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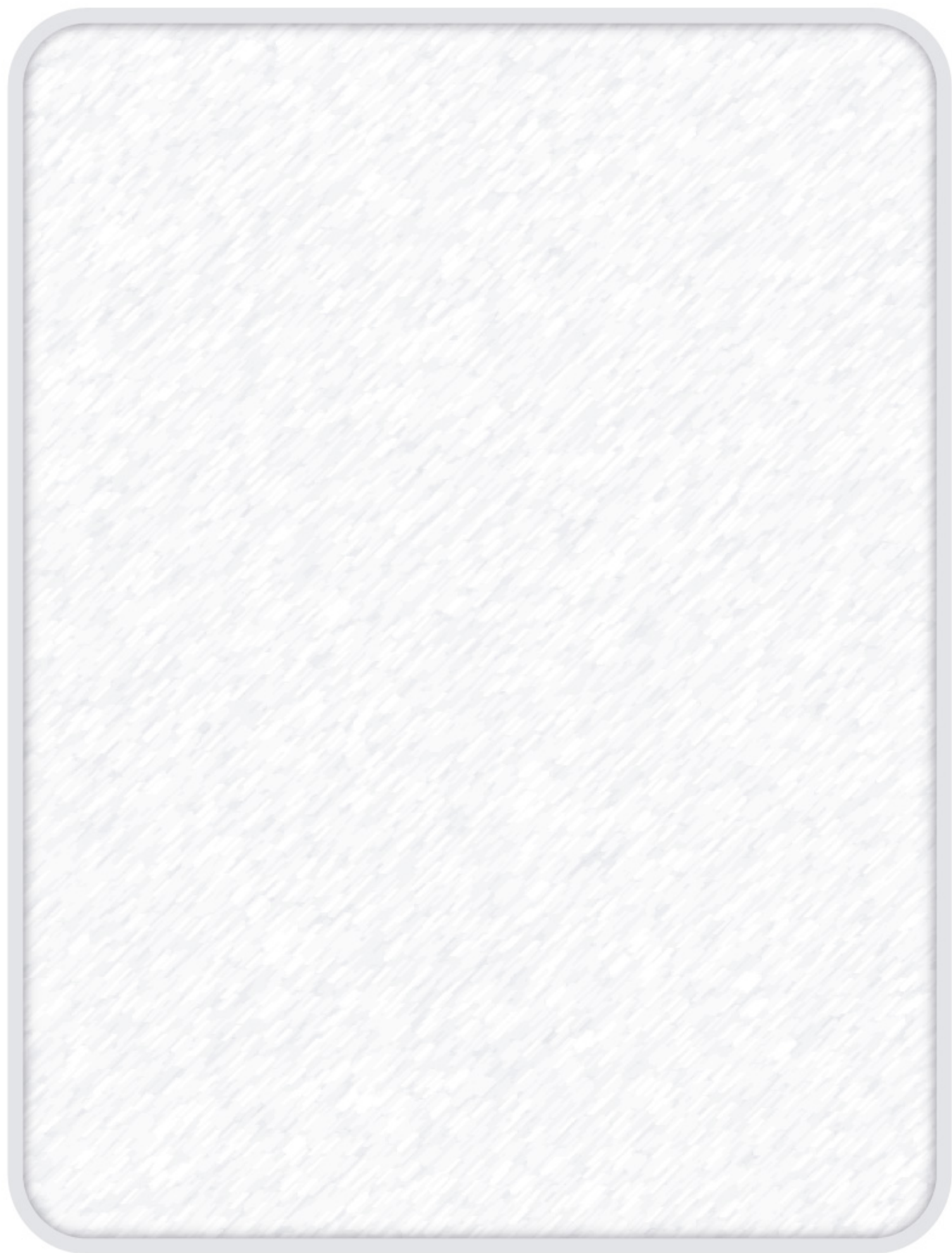


Table of contents

Analysis Column

Opening of public procurement to international competition: challenges and opportunities	7
--	---

Integration Blocs

Pacific Alliance

Pacific Alliance: A one-stop shop for foreign trade and tourism	19
---	----

The Caribbean

Strategic Plan for the Caribbean Community	20
First CARICOM-Japan Summit	22
CARICOM and Turkey strengthen cooperation relations	23

Central America

Central America seeks closer ties with MERCOSUR	24
Panama-Colombia electrical interconnection relaunched	27
Central American integration priorities for second semester of 2014	28
Panama: Trade policy review	29

Andean Community

Ecuador closes trade agreement with EU	30
Peru and Honduras seek trade agreement	33

Mercosur

MERCOSUR Summit: Consolidation of EU offer and other Decisions	35
China: Bilateral agreements with MERCOSUR countries	40

UNASUR

Environmental and social issues in COSIPLAN project planning	41
Freight Transport and Logistics in the COSIPLAN agenda	43
Meeting about La Quiaca-Villazón Bridge and Border Center	44
Progress in Argentina-Chile connectivity: Agua Negra Binational Tunnel	45
New UNASUR Secretary General	47

Regional And Global Overview

WTO: Trade facilitation and food security	51
---	----

BRICS: Agreements and economic size	53
Impact assessment	
Impact assessment in integration and international trade	59
Other IDB Activities	
IDB President and Presidents of Honduras, Guatemala and El Salvador meet in Washington	69
China y América Latina unidas a través de Desarrollo Urbano (only in Spanish)	70
IDB launches virtual business community for small and medium-size Latin American companies specializing in infrastructure	71
Inter-American Development Bank highlights catalytic role of women-led SMEs	72
Integration and Trade Sector	
Integration & Trade Journal No. 38: Support to Border Integration and Border Trade Facilitation in Latin America and the Caribbean (LAC)	75
Legal Instruments of Integration (IJI) Observatory	76
INTAL Documentation Center	
Reviews	
Kiriyama, N. (2012), "Trade and Innovation: Synthesis Report," OECD Trade Policy Papers, No. 135, OECD Publishing.	81
Bibliographic alert	
.....	83
Monthly Highlights	
*Messerlin, P. (2014). The Transatlantic Trade and Investment Partnership and the Developing Countries. Paris: Grupe d'Economie Mondiale.	84
*Ortiz, M., coord. (2014). Las Américas y la Unión Europea ante los nuevos escenarios en las relaciones comerciales y políticas. San José: FLACSO.	86
*Dussel Peters, E., coord. (2014). La inversión extranjera directa de China en América Latina: 10 estudios de caso. México: Unión de Universidades de América Latina y el Caribe.	88
Editorial Staff	
.....	91



Analysis Column





Opening of public procurement to international competition: challenges and opportunities

Purchases made by States to ensure the provision of public goods and maintain their performance are of great importance in both economic and in political, social, and institutional terms.[1] For the past two decades, public procurement across the world has undergone major changes that have, among other things, affected its use in achieving policy objectives and altered the internationalization of procurement.

These issues were addressed in the [Course on Government Procurement for Latin American Countries](#) (Box 1), jointly organized by the Inter-American Development Bank (IDB) through its Integration and Trade Sector (INT) and the Institute for the Integration of Latin America and the Caribbean (INTAL), together with the World Trade Organization (WTO) ([Access to video presentation, Joaquim Tres, INT](#)).

The importance and impact of public procurement

Throughout the world, the State is one of the main importers of goods, services, and works, due to the need to provide public goods (health, education, defense, infrastructure development, etc.) and to maintain its normal running. Government procurement also has great relevance in political, social, and institutional terms. The impact of public procurement is seen in the quality of public spending and governance, market development, civil society's confidence in the State, the implementation of public policies, and so on.

Given the importance of government procurement, there is a wide-ranging debate on how it should be carried out. Three general schools of thought can be identified, according to their priorities (Gordon, 2014):

1. *Efficiency*: Public sector purchasing should not be differentiated from private sector purchasing: it must maximize the price-quality ratio (value for money) and the system of procurement must work speedily.
2. *Need to avoid corruption in the use of public funds*: This requires clear rules, transparency, dispute settlement mechanisms, etc.
3. *Government procurement as a public policy tool*: Public funds must be used to achieve other objectives, such as fostering the development of micro, small, and medium enterprises (MSMEs), favoring vulnerable sectors, stimulating domestic production, etc.

While it may simultaneously be desirable for government procurement to be efficient, transparent, and to contribute to achieving public policy goals, the objectives of these three views are often in opposition. The granting of national preferences to MSMEs, for example, may mean the most efficient supplier is not contracted, while compliance with the rules to ensure transparency may result in slower procurement procedures.

Box 1: Course on Government Procurement for Latin American Countries

Buenos Aires, Argentina, July 29-31, 2014

The Advanced Regional Workshop on public procurement for Latin American countries brought together high-level experts in trade and procurement by the region's governments, academics, and officials from the organizing entities (IDB and WTO), with the aim of providing a forum for both trade and procurement experts to exchange information on national, bilateral, regional and multilateral trade-related activities and initiatives in the area of government procurement, and to facilitate policy development in relation to international cooperation in this area.

