frey, Osborne, and Holmes (2016).

[5] Jiang (2015).

[6] For more on this topic, see the document from the World Bank and the Center of Research for Development (2013). For more on the impact of productive shocks, see Gruss (2014).

[7] In issue 39 of the *Integration & Trade Journal*, we took a detailed look at the impact of new technologies on trade and regional integration.

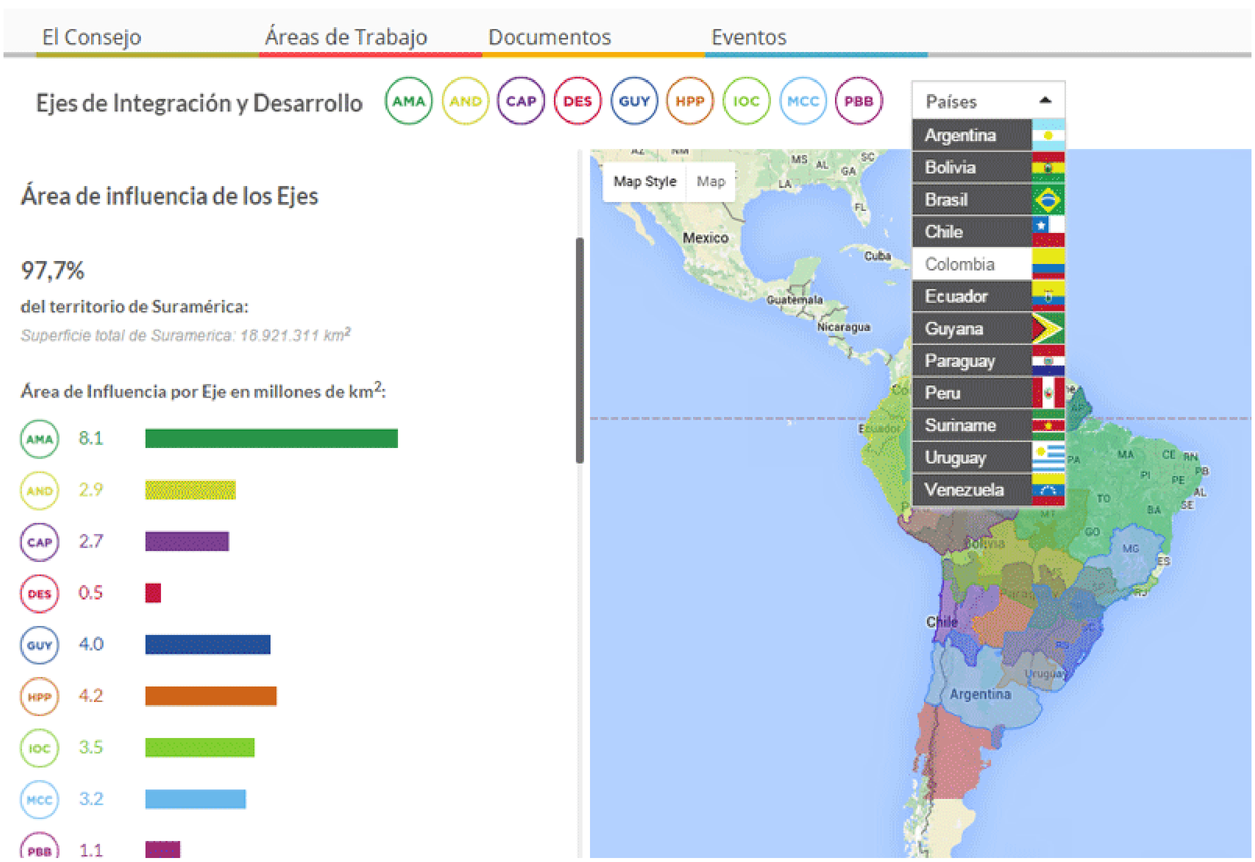
[8] One example of concentration could arise in the primary sector with genetically modified seeds.

[9] INTAL (2015).

[10] ICTSD (2016).

New Platform on Infrastructure in South America

- [Inspiring Activities]
- [n237]



By launching this new multimedia platform, IIRSA has risen to the challenge of providing local, regional, and international users with the possibility of engaging with a large quantity of **official, transparent, up-to-date information**. Furthermore, the aim is to articulate physical integration projects with the territories they are being carried out in, through descriptions of the economic, social, and environmental aspects of the different Integration and Development Hubs, which were created between 2013 and 2015 as part of the COSIPLAN Work Plan.

Not only does the site have an attractive contemporary design, it also includes an interactive space and multimedia features, through which users can get to know their country's and the region's infrastructure works in terms of their specific geographic location. The development of the site was coordinated by INTAL in its role as the Secretariat of the COSIPLAN/IIRSATechnical Coordination Committee, within the UNASUR framework.

Citizens from all over South America will have instant access to interactive data and maps for the nearly 600 infrastructure projects.

The multimedia section introduces the COSIPLAN Integration and Development Hubs, which are multinational land areas that include natural resources, human settlements, productive areas, and logistics services. These hubs allow integration infrastructure projects to be identified and agreed on through a vision that is shared by the 12 countries that make up the region.

The new site draws on data from the COSIPLAN Project Information System (SIP) and enables all users to visualize information interactively, be they government officials, researchers and academics, or members of the general public. To date, it has received some 50,000 visits per year.

The page is testimony to the work that has been undertaken in recent years planning and implementing regional infrastructure, and raising the profile and clarifying the location of projects being carried out in one, two or more countries in South America.

The COSIPLAN Project Portfolio brings together infrastructure works that will have a significant impact on integration and socio-economic development in the region. The portfolio is made up of transportation, energy, and communications projects that promote regional connectivity and generate sustainable social and economic development.

As of October 2015, the COSIPLAN Project Portfolio included 593 integration projects for an estimated investment of US$182.44 billion, distributed throughout South America. As part of the COSIPLAN Work Plan 2016, the projects that form part of the portfolio are currently being revised and updated.

Integration in Motion

Mexico and China Promote Political Dialog

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In the framework of the China–Mexico Comprehensive Strategic Partnership (link in Spanish) established in 2013, the Mexican Minister of Foreign Relations, Claudia Ruiz Massieu, met with the Communist Party Secretary of Guangdong province, Hu Chunhua, to discuss matters of economic development. Guangdong province is Mexico's main trading partner within China, which is why the meetings took place there. This year also marks the 10th anniversary of the establishment of a Mexican Consulate General in Guangzhou, the first Latin American consular post in the city.