Among the main issues addressed in the workshop were the importance of government purchasing in the economies and its link with development and trade; the WTO Agreement on Government Procurement (GPA), the main changes arising from the revised text, and the advantages and challenges arising from adhering to it; the approach to these issues in regional trade agreements; the mechanisms for promoting transparency and competition in government procurement; and Latin America's progress in this field.

For the agenda, and list of participants and papers presented at the workshop, click [here](#).
Source: IDB-INTAL.

The international dimension to public procurement

Given the importance of states' demand in the economy, government procurement represents between 10% and 15% of world gross domestic product (GDP)[2] and reaches as high as 20% in some developing countries (DGCs). This makes them a highly attractive market to businesses around the world. Firms can provide their goods or services (including construction) to foreign states in three ways:

1. Direct provision to the contracting state by a natural or legal person resident in another country.
2. Exporting through a third party based in the country that carries out the procurement (either an official representative or independent reseller).[3]
3. Selling through its subsidiary in the contracting country (foreign direct investment).

In this area, which combines public demand and private supply, international transactions are far more restricted than trade flows among actors in the private sector, as a result of tensions between the various different priorities public procurement can contain.

On one hand, in working toward economic policy (production, income, employment, balance of payments, SME development, etc.), social, defense, and other objectives, many states prohibit or restrict the participation of foreign suppliers in procurement. The instruments used to favor domestic suppliers include price preferences, set asides, local content requirements, compensation, enforced partnership with local firms, cost-related de facto discrimination, conditions of entry, and so on.

Barriers to foreign participation are generally applied to the first type of participation (provision of goods or services by nonresidents in the contracting country) and, in “buy national” cases, also to the second (acquisition of foreign products sold by residents). However, contracting subsidiaries of foreign companies based in the country that normally performs the transaction is not affected by the restrictions.

On the other hand, when the emphasis is on efficiency in the allocation of public resources, the usual option is for procurement regimes that are open to suppliers from all over the world, in which the competition tends to improve the quality/price ratio of the state’s procurement activities.

Against this background, some countries have opted for the unilateral liberalization of their procurement systems, while the opening up of government procurement to the participation of suppliers in other countries has gained relevance in international negotiations, both in the scope of the WTO and in many regional trade agreements (RTAs).[4]

While the obligation of national treatment (NT) for public procurement is explicitly excluded in the WTO’s general agreements on goods[5] and services,[6] government procurement is dealt with in the organization in three ways: the plurilateral Agreement on Government Procurement (GPA), negotiations on government procurement in services,[7] and the Working Group on Transparency in Government Procurement (currently inactive) (Table 1).

Table 1: Public procurement in the multilateral trading system

	GATS	Working Group on Transparency in Government Procurement	GPA
Fundamental Principles	Transparency Nondiscrimination (possibly)	Transparency (does not affect preferences)	Transparency Nondiscrimination
Coverage	Services	Government procurement practices	Goods and services (including construction)
Participation	Multilateral	Multilateral	Plurilateral

Source: Rozemberg & Gayá (2012).

The WTO's plurilateral Agreement on Government Procurement

The GPA is the most important instrument for the internationalization of government procurement within the scope of the WTO. It was signed in 1994 and came into force two years later, replacing the first Agreement on Government Procurement, of 1979, whose scope was more limited. A revised version of the GPA text was agreed in 2012 and came into effect in April of this year. The GPA includes a revised program to continue the negotiations to expand the agreement's scope and move forward in the elimination of discriminatory measures. ([Access to video presentation, Kodjo Osei-Lah, WTO](#)).


The GPA seeks to promote access to government procurement markets, optimize the price/quality ratio of government procurement, and improve governance relating to these transactions. The agreement is based on three fundamental principles: nondiscrimination (MFN[8] treatment and NT [9]), transparency, and procedural fairness.

The GPA prohibits the use of offsets (domestic content requirements, technology or investment licenses, etc.) to promote development or improve the result of the balance of payments in the procurement included in commitments. On acceding to the GPA, developing countries (DGCs) can negotiate terms for the use of offsets, if, and only if, they are used for the qualification to participate in the procurement process, and not as criteria for awarding contracts. Similarly, DGCs can benefit from technical assistance, special and differential treatment for least developed countries, etc.

Box 2: Main changes introduced by the revised GPA

- Simplification of provisions to facilitate understanding and application.
- Adjustments to take into account electronic procurement tools.
- Greater flexibility for contracting authorities (shorter deadlines for advertisements using electronic tools and for procurement of goods and services of types available on the commercial market.
- Provisions to strengthen good governance and fight corruption.
- Review and improvement of transitional measures for new members according to their specific development needs (special and differential treatment).
- Similarly, the work of several working groups got under way to make further progress in the field of MSME participation, sustainability, security, etc.
- Expanding the agreement's coverage: more than 500 new entities, more goods and services, lowering of thresholds and elimination of exceptions by some countries.

Source: Osei-Lah (2014) and Pelletier (2014b).



There are two ways to ensure compliance with the GPA: the internal resource mechanism at the national level and, at the international level, the WTO dispute settlement mechanism. It should be emphasized that the GPA is plurilateral (in contrast with other WTO agreements, such as the GATT or GATS, which are multilateral), so only some WTO members have signed it. At present, the GPA has 43 members and 28 countries participate as observers. Although 10 countries within this group are negotiating their access and 5 are committed to doing so, observer status involves no commitments or obligations, nor does it entail future accession to the GPA. As the map shows, no LAC country belongs to the GPA and only four (Argentina, Chile, Colombia, and Panama) participate as observers.

Map 1: GPA: Countries forming part of the agreement, negotiating accession, or committed to doing so, and participating as observers. Click [HERE](#) for interactive version. (Source: Based on data from WTO).


The GPA is limited in scope, not only in terms of countries, but also of the transactions it covers. According to Pelletier (2014a), the public procurement market covered by the GPA is equivalent to approximately 2.5% of global GDP, i.e. between a sixth and a quarter of the world total.

The benefits of the agreement apply to a transaction if, and only if:

- The *contracting entity* is included in Annexes 1 (central government entities), 2 (subcentral government entities) or 3 (other entities).[10]
- The *object* of procurement is specified in Annexes 4 (goods), 5 (services) or 6 (construction services)[11] and not excluded from Annex 7.
- The *amount* of the transaction exceeds the minimum threshold for this type of transaction carried out by the corresponding entity.

It has to be kept in mind that the scope of the provisions varies from one country to another. For example, in terms of contracting entities, United States includes the procurement of just 37 states, while the agreement applies to the purchases of all Canadian provinces. Similarly, the minimum amount to include the procurement of works in Japan is below most countries' threshold in the case of central government and way above in subcentral governments.[12]

Participation in the agreement, therefore, does not imply the unrestricted opening of the procurement system, since it does not prevent its members from using preferences to favor domestic suppliers, as happened in the context of the last international crisis. Some examples of this are the requirements of the US Federal Government's *Buy American Act*, and regulations of the *Buy-In-State* or *Buy American* type in some state governments (Berlinski *et al.*, 2011).



Government procurement in RTAs

While few countries have so far participated in the GPA, many have made commitments in the area of public procurement in the framework of RTAs. The proliferation of bilateral or regional negotiations of ever deeper agreements has accentuated this trend over the last decade, involving many LAC countries.

According to Pelletier (2014c), 55% of the RTAs notified to the WTO include some sort of public procurement provision. Within this group, 56% covers only general aspects without coverage commitments, while 24% of the RTA has fairly similar detailed provisions on government procurement to those of the GPA (NT, MFN, prohibition of offsets, dispute settlement, etc.). These agreements are usually with the members of the plurilateral agreement themselves (with broader concessions) or with third countries, though there are also commitments in public procurement among countries that have not signed the GPA, as is the case with some Latin American countries.

Public procurement in Latin America

Substantive progress has been made over the last decade in Latin American countries' procurement systems, motivated by factors such as the participation of some of the region's economies in RTAs with provisions on government procurement, the development of new technologies, and the search for greater transparency. The main progress includes regulatory changes, institutional changes, new forms of procurement, the professionalization of officials responsible for process, market intelligence, incentives for MSMEs, etc., and are geared to improving the transparency, efficiency, effectiveness, and sustainability of government procurement (Laguado, 2014).