The partnership between the two countries was developed during the official visits of presidents Enrique Peña Nieto and Xi Jinping to China and Mexico, respectively, in 2013 and 2014. On the basis of those encounters, two specific objectives were established for Mexico. On the one hand, market access: to obtain greater access to China's agrifood sector and improve conditions for consumer goods that Mexico already exports. On the other hand, attracting investment: to facilitate technology transfer and investment that would help fill in the missing links in Mexico's global value chains, and build infrastructure that would contribute to strengthening Mexico's integration into the global economy.[1]

[1] Dussel Peters, E. (editor). 2016. La relación México-China: desempeño y propuestas para 2016–2018. Mexico: UNAM.

The OECD Increases its Presence in the Region

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- International Scenario
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The Secretary General of the Organisation for Economic Co-operation and Development (OECD), Ángel Gurría, launched the OECD Latin America and the Caribbean Regional Programme in Santiago de Chile.

At the event, Mr Gurría presented the program, which will become official in June following the signing of a memorandum of understanding. The aim of the program is to support key priorities for the region in three areas: increasing productivity, enhancing social inclusion, and strengthening institutions and governance.

In his speech (link in Spanish), Mr Gurría stressed the need to articulate public policies that will lead to productivity increases: "It is important for this to guarantee social inclusion by reducing inequalities and offering equal opportunities. This will only be achieved by investing in the education, health, and skills of the entire population, and by facilitating the creation of better, formal jobs through greater and better integration into global value chains."

He also underlined that the program is an initiative in which the OECD is aiming to act as an agent to "facilitate dialog between peers based on evidence and expert analysis so as to find solutions to shared problems." Likewise, he mentioned other organizations—such as the IDB and the CAF—that will also be included in this joint work by providing support and assessment or exchanging experiences. The program was launched at the headquarters of the Economic Commission for Latin America and the Caribbean (ECLAC).

Founded in 1961, the OECD brings together 34 countries with the goal of promoting policies that improve global economic and social well-being. In Latin America and the Caribbean, Chile and Mexico are full members, Colombia and Costa Rica are in the process of joining, Brazil and Peru are beneficiaries of specific programs, and other countries—such as Argentina—have expressed their interest in becoming members.

The MERCOSUR and the European Union Move Closer to Exchanging Offers

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- International Scenario
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On May 11, 2016, representatives from the MERCOSUR and the European Union met in Brussels to negotiate access to their respective markets for goods and services and government procurement, as the European Commissioner for Trade, Cecilia Malmström, and Uruguay's Minister of Foreign Affairs, Rodolfo Nin Novoa, announced several months ago.

This is the first firm exchange of offers since 2004 and aims to foster the process of negotiation between the two parties in light of the major economic and political benefits that a formal agreement could mean for each region. The specialists Adrián Makuc, Gabriela Duhalde, and Ricardo Rozemberg describe the process of these meetings in their publicationMERCOSUR–European Union Negotiations Twenty Years on from the Framework Cooperation Agreement: Quo Vadis? (link in Spanish).

The outcome of the meeting was that EU and MERCOSUR officials agreed for their chief negotiators to meet in Uruguay before the European summer break to take stock of negotiations and put together a meeting schedule for the second half of 2016.

Colombia and Chile Reach New Cooperation Agreements

- Andean Group
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- Regional Panorama

At a meeting held on May 18, 2016, government officials from Colombia and Chile reviewed issues on the bilateral agenda, giving special attention to matters relating to trade and investment; the significant and growing cooperation around security and defense; cooperation programs in relation to science and technology, culture, and education; Antarctic affairs; and cooperation in relation to mining and migratory and consular matters.

In agricultural matters, Colombia stated its interest in learning more about Chile's extensive experience in irrigation. The Colombian delegation was led by the Director for the Americas at Colombia's Ministry of Foreign Affairs, Patricia Cortés, who was accompanied by the Colombian Ambassador to Chile, Mauricio Echeverry. Representing Chile was the Director of South American Affairs, Rodrigo Nieto.

Colombia and Chile have had a Strategic Partnership since August 2011, governed by a council that is the highest decision-making organ for this bilateral mechanism and which is chaired by the two countries' foreign ministers. The council last met in October 2015.

Ecuador Expands its Commercial Ties with Iran

- Andean Group
- Integration in Motion
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- Regional Panorama

The delegations led by the Minister of Foreign Affairs and Human Mobility (link in Spanish)**, Guillaume Long, and the Ambassador of the Islamic Republic of Iran, Ahmad Pabarja, met in Ecuador on May 16, 2016, and** stressed the importance of the relationship between Ecuador and Iran in recent years.

The meeting opened up lines of discussion that channeled the two countries' intentions to continue strengthening bilateral relations through joint efforts and concrete measures.

The two officials welcomed the recent passing of the trade agreement between the Government of the Republic of Ecuador and the Government of the Islamic Republic of Iran, which took place at the plenary session of Ecuador's National Assembly on May 12, 2016.

The agreement will open up new export possibilities for Ecuadorean products such as bananas, cacao, meat, and seafood to Iran, which has a population of over 80 million people.

Iran also expressed its interest in taking part in the reconstruction of the areas destroyed by the earthquake that struck Ecuador in April 2016, through the involvement of Iranian firms with extensive experience in earthquake-resistant building techniques.

Peru and Chile Analyze Border Integration

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- Integration in Motion
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- Regional Panorama

As part of the work being carried out by the Peru–Chile Border Integration and Development Committee (link in Spanish) (CIDF), a working meeting was held in Arica, Chile, on May 11, 2016.

This bilateral mechanism is established every year to bring together the national, regional, and local authorities involved in the different areas of cooperation and complementarity relations between Tacna and Arica. A mid-term meeting was also held to monitor the agreements reached and to outline the integration agenda.

The meeting (link in Spanish) was chaired by authorities from Peru's Directorate for Border Integration and Development and Chile's National Directorate for State Borders and Frontiers, both of which depend on their respective countries' ministries of foreign affairs. Their aim was to evaluate progress on border integration, together with the consul generals and government officials from the policy and cooperation areas within the two foreign ministries and each country's embassy in the other country.

Finally, information was also exchanged regarding the progress that has been made on the implementation of an integrated border control system at the border facilities in Santa Rosa and Chacalluta, which the two countries have agreed on, in order to identify the actions needed for the system to begin operations shortly.

Andean Business Forum

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- Regional Panorama

More than 360 exporting firms from the region participated in the 5th Andean Business Forum (link in Spanish), which took place in the framework of a Macro Business Roundtable between exporters and importers from the member countries of the Andean Community (CAN) in Guayaquil on April 27 and 28, 2016.

The goal of the meeting was to strengthen production, employment, and commercial ties between CAN member countries through the Business Roundtable and a meeting of the Andean Committee of Export Promotion Authorities.

In this 2016 event, the focus of attention was on food and fisheries, textiles and apparel, metalworking, construction materials, containers and packaging, leather products and footwear, and pharmaceutical products, for which a total of at least 2000 business meetings took place.

The Andean Business Forum has been held since 2012 with the support of the Andean Export Promotion Agencies: PROMUEVE Bolivia, PROCOLOMBIA, PROECUADOR, and PROMPERÚ, in conjunction with the General Secretariat of the Andean Community.

European Commission Appeals Argentine Biodiesel Ruling

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- Southern Cone

EU authorities have formally appealed the WTO ruling in favor of Argentina. The organization had concluded that the European Commission had miscalculated the cost of producing biodiesel, which would imply that the EU tariff, which was set at 24.6% in 2013, violated WTO standards.

Continuing the dispute at the WTO (INTAL Connection no. 235, “Ruling on Biodiesel in Favor of Argentina”), the European Commission defended the tariff by arguing that Argentine biodiesel benefits from tax relief, which allows it to sell its output for less than the cost of manufacturing, which experts consider to be dumping. The EU argues that Argentina thus competes with an unfair advantage over European producers.

Two months after the WTO ruling in favor of Argentina, the EU announced that it would appeal the decision because it believes that even though the panel of WTO experts “was critical of some aspects of the application of these regulations in the process that led the EU to impose anti-dumping measures on biodiesel in 2013”, it also rejects Argentina’s request that EU anti-dumping laws be considered a violation of WTO standards.

The EU imposed tariffs on Argentine biodiesel following pressure from the European Biodiesel Board, a group that defends the interests of European biodiesel producers.

Argentina is the world’s largest producer of biodiesel. According to the data used by the European Commission, which was gathered by AFP, in 2012, 90% of Argentine biodiesel exports were to the European market. These sales plummeted after the EU tariff was imposed.

Uruguay and Brazil Address Border Issues

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- Southern Cone

The 2nd Meeting of the Committee on Border Issues took place on May 4, 2015, and was chaired by Uruguay's Foreign Minister Rodolfo Nin Novoa. Those present also included representatives from Uruguay's executive branches, the Minister of Social Development and the Minister of the Economy, and the mayors of the departments of Artigas, Cerro Largo, Rivera, Rocha, and Treinta y Tres, all of which lie on the border between the two countries.

The first meeting on this matter took place on February 23, 2016, and was followed by the High Level Meeting (HLM) on the Uruguay–Brazil Border Cooperation and Development Agenda which took place in Brasilia on April 18 and 19, 2016.

On this occasion, those present underlined the recent progress that has been made and the solutions being considered by the executive branch. The Deputy Director of the Office for Planning and Budget put forward a list of projects that are currently underway and that impact departments on the border. Uruguay's Minister of Social Development, Marina Arismendi, described in detail the actions that the ministry is undertaking in the border zone using FOCEM funds.

Mr Nin Novoa brought the meeting to a close by expressing his willingness to prioritize border issues and continue holding meetings for the purpose of dialog and consultation.

First Bioceanic Corridor Meeting Held

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- Regional Panorama
- Southern Cone

The first meeting of the Working Group on Bioceanic Corridors (link in Spanish) was held in Antofagasta on May 5, 2016. Present at the event were government officials and representatives from private firms from Brazil, Argentina, Chile, and Paraguay, who met to agree on a corridor that will connect the state of Matto Grosso, in Brazil, with the ports in the Norte Grande area in Chile, in keeping with what the countries in question committed to in the Declaration of Asunción (link in Spanish) in 2015.

The aim of the initiative is to connect the South American Atlantic coast with the Asia Pacific. The General Coordinator of Economic Affairs for South America at Brazil's Ministry of Foreign Affairs, João Carlos Parkinson de Castro stressed the fact that "this corridor will provide access to the sea for provinces in three countries: the south of Brazil, the north of Argentina, and Paraguay."

Paraguay would gain a space in the Antofagasta area known as La Negra, where it could set up its industries and trade departments. A similar benefit would be established for Chile, which is one of the countries that is most firmly committed to the project, as is outlined in the article in INTAL Connection no. 233: Chile Reiterates its Commitment to Bioceanic Corridors Chile would then have a space of its own in the city of Villeta, 20 kilometers from Asunción, on the Paraguay River.

The meeting included a series of presentations from guest speakers to improve trade between the countries mentioned and to consolidate a service-providing logistics platform.

Argentina Deepens its Ties with Japan

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- Southern Cone

Argentina's Vice President Gabriela Michetti met with the Prime Minister of Japan, Shinzo Abe, on May 11, 2016, with the aim of finalizing the agreements he reached with President Mauricio Macri at the Nuclear Security Summit in Washington, DC, on April 1, 2016.

The meeting led to invitations for President Macri to visit Japan and for Prime Minister Abe to visit Argentina in order for the two countries to continue to consolidate their ties, which will be particularly relevant now that Argentina has expressed that Japan is a priority country in terms of foreign relations. For this reason, Ms Michetti gave Prime Minister Abe a detailed explanation of the policies that the Argentine government has adopted to strengthen foreign relations and trade and improve the investment environment in Argentina. Mr Abe expressed his country's support for these initiatives, which form part of a set of actions to reposition the two countries on the global political and economic stage.

Diplomatic relations between Argentina and Japan reach back to the end of the 19th century, when representatives from the two nations signed a Treaty of Friendship, Commerce, and Navigation, in the United States in 1898.

On the current occasion, the two politicians exchanged views on the future work of the G-20, Argentina's aspirations to chair the group in 2018, and on its intention to join the Organisation for Economic Co-operation and Development (OECD).

Central America Makes Headway on Common Energy Agenda

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- Regional Panorama

Ministers and government authorities from the areas of energy, the environment, mining, and natural resources for the bodies that form part of the Central American Integration System (SICA) and the Mesoamerica Project met in Roatán, Honduras, from May 10 to 13, 2016, with the aim of reviewing the regional energy agenda (link in Spanish) so as to meet Sustainable Development Goal no. 7: affordable and clean energy.

The event was chaired by Honduras's Undersecretary for Energy, Elvis Rodas Flores, and those present sought to develop and consolidate plans to promote rational and efficient energy use, responding to and articulating with the Regional Plan for Energy Efficiency in SICA Countries and the work plan for the Mesoamerican Program on the Rational and Efficient Use of Energy (PMUREE).