As noted above, no country in the region is a signatory to the GPA, but several have made commitments on public procurement in the framework of RTAs. In some cases, like Chile or some Central American countries, the system of procurement is open to international competition, though these countries have also signed agreements in this area. In others, such as Mexico, there are procurement processes reserved for resident suppliers, others that allow foreign participation in the framework of trade agreements, and others open to bidders from all over the world. In the case of MERCOSUR, some countries (Argentina, Brazil) restrict external participation through local supplier preferences. In any event, there is an agreement on government procurement within the bloc that has never been implemented and is in the process of renegotiation. However, in almost every region there are stimulus schemes for MSMEs and other vulnerable actors. ([Access to Ana Edelmira Montejo de Molina's interview, Chief, Division of Acquisitions and Procurement from El Salvador Public Administration \(UNAC\)](#))

Internationalization: yes or no?

The opening up of public procurement to international participation can involve significant benefits for a country. The higher levels of competition among suppliers may allow the state to improve the price/quality ratio of its acquisitions, through lower prices, and a greater variety and quality of goods, services, and works. The improvements in the provision of public goods favor civil society, who may also benefit if the procurement's greater efficiency requires fewer resources and, therefore, results in lower taxes. Also, the opening up of other countries' procurement enhances domestic firms' opportunities for accessing these markets.

However, the internationalization of public procurement is a huge challenge that should not be underestimated. First, the adaptation of national procurement systems to the commitments in the GPA or RTAs may involve complex and costly regulatory and institutional changes. Second, it restricts governments' scope of action to use government purchases with public policy goals. Third, the opening up to international competition can displace the market to less competitive domestic suppliers, including some more vulnerable actors (e.g. MSMEs).


In short, the decision to assume commitments to open up public procurement must be carefully evaluated by each country, taking into account their priorities in terms of efficiency, transparency, and public policy goals. ([Access to Prof. Daniel Gordon's interview, Senior Advisor, Government Procurement Law Program, George Washington University, Law School](#)).

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[1] This article was prepared by the consultant Romina Gayá.

[2] Source: WTO.

[3] For example, purchasing computer equipment manufactured in another country from a local resale company.

[4] For more information, See Rozemberg & Gayá (2012) and Rozemberg & Gayá (*Mimeo*). It should be mentioned that these negotiations on government procurement involve cross-border provision (the first two types of foreign participation). Procurement from local subsidiaries of foreign companies is generally not restricted, their treatment being part of the agreements or chapters on investments.

[5] See Paragraph 8 of Article III of the General Agreement on Tariffs and Trade (GATT).

[6] See Paragraph 1 of Article XIII of the General Agreement on Trade in Services (GATS).

[7] Paragraph 2 of Article XIII of the GATS establishes a mandate to negotiate this area multilaterally, but there is still no consensus on the scope of these negotiations (whether or not they should include most-favored-nation (MFN) treatment, NT and market access, etc.) Source: WTO.

[8] Equal treatment for suppliers (actual or potential) from all member countries in the agreement.

[9] Equal treatment for suppliers (actual or potential) from the contracting country and other member countries.

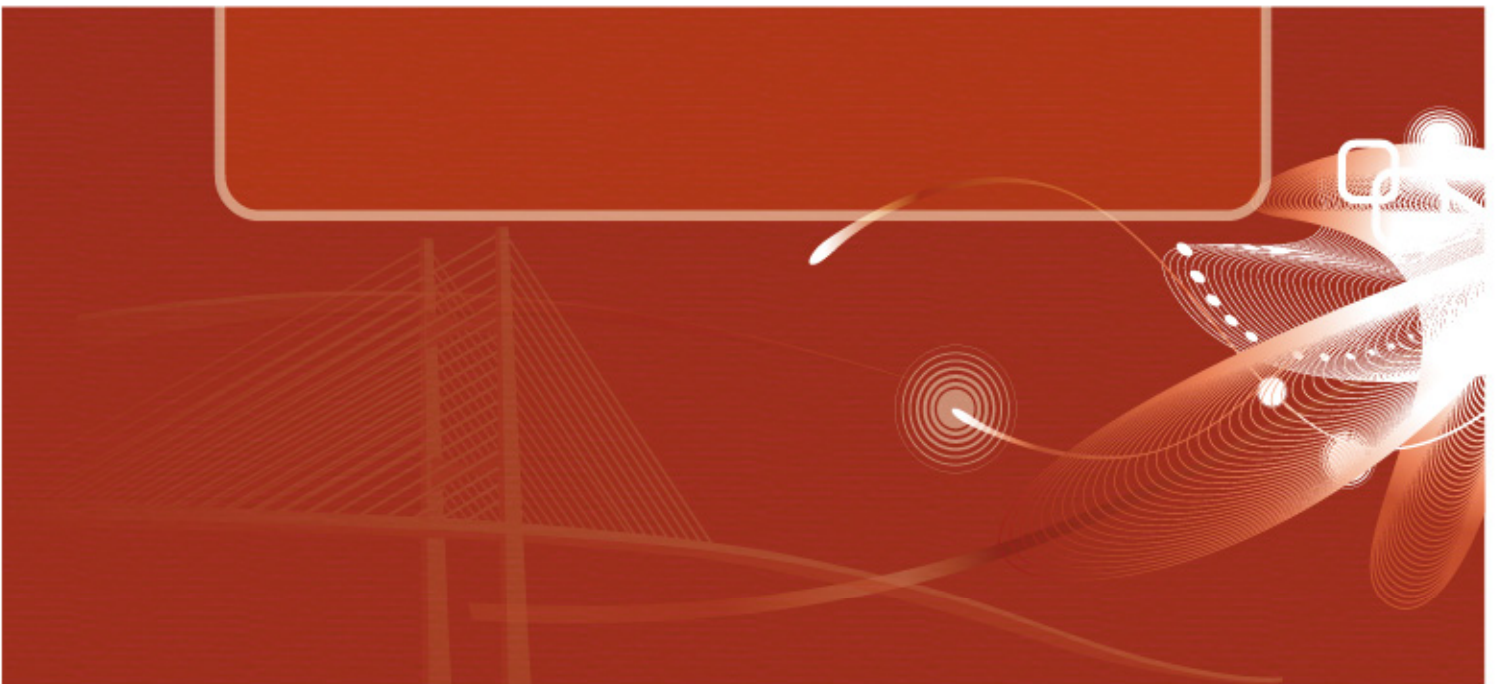
[10] Or not excluded in the case of countries using negative lists.

[11] Or not excluded in the case of countries using negative lists.

[12] Source: WTO.



Integration Blocs







Pacific Alliance

Pacific Alliance: A one-stop shop for foreign trade and tourism

On the one hand, the international conference “Single Window for Foreign Trade (VUCE): Trade Facilitation and Regional Integration Mechanism” took place in San Isidro, Peru, July 22. The event was attended by experts and officials linked with the VUCEs of the member countries of the Pacific Alliance (PA) to speed up the work agenda they will have to undertake in order to comply with the mandate of interoperability within the framework of the initiative. The purpose of this is to facilitate the trade performance of exporters and importers, and to strengthen intraregional trade. Peru’s Foreign Trade and Tourism Minister [stressed](#) that his country incorporated all the administrative procedures for 15 public entities into the VUCE’s restricted goods component, thus effectively avoiding physical travel to comply with procedures, eliminating the use of paper, reducing the time companies spend on these procedures, and the time to process files received. IDB has been supporting the implementation of VUCE in Chile and Colombia, and the interoperability of the PA.

On the other hand, the [First Tourism Macro Business Roundtable of the Pacific Alliance](#) was held in Cali, Colombia, July 23-24, with the objective of generating business opportunities through a joint tourism promotion strategy. Organized by Proexport Colombia, it brought together the four countries’ public tourism agencies, as well as outbound and inbound tour operators in the sector. According to statistics from the World Tourism Organization (UNWTO), 32.7 million tourists visited PA countries in 2013, and this figure is set to rise with the Alliance’s joint efforts.



The Caribbean

Strategic Plan for the Caribbean Community

As mentioned in [*INTAL Monthly Newsletter No. 215*](#), CARICOM approved its first Strategic Plan for 2015-2019 in July. The Plan aims to reposition CARICOM in the international context, and to identify the priorities and activities needed to meet current challenges.

Its origins date back to CARICOM's 40th anniversary, when member countries expressed the need to reorient and reorganize the organization. Subsequently, at the Thirty-Third Summit of Heads of State in 2012, the mandate was established to create a new Strategic Plan and reform the CARICOM Secretariat.

The recently published Volume 1 of the [Strategic Plan](#) provides an executive summary of the Plan, which seeks to respond to the challenges of the international and regional context. On the one hand, it suggests that one of the main consequences of the 2008 global financial and economic crisis is reduced external flows of public and private capital.

This is compounded by the growing importance of mega-agreements^[1] like the Trans-Pacific Partnership Agreement (TPP) or the Transatlantic Trade and Investment Partnership (TTIP), which could bring about a change in the rules of the game for production and trade, and which CARICOM countries do not belong to.