The United States Agency for International Development (USAID) and the United Nations Environment Programme (UNEP) will also be working with these bodies to draft Central American Technical Regulations for Efficient Lighting, with the aim of presenting these at the round of negotiations of the appropriate regional authorities. The Mexican Agency for International Development Cooperation (AMEXCID) and Mexico's National Commission for the Efficient Use of Energy (CONUEE) have also pledged their support for the future work agenda.

The Additional Protocol to the Pacific Alliance Enters into Force

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- Integration in Motion
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Intent on integration into regional and global value chains through the free flow of inputs, the Pacific Alliance member countries welcomed the entry into force of the Additional Protocol to the Framework Agreement (link in Spanish), which was signed in Cartagena de Indias, Colombia, on February 10, 2014.

The document includes 19 chapters that facilitate trade in the region, eliminate barriers to trade, and establish modern trade disciplines in relation to professional and financial services, shipping, telecommunications, and e-commerce. In particular, the agreement enables 92% of products to be traded between member countries duty-free. Tariffs will also be eliminated on the remaining 8% of products in the short and medium term, with the goal of free movement of all goods, services, capital, and people by 2030. The agreement represents a major opportunity for SMEs in that it provides them with better conditions of entry into other markets, thus fostering competitive internationalization.

The Additional Protocol is a fundamental trade instrument for Chile, Colombia, Mexico, and Peru in their quest to export more competitive products to international markets, notably those in the Asia Pacific. At present, the Pacific Alliance includes 20 observer states, and Panama and Costa Rica are both interested in becoming part of the bloc. Panama has also begun negotiations with Mexico towards a Free Trade Agreement so as to be eligible to join the Pacific Alliance.

Connecting Voices

Videos on the Main Topics in this Issue of INTAL Connection

INTAL Connection no. 237.

INTAL Connection in Two Minutes.

Node i+i

Presentation by **Elena Arias Ortiz (video in Spanish)**, Education Senior Associate for the IDB's Social Sector, on how to guarantee that investment in technology will improve learning and performance at school.

Presentation by **Suzanne Duryea**, Chief Economist at the IDB's Social Sector, on the impact of the Youth and Children's Orchestras of Venezuela on integration and learning among children and young people.

Presentation by **Ramón Tejada Holguín (video in Spanish)**, Director of the Office of Information, Analysis, and Strategic Programming of the Presidency of the Dominican Republic, on the impact of extending the length of the school day in that country.

Reading Material on Integration

Which industrial sectors is South America most competitive in?

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- Notable Publications
- Reading Material on Integration

The new technical paper from IDB/INTAL, "Extraregional Exports of Manufactures from South American Countries (link in Spanish)," by Jorge Lucángeli, is the result of a process of compilation and statistical analysis that focuses on the characteristics of a segment of South American exports that have been largely unexplored.

The manufacturing sector is contributing to the goal of diversifying exports in terms of both products and markets and reducing the region's vulnerability to the ups and downs of some markets. The paper (link in Spanish) shows that exports to outside South America of non-natural resource–based manufactures increased from US$40 billion to US$55 billion in ten years, a total increase of 37.5%.

From 2011 onwards, the behavior of exports from Latin America and the Caribbean has been lackluster, as a result of the weakened demand from its main foreign trading partners and the fact that the growth rates of economies in the region have been below their potential. This is in stark contrast with the exceptional export boom that preceded this stage, which began in the early 2000s and was interrupted by the severe crisis that shook the global economy in 2008 to 2009.

The methodology used in the paper centers on the quantification and description of extraregional sales of South American manufactures according to indicators of the technological complexity, concentration, and sophistication of the export basket. The study presents a comprehensive overview of the characteristics of these flows, which is a useful basis for considering the possibilities for diversifying products and markets, a task that is currently on the agenda of governments, private sectors, and researchers who are concerned with these questions.

The section of the study that examines the current situation in the sector makes it clear that the export boom of 2003–2011 did not substantially alter the proportion of South American exports going to extraregional markets, which remained at around 80% of the total throughout this period. Nor did it affect the shares of primary products and manufactures within South America's total extraregional exports, which are distributed into roughly equal parts.

Total South American Exports, Intra- and Extraregional, by Technology Content

Biannual average

Categorías	Destino	*En millones de US$*		
		1997-1998	2003-2004	2010-2011
Total	Mundo	132.107	195.496	497.863
	Intra-regional	37.212	36.318	107.870
	Extra-regional	94.894	159.177	389.993
A. Productos Primarios (PP)	Mundo	57.816	90.053	231.402
	Intra-regional	8.577	9.837	28.553
	Extra-regional	49.239	80.216	202.849
B. Manufacturas	Mundo	74.291	105.443	266.461
	Intra-regional	28.635	26.481	79.317
	Extra-regional	45.655	78.961	187.144
B.1. Manufacturas basadas en Recursos Naturales (RB)	Mundo	32.810	46.297	152.327
	Intra-regional	7.947	7.033	20.588
	Extra-regional	24.863	39.264	131.740
B.2. Manufacturas no basadas en Recursos Naturales (NRB)	Mundo	41.481	59.146	114.133
	Intra-regional	20.688	19.449	58.729
	Extra-regional	20.792	39.697	55.404
B.2.1.Manufacturas de baja tecnología (LT)	Mundo	11.323	14.763	21.997
	Intra-regional	4.452	4.026	10.196
	Extra-regional	6.872	10.737	11.801
B.2.2.Manufacturas de tecnología media (MT)	Mundo	25.662	36.303	77.487
	Intra-regional	14.402	13.303	42.798
	Extra-regional	11.260	23.000	34.689
B.2.3.Manufacturas de tecnología alta (HT)	Mundo	4.495	8.079	14.649
	Intra-regional	1.834	2.119	5.736
	Extra-regional	2.661	5.960	8.915

Source: Compiled by the author based on data from COMTRADE and DataINTAL.

However, the one substantial modification to the shares of segments within extraregional manufacture exports arose in relation to natural resource–based goods. Before the boom, this segment represented half of extraregional exports while by the end of the period it had reached 70% of the total. This took place to the detriment of non-natural resource–based manufactures, which are generally associated with more technologically complex processes that are not determined directly by commodity markets.

It is worth noting that this shift away from more technologically complex products particularly affected Brazil. A second major effect of the 2003–2011 export boom was related to the breakdown by destination market of extraregional exports from South America. A substantive drop was observed in the USA’s share as a destination market, which affected all categories of products in terms of technology content and which unfolded in parallel with the substitution of South American suppliers with ones from other areas.

At the same time, China’s share as a destination market for South American manufactures increased, although this is strongly related to the notable dynamism of natural resource–based manufactures.