On the other hand, from a regional point of view, it notes that CARICOM production and trade have been below the expectations of the Caribbean as a whole. In this context, the document highlights the importance of countries working together to resolve their challenges of scale and so enhance productivity.

The growing risks of climate change pose an additional challenge to the Caribbean countries. Although the region contributes less than 1% of greenhouse gas emissions, its countries have, over the last decade, suffered the harmful consequences of climate change, and these have worked against their achievements in development.

The Plan sets out the main objectives for 2019, and an integral, coordinated strategy among the member states, institutions and bodies of CARICOM. Volumes 2 and 3, which have not yet been published, will consist respectively of the complete version of the Plan and its technical appendices.



Related articles

- IDB-INTAL. “[CARICOM promotes Secretariat reform](#),” in: *INTAL Monthly Newsletter No. 187*, March 2012.
- IDB-INTAL. “[33rd Regular Meeting of CARICOM Heads of Government](#),” in: *INTAL Monthly Newsletter No. 191*, July 2012.
- IDB-INTAL. “[CARICOM approves its first Strategic Plan](#),” in: *INTAL Monthly Newsletter No. 215*, July 2014.

[1] See IDB-INTAL. “[Mega-agreement negotiations: how will they influence Latin America?](#),” in: *INTAL Monthly Newsletter No. 204*. August 2013.



First CARICOM-Japan Summit

The [First CARICOM-Japan Summit](#) was held in Port of Spain, Trinidad & Tobago, July 28. The [Statement by Japan's Prime Minister](#), Shinzo Abe, emphasized their common features, both being surrounded by ocean. He also pointed out that Japan attaches great importance to cooperation with the Caribbean countries in three main areas:

1. Cooperation for sustainable development, including the overcoming of vulnerabilities of small island states. In this regard, he pledged to Japan's active participation in the International Conference on Small Island Developing States to be held in Samoa, September 1-4.
2. Deepening and expanding ties of cooperation and friendship, especially actions to strengthen tourism between the two regions.
3. Cooperating to tackle problems of the international community, particularly in the field of climate change, drawing up a post-2015 development agenda for the Millennium Development Goals, and disaster risk reduction.



CARICOM and Turkey strengthen cooperation relations

The CARICOM and Turkish Foreign Ministers, meeting in Istanbul, Turkey, July 18, agreed to strengthen existing areas of cooperation and to explore new areas of integration between them. The [Istanbul Agreement](#) reaffirms the will to strengthen trade and investment between the parties, and opens up the possibility of a future Free Trade Agreement (FTA) between the parties.



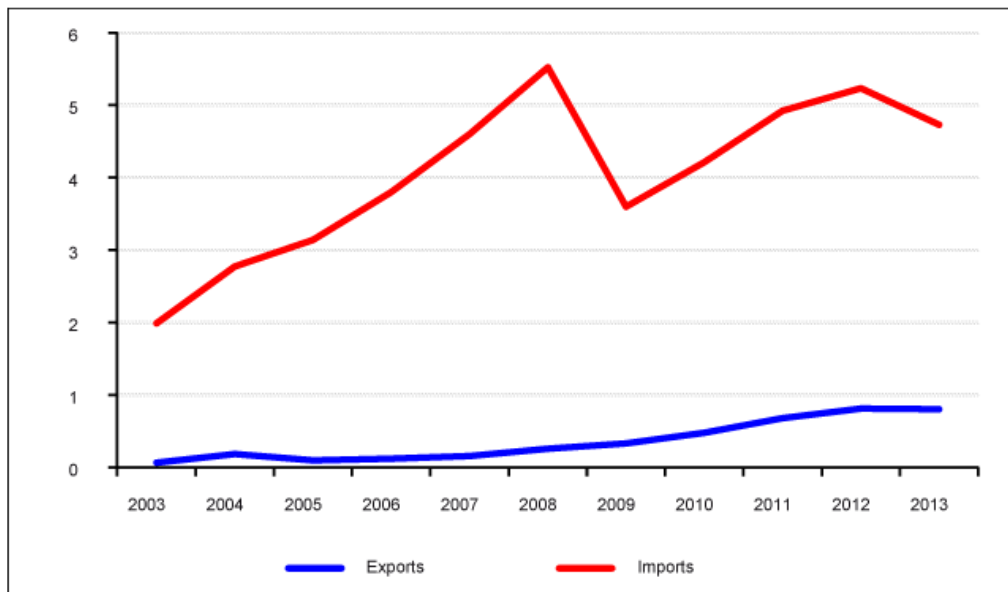
Central America

Central America seeks closer ties with MERCOSUR

The Salvadoran president, Salvador Sánchez Cerén, and the Nicaraguan vice-president, Omar Hallelevens, attended the [Summit of Heads of State of the Southern Common Market \(MERCOSUR\)](#) in Caracas, Venezuela. According to the [statements](#) by the Salvadoran Foreign Minister, Hugo Martínez, the visit is part of the process by the Central American Integration System (SICA) to strengthen economic and trade ties. The SICA is made up of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic, with the South American bloc composed of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. Between 2003 and 2012, exports from SICA to MERCOSUR amounted to US\$803 million, while imports reached US\$4.731 billion, entailing a substantial biregional trade deficit for SICA. 2013 saw a fall in both exports (-1.3%) and imports (-9.6%) (Figure 1). Nicaragua is the origin of 47.7% of SICA's shipments to MERCOSUR, and primarily to Venezuela (85% of the South American bloc's purchases from SICA). Dominican Republic, Guatemala, and Costa Rica each have a share of around 14% of SICA's sales to MERCOSUR. In imports, Dominican Republic absorbs 45.7% of Central American purchases from MERCOSUR, followed by Costa Rica, El Salvador, and Guatemala. Brazil and Venezuela are the major origins of SICA purchases from MERCOSUR, each accounting for 36.4% of the total, while Argentina provides 18.7%.

Figure 1: Evolution of SICA's trade with MERCOSUR*

In billions of US\$



Note: * Includes Venezuela for the whole period, despite its full membership of MERCOSUR beginning at the end of 2012. Source: Based on data from DATAINTAL.

In terms of the composition of trade (Table 1), Central American exports to MERCOSUR notably include frozen beef (almost a fifth of the total), sugar, coffee, soybean oil, and palm oil. These top five products are destined almost exclusively for Venezuela. Prominent in SICA's imports from the South American bloc are Venezuelan oil (about a third of the total if crude and other oils are taken into consideration), corn (12.3%, primarily from Argentina and Brazil), medications (especially from Uruguay, Argentina, and, to a lesser extent, Brazil) and Argentine soybean oil.

Table 1: Composition of SICA's trade with MERCOSUR

Share of total as percentage. 2013 data

Exports		Imports	
Frozen Beef	19.3%	Petroleum Oil (crude)	21.2%
Sugar	15.9%	Petroleum Oil (excl. crude)	12.8%
Coffee	7.8%	Corn	12.3%
Soybean Oil	5.1%	Medications	5.3%
Palm Oil	4.3%	Soybean Oil	4.2%
Others	47.6%	Others	44.2%

Source: Based on data from DATAINTAL.

Panama-Colombia electrical interconnection relaunched

The Presidents of Panama and Colombia, Juan Carlos Varela Rodríguez and Juan Manuel Santos Calderón, [met](#) in Panama City, where they discussed various topics relevant to bilateral integration, such as trade, investment, and migration.

One of the most relevant aspects of the meeting was the relaunch of the Electrical Interconnection Project between the two countries, for which they appointed the authorities to be responsible for initiating the works outlined in the Project's roadmap.

Energy integration between Colombia and Panama is part of a more ambitious regional process: the Central American Electrical Interconnection System ([SIEPAC](#)) in the framework of the [Mesoamerica Project](#), whose objective is the construction of a 1,790km power transmission network that will join up the region's electricity grids, including those of the Isthmus, Mexico, and Colombia. The formation of a Regional Electrical Market (MER), where the countries of the region can buy and sell surplus energy, seeks to reduce costs, by creating economies of scale and promoting greater competition among generating companies. The Inter-American Development Bank (IDB), together with other international organizations, contributes to financing these projects.

Related articles

- IDB-INTAL. 2011. "[Mesoamerica Project: electrical interconnections](#)," in: *INTAL Monthly Newsletter No. 178*, June 2011.
- IDB-INTAL. 2013. "[Electrical interconnection and diversification of the Central American energy matrix](#)," in: *INTAL Monthly Newsletter No. 203*, July 2013.



Central American integration priorities for second semester of 2014

The Central American countries recently identified the priorities for progress on the various different levels of the regional integration process over the July-December 2014 period.