What We Think About China

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- Notable Publications
- Reading Material on Integration

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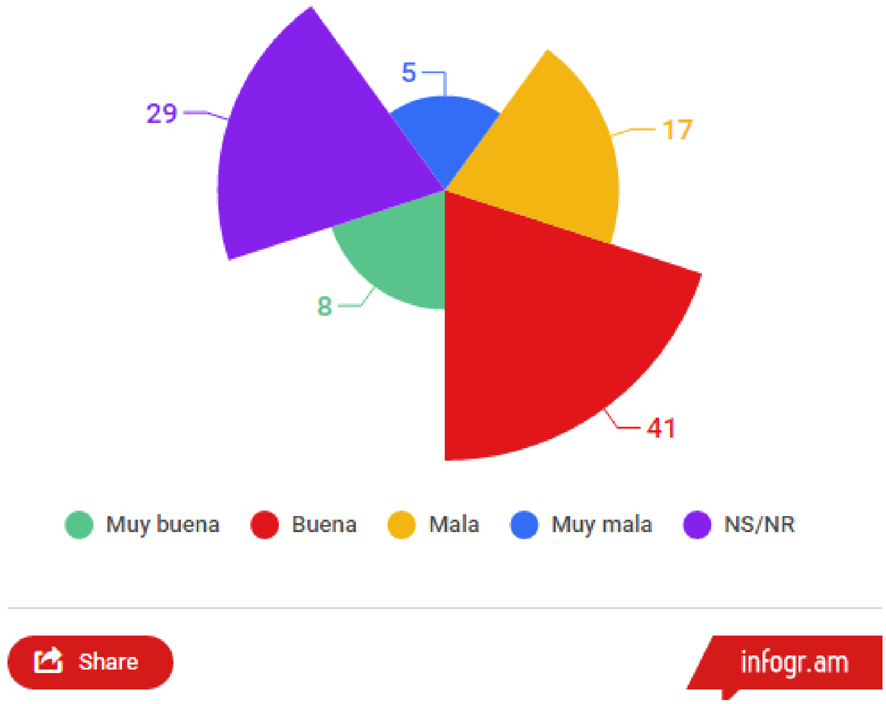
INTAL-Latinobarómetro has carried out over 20,000 surveys in 18 countries in the region and continuously monitors public opinion on the issues that are most sensitive in terms of public policy design: democracy, regional integration, living conditions, infrastructure, services, and much more so as to find out what Latin Americans and Caribbeans think. The results of the 2015 surveys are available in the technical paper entitled "Objective and Subjective Aspects of Regional and Global Integration in Latin America (link in Spanish)."

The poll includes an analysis of how Latin Americans perceive the major global economies. In recent years, as the connections between Latin America and the Caribbean and China have grown, citizens in the region have formed opinions on China and its potential to contribute to the development of local economies.

With regard to the relationship between China and Latin America and the Caribbean, the surveys show that 49% of the region's population have a positive or very positive opinion of China. In contrast, 22% have a negative or very negative opinion on China, and 29% have yet to form one. The high numbers of people with little or no knowledge on the matter (almost a third of the population) reveal the need to make headway on strategies that will enable the bulk of the population to get to know the possible outcomes of trade with China.

Figure 1. Opinion of China. Regional Total.

Q: Is your opinion of China very positive, positive, negative, or very negative?

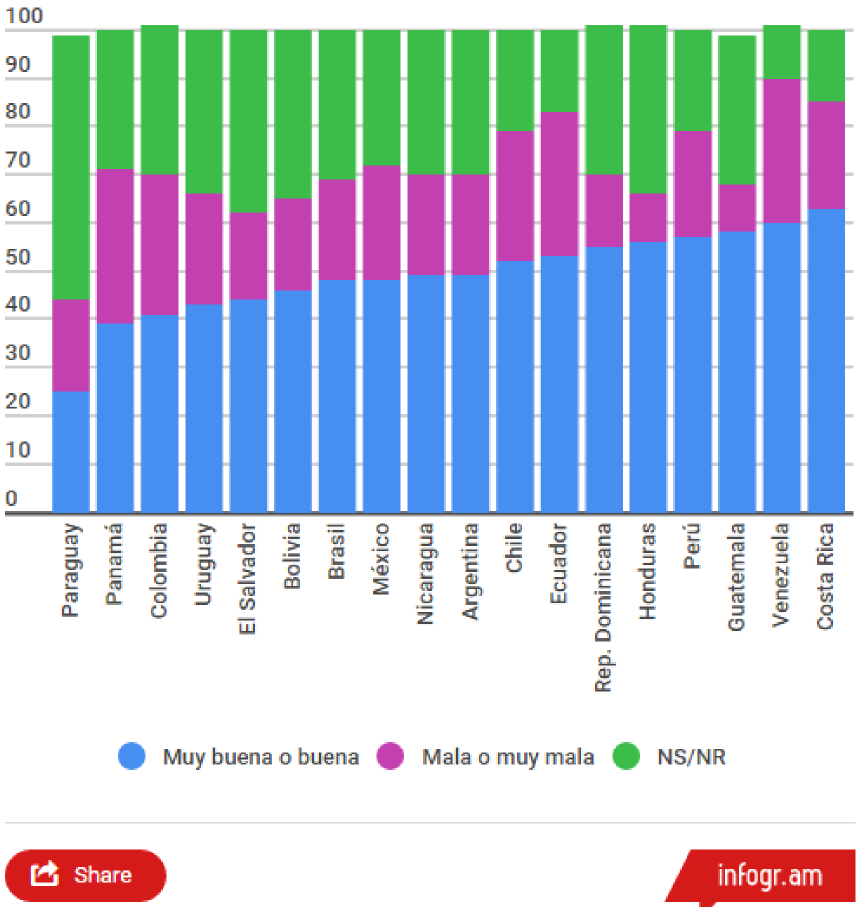


Source: INTAL/Latinobarómetro 2015.

The countries which view China in the most positive light include Costa Rica, Venezuela, Guatemala, Peru, and Honduras, all of which had positive opinion ratings of over 55%. The countries with the most negative impressions of China are Panama, Ecuador, Colombia, and Venezuela, where negative or very negative opinions were at around 30%. In Venezuela, there is a polarization of opinions as the country ranks highest in terms of both positive and negative opinions. This is due to the fact that it is also the country where the lowest number of respondents said that they did not hold an opinion on the issue or preferred not to answer (only 11% of the total).

Figure 2. Opinion of China. Country totals.

Q: Is your opinion of China very positive, positive, negative, or very negative?

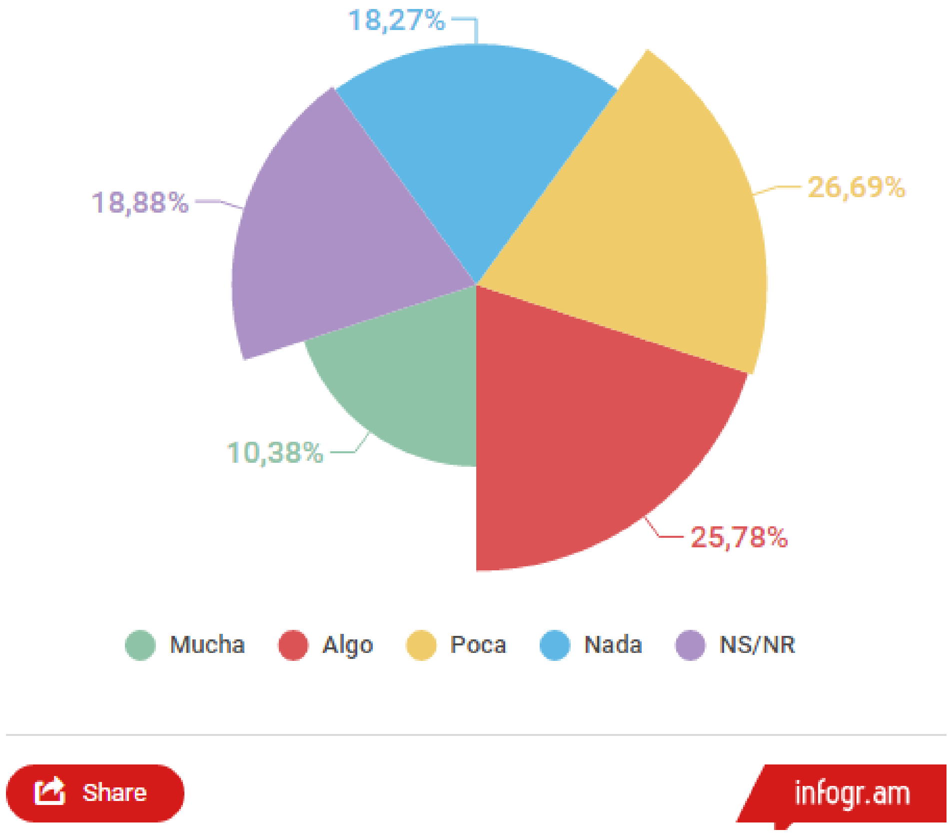


Source: INTAL/Latinobarómetro 2015.

There has been significant Chinese investment in several countries in the region, and the increase in trade with Asia has benefited production and employment in a range of sectors. Do we expect foreign powers to help us solve our problems? With regard to China, only 36% of citizens were confident that it would contribute significantly or to some degree to solving Latin American countries' problems. In contrast, 45% of people answered that they had little or no confidence in this happening, and 19% said they did not know or preferred not to answer. Unlike the previous question, the negative opinions in this regard outnumbered the positive. In other words, despite an average positive opinion of China, the majority of Latin Americans do not believe that the region's relationship with it will be a key factor in solving regional problems.

Figure 3. Opinions on China's Capacity to Solve Latin America's Problems. Regional Total.

Q: In general, how confident are you in China's capacity to solve Latin America's problems?

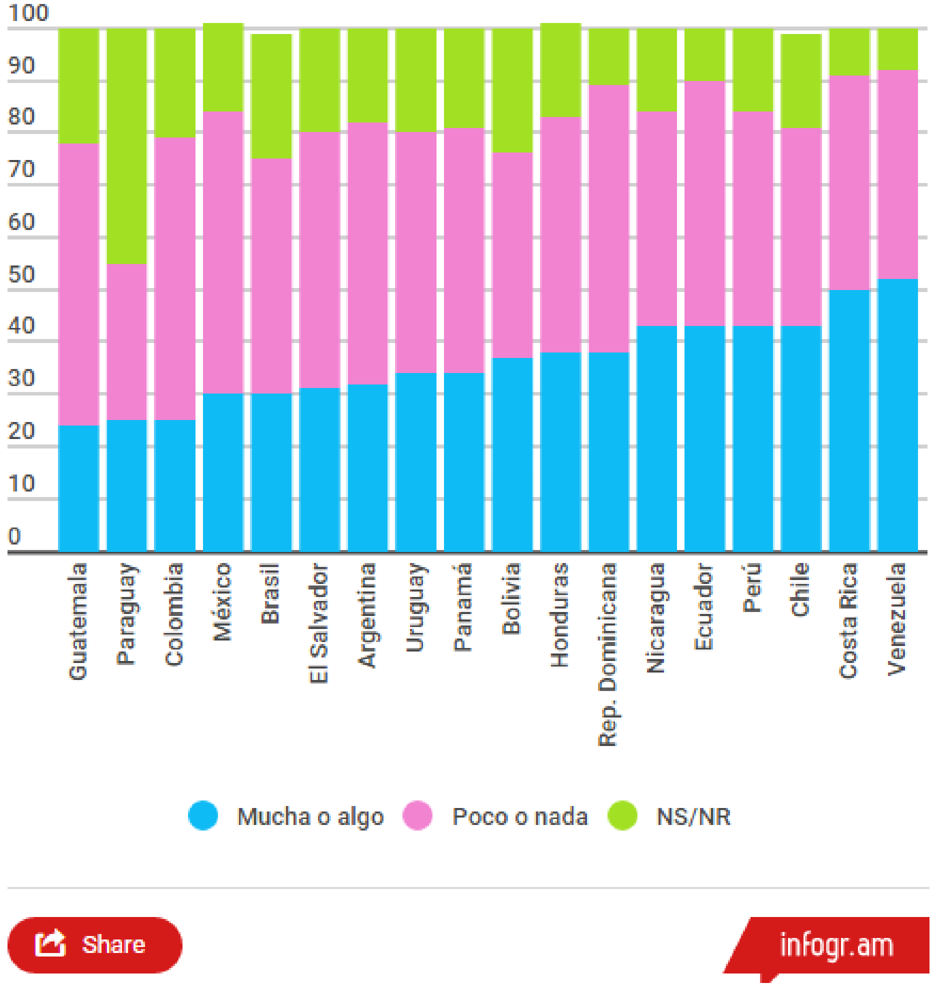


Source: INTAL/Latinobarómetro 2015.