On the one hand, in the ambit of the **Central American Integration System (SICA)**, a [Sectoral Work Plan](#) was established through the creation of five working groups corresponding to the pillars of the integration process: climate change and disaster prevention; social integration; economic integration; democratic security; and institutional strengthening.

Also, a meeting of the SICA Secretariats Commission set the [work priorities](#) for Belize's *Pro Tempore* Presidency (PPT) over the second semester of 2014. These include the promotion of the Post-2015 Development Agenda, strengthening of ties with the Caribbean; cooperation on climate change and renewable energy; and private sector dialog to review progress relating to barriers to intraregional trade.

New topics were also incorporated in the Work Program of the Central American Agricultural Council, ahead of regional actions in the field of agricultural health and food safety, the joint tackling of phenomena affecting the region, such as El Niño and coffee leaf rust, the development of value chains in the agricultural sector, corporate social responsibility in the field of regional development, the reconfiguration of the sector to take advantage of the European market, competitiveness and trade facilitation, and so on.

On the other hand, in the framework of the **Central American Economic Integration Subsystem (SIECA)**, the Nicaraguan PPT submitted its [Work Plan](#) for the period July-December 2014. In other areas, meetings have been tabled to look at the evolution and continue moving forward in the formation of the customs union, dealing with pending issues in the implementation of the EU-Central America Association Agreement (EU-CAAA), and the negotiation of commitments arising from Panama's Protocol of Incorporation in SIECA.

Panama: Trade policy review

The World Trade Organization (WTO) has unveiled its [Trade Policy Review \(TPR\)](#) for Panama, which gives a generally positive account of the Central American country's results in terms of economic growth, integration in world trade, and foreign direct investment (FDI), highlighting the place of open trade and investment policies in this performance, particularly the activities of the Panama Canal and the Colón Free Zone (ZOLICOL).

The TPR points out, however, that the country needs to deepen efforts to strengthen and expand these two sectors' links with the rest of the economy.

In trade negotiations, the WTO report highlights Panama's commitment to the multilateral system, its participation in initiatives such as the plurilateral Agreement on Information Technology (IT), and the active use of regional trade agreements (RTAs).

The TPR highlights legislative reforms related to the adaptation of the regulatory framework to international commitments, such as competition, public procurement, intellectual property, free zone regime, mobile telephony regulation), as well as trade facilitation measures, such as the modernization of customs procedures, one-stop shop for exports (implemented with [IDB support](#)), and the authorized economic operator system.

The issues marked out by the TPR as being of priority for future work include the need to avoid tariffs on certain products exceeding consolidated levels, the elimination of taxes discriminating against imported rather than national fuels, the improvement of transparency over technical barriers to trade, and sanitary and phytosanitary measures, the expansion of information about the ZOLICOL's operations, the reinforcement of banking supervision, and the reduction of certain barriers to FDI. Panama has accounted for the steps it is taking where each of these points is concerned.

The Trade Policy Review Mechanism (TPRM) is a fundamental piece in the WTO's work, and all the organization's members are subject to these revisions on a regular basis. Although much of the report is prepared by the WTO Secretariat, it is the General Council, i.e. all the member countries, that is mainly responsible for the TPR.



Andean Community

Ecuador closes trade agreement with EU

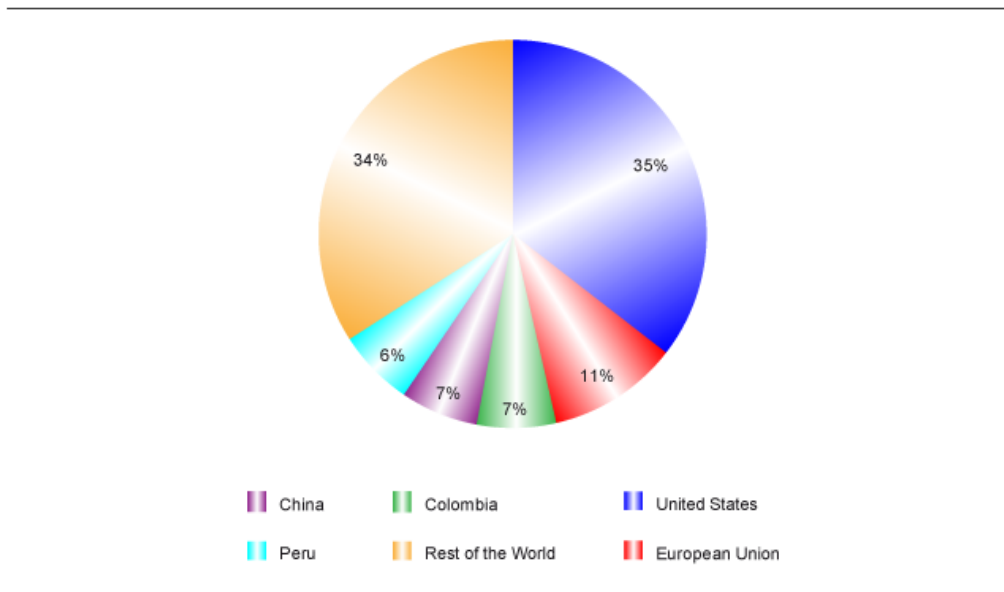
Ecuador and the European Union (EU) concluded negotiations for a partnership agreement, July 17. It will now undergo legal review and will subsequently be ratified by both parties before coming into force. With this agreement, Ecuador will join Colombia and Peru's Multiparty Trade Agreement with the EU.

It should be remembered that negotiations between these countries and the EU originally began in 2007, when the possibility of a CAN-EU agreement was floated. However, the lack of a common position among the CAN countries led to the suspension of biregional negotiations. At first, Ecuador, Colombia, and Peru continued negotiating independently, while Bolivia pulled out of the negotiations. Then, in 2008, Ecuador also walked out of the talks over differences with the EU on social security and labor rights of migrant workers legally employed in the EU, the banana dispute, Ecuador's "buy national" policy, and bilateral investment agreements with European countries. Ecuador-EU negotiations resumed in 2010.

The EU is Ecuador's second largest trading partner after United States (Figure 1), with approximately 11% of total exports and imports.

Figure 1: Ecuador's main trading partners

In percentages of total trade

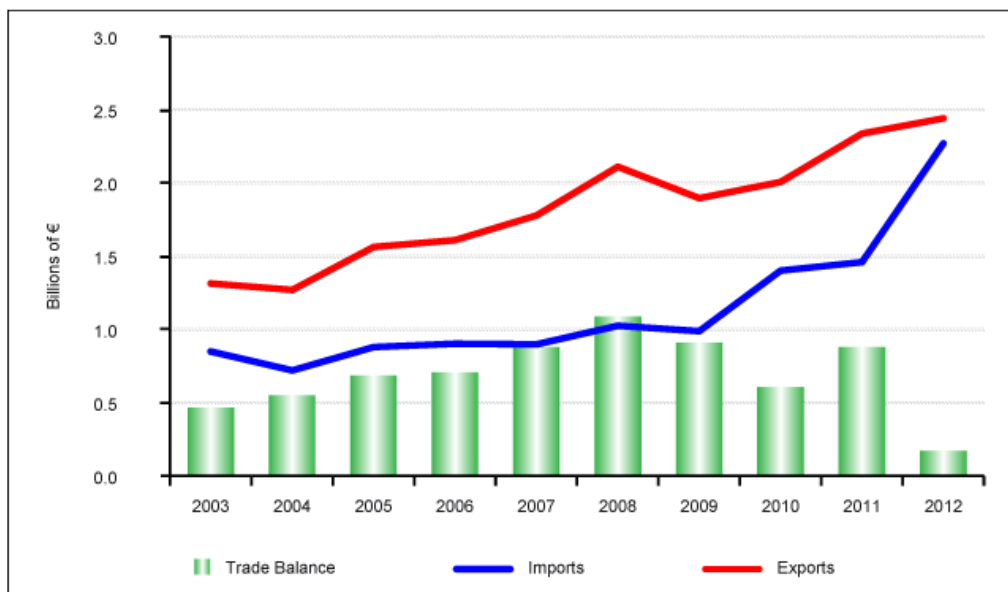


Source: European Commission.

Between 2003 and 2012, Ecuador saw its exports to the EU rise by a cumulative annual (c.a.) rate of 7%, and its imports by an average 12% c.a. Ecuador's bilateral trade is in surplus, US\$171 million in 2012.

Figure 2: Ecuador-EU trade

In billions of €



Note: Based on data reported by the EU. Source: European Commission.

Almost all of Ecuador's exports to the EU involve primary commodities, notably fishery products (mainly shrimp) and banana oil. For its part, Ecuador's purchases from the EU are composed mainly of manufactured goods (63.3% in 2012), particularly in machinery and chemicals.