The countries with the most confidence in China to solve their domestic problems are Venezuela, in first place, followed by Costa Rica, Chile, and Peru. In contrast, the least optimistic countries regarding China are Guatemala, Paraguay, and Colombia. It is worth noting that, in addition to Venezuela (which China has built close commercial ties with in recent years), the most optimistic countries were the three that have signed Free Trade Agreements (FTAs) with China: Peru, Costa Rica, and Chile. In these countries, positive opinions outnumbered the negative, which could reflect expectations regarding the agreements.

Figure 4. Opinions on China's Capacity to Solve Latin America's Problems. Country totals.

Q: In general, how confident are you in China's capacity to solve Latin America's problems?



Source: INTAL/Latinobarómetro 2015.

These are just a few of the outcomes of this joint venture that INTAL and Latinobarómetro launched in 2015, with the direct involvement of regional governments, thus creating a regional public good and a series of documents (link in Spanish) that will also allow these opinion polls to be compared with objective indicators provided by the countries themselves and which are available at INTRADE, the most comprehensive database on integration and trade in Latin America and the Caribbean.

Peru–Brazil–Bolivia Hub Economic and Environmental Characteristics

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- Notable Publications
- Reading Material on Integration

This hub includes areas of land in three South American countries: Peru, Brazil, and Bolivia. Its area of influence spans 1,159,504 sq km, which represents 6.5% of the surface area of South America. It is inhabited by 12,730,732 people, 3.1% of the continent's population.

This report (link in Spanish) was drafted by UNASUR's South American Infrastructure and Planning Council (COSIPLAN). The document includes eight factors for analysis: Area of Influence, Demographics, Infrastructure, Economy, Social Aspects, Environmental Aspects, Indigenous Communities, and Physical or Natural Hazards, thus providing a comprehensive vision of the characteristics of the hub and the challenges and the opportunities for integration ahead of it.

The infrastructure chapter gives an overview of the road, rail, port, airport, and waterway infrastructure, and that of related areas such as energy generation, through numbers and maps.

Opportunities in Agricultural Trade for the MERCOSUR

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- Reading Material on Integration
- Reviews

The study "Opportunities to Relaunch the MERCOSUR's International Economic Negotiations: Towards an Aggressive Agenda for Foreign Relations," focuses its analysis on how the MERCOSUR has developed in recent years, starting from the assumption that the bloc has a limited agenda for foreign relations that places little emphasis on creating employment opportunities and economic development.

The study reviews the main features of the export supply of agricultural products from Argentina, Brazil, Uruguay, and Paraguay, and of global demand for these products. It also identifies the main import markets at the aggregate level. It acknowledges that the majority of the southern hemisphere countries competing in the agrifood sector have implemented an active agenda of trade agreements that have led to a loss of preferences and the diversion of trade and investment to other parts of the world.

Of the different blocs they analyze, the authors believe that negotiations should soon be resumed with the countries of the Gulf Cooperation Council and then with the Southern African Customs Union. They estimate that this will allow the MERCOSUR to increase exports of selected products by US$7 billion.

The study establishes that the priority markets for the MERCOSUR are—in addition to the European Union—Japan, the United States, China, and Russia. Together these countries represent a potential for export growth that would allow the MERCOSUR to reach US$35 billion in foreign sales even if it only managed to capture 10% of the products selected for inclusion in this study.

The value of the study lies in the fact that it puts forward technical arguments to build an agenda that will contribute to the debate around the matter in question. There are certain conditions regarding economic, commercial, and social benefits that trade agreements with potential target markets must include.

Papendieck, Sabine; Idígoras, Gustavo; and Elverdin, Pablo, eds. 2016. *Oportunidades para relanzar las negociaciones económicas internacionales del MERCOSUR: hacia una agenda agresiva de relacionamiento externo* [Opportunities to Relaunch the MERCOSUR's International Economic Negotiations: Towards an Aggressive Agenda for Foreign Relations] (link in Spanish). Buenos Aires: GPS.

New Technologies and Trade in Cultural Goods

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- Reading Material on Integration

A recent study entitled "The Globalisation of Cultural Trade: a Shift in Consumption: International Flows of Cultural Goods and Services 2004–2013" analyzes in detail how technological factors and digital economies are transforming the ways in which cultural goods are traded and consumed. Films and music, for example, are increasingly being sold as portable digital services rather than as physical products.

This report, which was drafted by the UNESCO Institute for Statistics (UIS), explores key aspects of the globalization of flows of cultural goods, including patterns in the trade in cultural goods and services, between 2004 and 2013. As the report explains, "China has surpassed the United States as the leading exporter of cultural goods, while competing with North America and Europe as the top cons

umer of cultural products."

It also analyzes "the impact of the 2008 economic crisis, details the major types of products that are traded internationally, and describes innovative statistical models and methodologies used to measure such a complex field, such as the Trade in Value Added database.

In addition to traditional customs statistics, this report presents data on Foreign Affiliates Statistics and Foreign Direct Investment in order to provide a more complete overview of dynamics driving the globalization of cultural trade."

The results illustrate the "dematerialization" of certain cultural goods. As it argues, "several cultural goods are now accessible electronically and are traded much less as physical commodities." It explains that dematerialization "has had a great impact on music, and newspaper production is declining rapidly." However, books continued to be an important cultural good in some regions in terms of exports and imports.

The most noteworthy conclusions of the report are as follows:

- "During the last ten years, India, Turkey and Malaysia have emerged as leading exporters of cultural goods."

- “The demand for cultural goods is still largely driven by developed countries primarily from North America and Europe and East Asia.”
- “Low-income economies in regions such as sub-Saharan Africa, the Caribbean and the Arab States are still playing a marginal role in international flows of cultural goods and services.”
- “Developing countries largely export visual arts goods, such as statuettes, as well as textile crafts and articles of jewelry”
- “Developed countries trade mainly in jewelry, fine arts, and books.”
- “Articles of gold jewelry are the most traded cultural good.”
- The report argues that “the availability of international data on cultural services has increased with the introduction of new classifications and new data sources such as Foreign Affiliates Trade Statistics […] Nonetheless, cultural services statistics are still limited for developing countries.”

Trade Thermometer

Legal Instruments of Integration (IJI) Observatory

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- Trade Thermometer

This month's trends

Between the end of April and May 24, 2016, the global trade policy agenda continued to be defined by the imminent ratification of the Trans-Pacific Partnership (TPP) and the impact this will have on how the network of trade agreements is configured. Other key factors were the notable dynamism within the Pacific Alliance and the expectations around the upcoming summit of the Asia–Pacific Economic Cooperation (APEC), to be held in Peru in November 2016. At the regional level, there was moderate dynamism in regional agreements and integration schemes, notably in Mexico's regional agreements and within the MERCOSUR and the Pacific Alliance.