Related articles

- IDB-INTAL. "[Banana dispute formally concluded](#)," in: *INTAL Monthly Newsletter No.195*, November 2012.
- IDB-INTAL. "[First Ecuador-EU negotiating round](#)," in: *INTAL Monthly Newsletter No. 209*, January 2014.
- IDB-INTAL. "[Second round of Ecuador-EU talks](#)," in: *INTAL Monthly Newsletter No. 212*, April 2014.

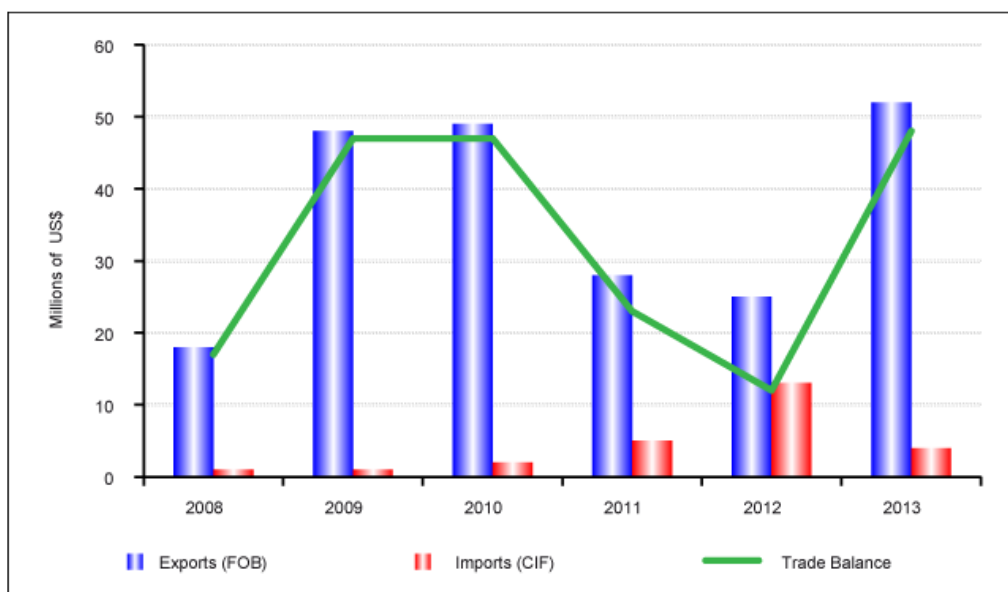
Peru and Honduras seek trade agreement

Peru and Honduras have recently resumed negotiations toward a free trade agreement (FTA), which had been at a standstill since 2012. Peru's Trade Ministry announced that negotiations have been concluded in **trade facilitation and customs procedures, cooperation, and customs mutual assistance, as well as the text on rules of origin.**

Trade between Peru and Honduras stood at approximately \$57 million in 2013 (Figure 1), primarily due to Peruvian sales to the Central American country (US\$ 53 million), including oil and natural gas, agricultural products, chemicals, wood, and paper. Peruvian imports from Honduras totaled just US\$4 million and consisted of textile, and paper and cardboard products.


Figure 1: Peru-Honduras trade

In millions of US\$



Source: Based on data from MINCETUR.

In Central America, Peru has trade agreements in place with Panama and Costa Rica, and one with Guatemala, which is about to come into force. The FTA with Peru is part of Honduras's strategy of forging closer trade ties to the Pacific Alliance (PA), already having agreements in place with Chile, Colombia, and Mexico. The successful conclusion of an FTA with Peru is one of the conditions for joining the PA.



Related articles

- IDB-INTAL. “[Central America-Peru Free Trade Agreement: Mini Negotiating Round](#),” in: *INTAL Monthly Newsletter No.176*, April 2011.
- IDB-INTAL. “[Colombia and Peru in 2012: Progress in external trade agenda](#),” in: *INTAL Monthly Newsletter No.197*, January 2013.
- IDB-INTAL. “[Honduras resumes FTA negotiations with Peru](#),” in *INTAL Monthly Newsletter No. 212*, April 2014.

MERCOSUR Summit: Consolidation of EU offer and other Decisions

The Forty-Sixth Summit of MERCOSUR Heads of State was held in Caracas, Venezuela, July 29. The Summit was the first to be attended by all five full members of the bloc, after Venezuela accession and the end of Paraguay's suspension.

Among the main [Decisions](#) taken by the Common Market Council (CMC) was the approval of three new projects of the MERCOSUR Structural Convergence Fund (FOCEM) (Table 1). The leaders also stressed the progress toward the implementation of the [Bank of the South](#), particularly the appointment of the Executive Directors and the upcoming start of operations.

Table 1: New projects approved by the FOCEM

Budget in US\$ millions

Project		Total Amount	FOCEM Contribution	Remaining Contribution
Integral interventions in compulsory education buildings in General Obligado, Vera, 9 de Julio, Garay, and San Javier Departments		7.93	5.21	2.72 (Argentina)
Renovation of Route 8 Treinta y Tres-Melo	Section I (km 310 to km 338)	15.59	11.04	4.54 (Uruguay)
	Section II (km 366 to km 393.1)	15.67	11.11	4.56 (Uruguay)
Total		39.19	27.36	11.82

Source: MERCOSUR Secretariat.

With the objective of contributing to the reduction of disparities between member countries, commitments were taken to implement CMC Decisions No. [33/07](#) (Strategic Plan for Overcoming Asymmetries) and No. [19/11](#) (free river and road transit).

In external relations, the Common Market Council (CMC) decided to set up a [MERCOSUR Political Dialog, and Trade and Economic Cooperation Mechanism](#) to promote the establishment of a complementary Economic Zone (ZEC) with ALBA-TCP, CARICOM and Petrocaribe. It should also be noted that, in the [Common Market Group \(GMC\) meeting](#) two days before the presidential summit, Paraguay proposed speeding up the timetables for trade liberalization with the countries of the Andean Community of Nations (CAN) provided for in Economic Complementation Agreements (ECAs) Nos. [58](#) and [59](#) (MERCOSUR-Peru and MERCOSUR-CAN respectively). These issues and the relationship with the Pacific Alliance will form part of the GMC's working agenda.

MERCOSUR-EU negotiation

One of the most relevant aspects of the Summit from the viewpoint of trade is the consolidation of a joint offer to submit to the European Union (EU) in the framework of negotiations toward an association agreement between the two blocs.

These talks were launched in 2000 (though there had been previous bilateral talks) and were suspended in 2004 due to the inability to reconcile their positions on certain issues. Although the negotiations resumed in mid 2010, progress was limited by the major differences between the two blocs' positions: MERCOSUR is calling on the EU to improve its agricultural offer (market access

and subsidies), while the EU is demanding greater industrial opening, services and government procurement.

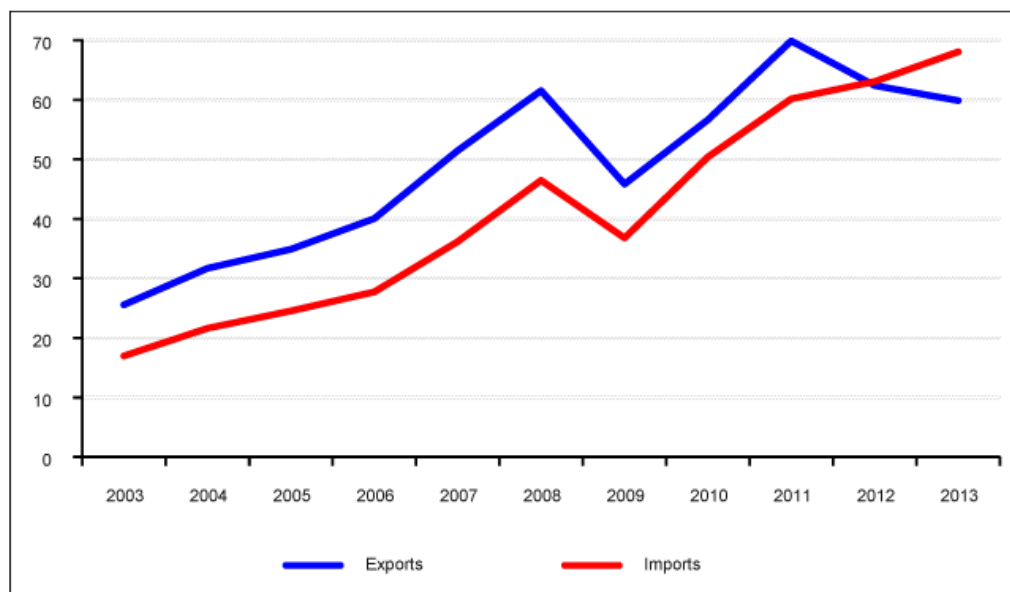
These talks involve only the founding members of MERCOSUR, since Venezuela does not participate in them.