360º Panorama

Over the course of the month progress was made on 20 existing agreements, three new agreements, and eight trade negotiations (five advanced and three new).

Advanced Negotiations

- TPP: Six countries needed to ratify the TPP (link in Spanish), Obama asks the US Congress to ratify the TPP and warns of China's influence (link in Spanish), ECLAC identifies various risks in the Trans-Pacific Partnership (link in Spanish)
- Pacific Alliance: Mincetur: Pacific Alliance and MERCOSUR seek to develop common trade and integration initiatives (link in Spanish), The Pacific Alliance Protocol goes beyond a Free Trade Agreement (link in Spanish), ASEAN and the Pacific Alliance finalize a Framework Cooperation Agreement (link in Spanish), The Pacific Alliance eliminates tariffs on 92% of its products (link in Spanish)
- Central America–South Korea: Progress on the fourth round of negotiations for trade agreement between Central America and South Korea (link in Spanish)

- Chile–Philippines: Chile and the Philippines prepare to start negotiations towards FTA (link in Spanish)
- Chile–Uruguay: Chile and Uruguay move forward with negotiations towards a trade agreement (link in Spanish)
- Colombia–Japan: Japan looks favorably on Colombia: investments increase 17 fold (link in Spanish)
- Colombia–Panama: Colombia and Panama reach agreement on financial information sharing (link in Spanish)
- MERCOSUR–EU: The MERCOSUR and the European Union exchange tariff offers (link in Spanish), EU confirms that the MERCOSUR is willing to improve its offers (link in Spanish)

Selected news on trade agreements currently in force

- ALADI: Dominican Republic considers joining ALADI (link in Spanish)
- Central America–Dominican Republic: Dominican Republic and Honduras sign political, cooperation, and training agreements (link in Spanish)
- Colombia–South Korea: The challenges of an FTA between Colombia and South Korea: who wins? (link in Spanish)
- Andean Community (CAN): Countries from the Andean Community update the NANDINA nomenclature (link in Spanish), 5th Andean Business Forum gives impetus to intraregional trade (link in Spanish)
- Caribbean Community (CARICOM): CARICOM ministers of foreign affairs to discuss implications of major global issues, CARICOM single market and economy (CSME)
- Costa Rica–People's Republic of China: Uncertain future for exports from Costa Rica to China (link in Spanish)
- United States of America–Colombia: How is Colombia doing four years into its FTA with the United States (link in Spanish)
- MERCOSUR: Working subgroup on border integration formed (link in Spanish), MERCOSUR meeting in Uruguay promotes border integration (link in Spanish),Ordinary Meeting of the MERCOSUR in Montevideo (link in Spanish)
- MERCOSUR–Bolivia: MERCOSUR agrees on Bolivia: Bolivia's protocol of accession to the MERCOSUR is passed (link in Spanish). It remains to be enacted by the executive branch.
- MERCOSUR–Chile: Chile and MERCOSUR seek to give new impetus to bilateral trade (link in Spanish)

- Mexico–European Free Trade Association (EFTA): Negotiations begin to review the Mexico–EFTA Free Trade Agreement (link in Spanish)
- Mexico–Costa Rica: Costa Rica establishes consolidated land cargo transportation service to Mexico (link in Spanish)
- Mexico–Peru: Mexico: Trade with Peru to grow 8% due to Pacific Alliance (link in Spanish)
- Mexico–European Union (EU): The EU and Mexico to begin negotiations to update their trade agreement on May 30 (link in Spanish)
- Peru–South Korea: Peru and South Korea end negotiations with a social security agreement (link in Spanish)
- Dominican Republic–CARICOM: Trade balance between the Dominican Republic and CARICOM remains negative (link in Spanish)
- Central American Integration System (SICA): SICA countries support the drafting of Energy Efficiency Strategies and Regulations (link in Spanish), Costa Rica discusses its return to the Central American Integration System (link in Spanish), CC-SICA Plenary Assembly reaffirms its commitment to integration (link in Spanish)
- Latin American Economic System (SELA): SELA and CLAD present webinar: "Index for public policies for SMEs in Latin America and the Caribbean" (link in Spanish),SELA and CARICOM to evaluate economic and cooperation relations between Central America, the Caribbean, and Mexico (link in Spanish)
- North American Free Trade Agreement (NAFTA): Mexico's Ministry of the Economy confirms that NAFTA is gaining markets in Asia and Europe (link in Spanish)
- UNASUR: UNASUR celebrates 8th anniversary of the signing of its Founding Treaty (link in Spanish), UNASUR Secretary Generalrenews support for dialog, tolerance, and peace in Venezuela (link in Spanish)

Contraction in Regional Exports Slows: 9% Drop in First Quarter

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- Trade Thermometer

Latin American exports shrunk 9% in the first quarter of 2016 in comparison with the same period in 2015, which marks a deceleration in comparison with the 15% drop of 2015, according to a new report from the Inter-American Development Bank (IDB). Following 18 months of contraction in trade, Latin America and the Caribbean is experiencing a downturn that is less intense than the collapse of 2009 but that has lasted longer.

The update to the report entitled "Trade Trend Estimates: Latin America and the Caribbean" reveals that the stabilization of commodity prices and the growth in export volumes have led to a slight increase in the region's trade performance.

The slowing of the contraction in exports—the sustainability of which remains uncertain—is largely due to the prices of the main commodities that Latin America exports, which seem to have bottomed out in January 2016 and have increased slightly in recent months.

Export contraction slowed in South America as a result of the reversal in the trend for Argentina, the only country in South America to see a growth in exports, and the relative deceleration of the rate of decline in exports from Brazil, Chile, and Peru, and Paraguay and Uruguay, to a lesser extent. The greatest contractions in the region continue to be in Bolivia, Colombia, Ecuador, and Venezuela, whose economies specialize in hydrocarbons.

In turn, contrary to expectations, the drop in exports from Mexico and some Central American countries such as El Salvador, Guatemala, and Honduras has worsened. The downturn slowed slightly in Nicaragua, Panama, and the Dominican Republic, while Costa Rica managed to reverse its recent export performance and experienced growth in this regard.

This report from the IDB's Integration and Trade Sector includes detailed data for 18 Latin American countries.

In the current context, this contraction in exports is mainly due to the drop in demand from the United States and within the region itself. The latter has a notable effect on South American economies, while the fact that economic growth in the United States is not being transmitted via the trade channel is disadvantaging Mexico and Central America.

The report concludes that the outlook for exports from Latin America and the Caribbean continues to point downwards and that the possibilities of reversing this negative trend are associated with a context of stable commodity prices and an eventual improvement to these, together with an acceleration in the external demand from the United States and China.