Over the last two years, these four countries' trade with the EU has lost momentum as a consequence of the European crisis and the falling growth of the MERCOSUR economies.

In 2012 and 2013, the South American bloc's purchases from the EU grew at an average cumulative annual (c.a) rate of 6.4% and MERCOSUR's shipments to the European market fell 7.5% (c.a), contrasting with the expansion seen between 2003 and 2011 (13.4% (c.a) in the case of exports, and 17.1% (c.a) in the case of imports). With these results, bilateral trade, which had historically been in surplus for MERCOSUR, reversed its balance over the last two years and, in 2013, recorded a deficit of almost US\$8.2 billion (Figure 1).

Figure 1: MERCOSUR-EU Trade*

In billions of US\$



Note: * Does not include Venezuela, which is not participating in the biregional negotiation.
Source: Based on data from DATAINTAL.

As shown in Table 2, the pattern of trade between MERCOSUR and the EU is interindustrial: the South American bloc's exports are concentrated in products based on natural resources, whereas, in the EU, they are predominantly manufacturing-based.

Table 2: Composition of MERCOSUR*-EU trade

Share of total. 2013 data.

Exports			Imports		
1	Soybean Pellets	13.9%	1	Auto Parts	6.5%
2	Iron ore and concentrates	10.4%	2	Petroleum Oils (excl. Crudes)	6.3%
3	Soybeans	6.2%	3	Medications	3.8%
4	Coffee	4.1%	4	Automobiles	3.6%
5	Oil Platforms	3.9%	5	Blood, antisera, and immunological products	3.4%
6	Paper Pulp	3.4%	6	Natural Gas	2.2%
7	Copper ore and concentrates	3.2%	7	Insecticides, fungicides, herbicides	1.8%
8	Petroleum Oils (excl. Crudes)	2.9%	8	Heterocyclic compounds with carbon heteroatoms	1.8%
9	Fruit Juices	2.8%	9	Engine Parts	1.4%
10	Crude Oil	2.7%	10	Machines and mechanical devices	1.2%
	Others	46.5%		Others	68.0%

Note: * Does not include Venezuela, which is not participating in the biregional negotiation.

Source: Based on data from DATAINTAL.

Related articles

- IDB-INTAL. "[LAC-EU negotiations and Partnership Agreements](#)," in: *INTAL Monthly Newsletter No. 165*, May 2010.
- IDB-INTAL. "[First MERCOSUR-EU meeting since restart of talks](#)," in: *INTAL Monthly Newsletter No. 167*, July 2010.
- IDB-INTAL. "[Fresh round of MERCOSUR-EU talks](#)," in: *INTAL Monthly Newsletter No. 171*, November 2010.
- IDB-INTAL. "[No significant progress in MERCOSUR-EU talks](#)," in: *INTAL Monthly Newsletter No. 176*, April 2011.
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- IDB-INTAL. "[MERCOSUR-EU negotiations](#)," in: *INTAL Monthly Newsletter No. 179*, July 2011.
- IDB-INTAL. "[Developed countries' new trade measures could hit Latin America](#)," in: *INTAL Monthly Newsletter No. 179*, July 2011.
- IDB-INTAL. "[Following up the internal and external agendas](#)," in: *INTAL Monthly Newsletter No. 187*, March 2012.
- IDB-INTAL. "[MERCOSUR-EU: fresh talks and the end of the GSP](#)," in: *INTAL Monthly Newsletter No. 195*, November 2012.
- IDB-INTAL. "[Mega-agreement negotiations: how will they influence Latin America?](#)," in: *INTAL Monthly Newsletter No. 204*, August 2013.
- IDB-INTAL. "[MERCOSUR July Summit](#)," in: *INTAL Monthly Newsletter No. 215*, July 2014.

China: Bilateral agreements with MERCOSUR countries

The Chinese president, Xi Jinping, took part in the [Sixth BRICS Summit](#) and in the meeting of the Community of Latin American and Caribbean States (CELAC) and has signed agreements with some MERCOSUR countries.

Notable among the 20 agreements with [Argentina](#) are those relating to the construction of a hydroelectric dam and dredging vessels, as well as agreements on rail transport and agriculture. Also, the two countries' central banks have signed a local currency swap agreement for the equivalent of US\$11 billion over a three-year period in order to facilitate Chinese investments in Argentina and strengthen the South American country's international reserves.[1] The central banks had signed [a similar agreement in 2009](#).

[Brazil](#) too signed several agreements with the Asian country, on investment promotion of industrial cooperation and information technologies, civil aviation, energy, finance, infrastructure, mining, technology, agriculture, business visa facilitation, etc. Also of note is Embraer's planned sale to China of 60 aircraft, as well as strategic cooperation agreements between Electrobras, Furnas and Chinese firms for the construction of a hydroelectric plant.

Last, Venezuela signed several cooperation agreements with China, in addition to the ones signed by the two countries in the past few years. Petroleum, mining, agriculture, technology, and transportation are some of the areas covered in the recent agreements.

Related articles

- IDB-INTAL. "[China's greater presence in the world economy: currency swaps](#)," in: *INTAL Monthly Newsletter No. 153*, April 2009.
- IDB-INTAL. "[Sixth BRICS Summit](#)," in: *INTAL Monthly Newsletter No. 215*, July 2014.

[1] Source: BCRA.

Environmental and social issues in COSIPLAN project planning


The Strategic Environmental and Social Evaluation (EASE) methodology

The [EASE Methodology](#) is one of the tools promoted by UNASUR's South American Infrastructure and Planning Council (COSIPLAN): it incorporates environmental and social issues in infrastructure planning projects, and promotes the involvement of civil society and the participation and commitment of national and subnational governments. The aim of this methodology is to identify complementary actions to enhance the positive and minimize the negative impacts of projects, keeping in mind the sustainable development of territories where the works are implemented. The methodology is based on secondary information and the judgment of experts and key participants, to establish a constructive dialog between the governments of the countries involved, and between the technical team responsible for the application and the local and regional actors present in the projects' area of influence.

Application of the EASE methodology to the “Laguna Merín and Lagoa dos Patos Multimodal Transport” project

As part of the COSIPLAN-IIRSA Work Plan 2013, the application of the EASE methodology to the “Laguna Merín and Lagoa dos Patos Multimodal Transport” project was completed, and the relevant report was recently published. This is a binational project between Brazil and Uruguay, and forms part of the [Integration Priority Project Agenda \(API\)](#) and of the [COSIPLAN Project Portfolio](#) (see [project sheet](#)). It is at the execution stage and is scheduled for completion in 2015.

The objective of the project is to reactivate freight and passenger transport on the waterway formed by the Merín and Dos Patos Lakes and their tributaries. The project consists in the development of inland water transport and includes dredging, signposting, and beaconing of waterways, joint works in hydrographic surveying and mapping, and port construction. The application of the methodology to this project gives rise to specific lines of action grouped into



strategic components, involving environmental, social, local, border integration, and planning aspects, and the efficient management of inland waterways.

The Report's main conclusions

- The project's direct environmental impacts would generally be localized or temporarily specific, while the indirect effects arising from agricultural development would entail risks to biodiversity and the sustainable use of water and land resources. To prevent and manage these risks, measures should be taken to plan and control the process of expanding the agricultural border.
- Its appropriation by the territory's actors in order to strengthen the acceptance and use of the waterway is considered key to the project's development.
- The project's implementation will give rise to more trade in goods, changes in production, and new activities in the area of influence. It is key to promote relations of integration, complementarity, and inclusion that take into consideration the status of border territory with inequalities and that take advantage of opportunities without neglecting the quality of life of the region's population.
- The strategy for action proposed is a transverse one that strengthens the coordination of public policies requiring institutional coordination.
- Specific actions are recommended for the efficient management of navigable waterways, such as the improvement of complementary services, the development of a regulatory framework for binational multimodal transport, etc.
- The need to seek opportunities for local governments to achieve the results of the methodology's application, and the proposals generated may be included in their sectoral development agendas and programs.
- To consider the possibility of organically establishing in the EASE methodology the role of a Tracking Committee composed of the IIRSA's Technical Coordination Committee, the planning institutions of the countries involved in the Binational Project under evaluation, and members of the technical team responsible for its implementation.

Click on the links to read the [Executive Summary](#), [Final Report](#), and [Annexes](#). The Annexes detail the key participants interviewed, the interview structure, field visits, binational workshops, and the indicators obtained, among other activities.

Freight Transport and Logistics in the COSIPLAN agenda

The Workshop on Freight Transport and Logistics was held in Lima, Peru, August 5-6, as part of the COSIPLAN-IIRSA Work Plan 2014. The meeting was attended by representatives of the South American countries,[1] the UNASUR General Secretariat, ECLAC, and IIRSA's Technical Coordination Committee.

The workshop's objectives were to exchange experiences and national developments in freight transport and logistics, to identify lines of joint work in the ambit of the COSIPLAN, and to define the next steps in training public officials in this area.

At the national level, the officials of the government agencies and organizations linked to freight transport and logistics presented their experiences in public policy making and implementation, and the breakthroughs and challenges toward consolidating an institutional framework in this field. At the regional level, the country representatives agreed that freight transport and logistics are an important work area for the COSIPLAN. The region needs to expand its knowledge on the subject, as well as active participation from the public and private sectors, and institutional settings that promote the modernization and enhancement of freight transport and logistics systems. In this context, they agreed to move forward with two lines of joint work.

Civil servant training program

On the one hand, the country representatives agreed to move forward with a training program to strengthen the core competencies of freight logistics, both in the main conceptual axes and in certain management tools. The program is directed at officials in decision-making, analysis, and technical support positions. The program will be presented at the COSIPLAN's Fifth Regular Meeting for inclusion in the 2015 Work Plan.

Freight transport and logistics data and indicators

On the other hand, the importance of working toward the improving and updating of freight transport and logistics information was underlined, considering the existing experiences at national and regional levels, as was the definition of indicators to measure logistical performance. IDB made its extensive experience in this field available to the countries, drawing particular attention to the *Freight Logistics Statistics Yearbook*, and the Freight Transport and Logistics Regional Observatory (<http://logisticsportal.iadb.org/>).

The workshop's material is available [here](#).

[1] The meeting was attended by delegations from Argentina, Brazil, Chile, Colombia, Paraguay, Peru, Suriname, and Uruguay, both at the level of National Coordinators and of officials from government agencies and organizations linked to freight transport and logistics.



Meeting about La Quiaca-Villazón Bridge and Border Center

A bilateral meeting was held between Argentina and Bolivia, July 11, to outline the “La Quiaca-Villazón Bridge and Border Center” project at the headquarters of Financial Fund for the Development of the River Plate Basin (FONPLATA) in Santa Cruz de la Sierra, Bolivia.

The project plans the construction of a new bridge and border crossing control center to bring fluidity to binational heavy, individual, and pedestrian traffic, with an estimated investment of US\$15 million. In the regional perspective, it is part of the COSIPLAN’s Project Portfolio and the Integration Priority Project Agenda (API) (see [project sheet](#) the project).

As a result of the meeting, the delegations[1] agreed on the importance of carrying out the project, subject to endorsement by both countries.

For more information about the meeting, click [here](#).

[1] The meeting was attended by FONPLATA officials and representatives of the Subsecretariat of Territorial Planning of Public Investment of the Ministry of Federal Planning, Public Investment and Ministry of Foreign Affairs of Argentina, and of the Vice-Ministry of Transport and the Vice-Ministry of Public Investment and External Financing of Bolivia.

Progress in Argentina-Chile connectivity: Agua Negra Binational Tunnel

A bilateral meeting between Argentina and Chile on border crossings was held in Buenos Aires, Argentina, July 11. Argentina's Planning Minister and Chile's Minister of Public Works discussed the Investment Program and in particular the call to submit expressions of interest for the "Agua Negra Binational Tunnel" project. As a result of the meeting, it was agreed toward the end of the year to put together a record of the proposals submitted by the companies concerned and then proceed to the work's call to tender.

The Agua Negra Crossing is strategically located in the two countries' central belt and is one of the 13 road passes that Argentina and Chile have jointly earmarked for preferential budgetary attention with a view to making improvements. The project is currently at the preimplementation stage and consists in the construction of two 14km tunnels for one-way border traffic between San Juan Province in Argentina and IV Coquimbo Region in Chile. The aim of the project is to promote trade and tourism development, and provide a complementary connectivity solution to the Cristo Redentor Crossing System, especially at peak times or during temporary closures due to winter storms. The project envisages an estimated investment of US\$1.6 billion.


In the regional perspective, it is part of the [Project Portfolio of UNASUR's South American Infrastructure and Planning Council \(COSIPLAN\)](#) and the [Integration Priority Project Agenda \(API\)](#) (see [project sheet](#)).

The Agua Negra Tunnel Binational Entity ([EBITAN](#)) was formed on January 26, 2010, through the Supplementary Protocol to the Treaty of Maipú, signed by the two countries on October 30, 2009, with the aim of moving forward in the works related to the project.

A Territorial Integration Program for the Agua Negra Tunnel

In the framework of the COSIPLAN-IIRSA Work Plan for the present year, Argentina and Chile are working together on an action plan for a [Territorial Integration Program \(PTI\)](#) covering the project's area of influence.

PTIs aim to move forward on other aspects of territorial planning in order to optimize environmental management, add in productive integration and logistics topics, harmonize regulatory and policy matters, and enhance local impacts of infrastructure. PTIs are programs of actions complementing the physical works that require a management plan, the allocation of resources and responsibilities, and implementation deadlines. The technical studies and methodological tools developed in the framework of the IIRSA (e.g. the Productive Integration and Logistics Methodology, or the Environmental and Social Assessment Methodology with Strategic Approach) serve as a benchmark for the development of this program and can help to identify problems, challenges, and opportunities.



Related articles

- IDB-INTAL. “[Argentina and Chile relaunch Maipú Treaty](#),” in: *INTAL Monthly Newsletter No. 213*, May 2014.



New UNASUR Secretary General

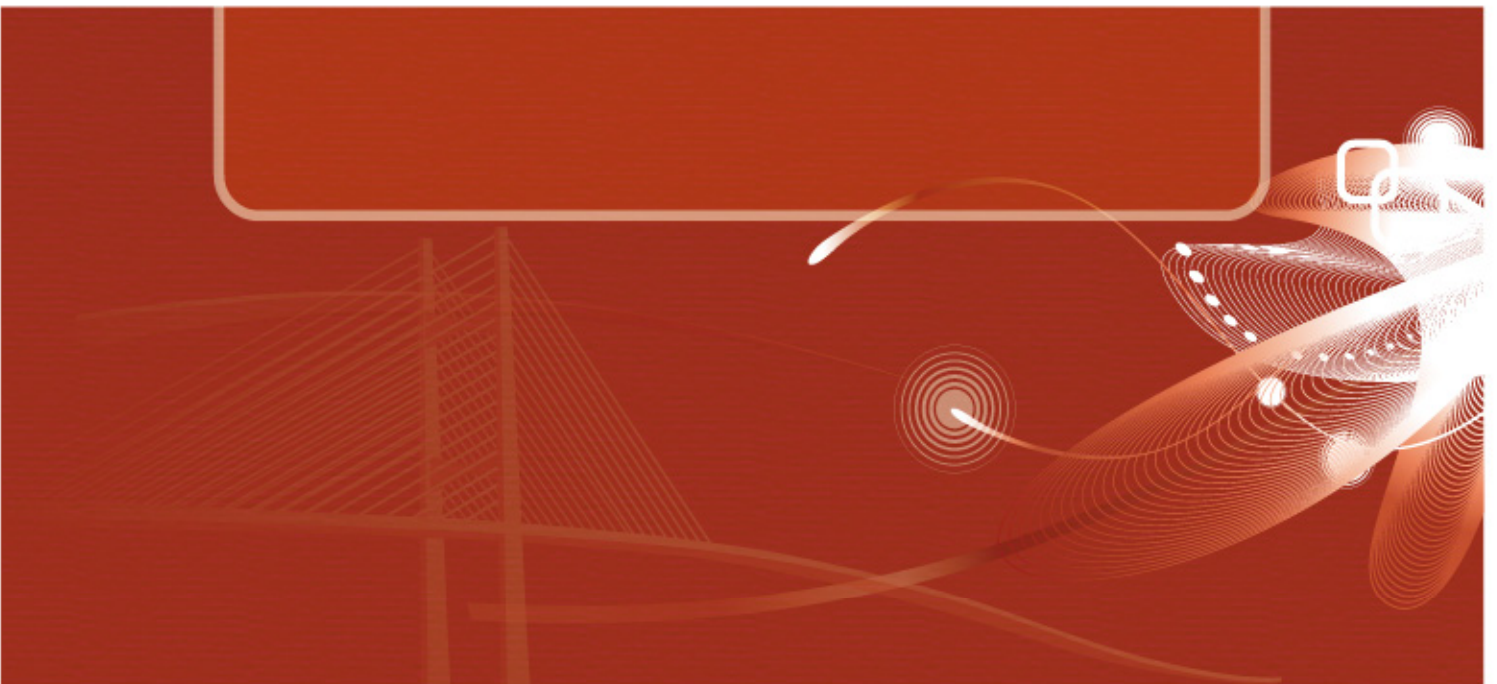
The UNASUR *Pro Tempore* Presidency confirmed former Colombian President, Ernesto Samper, as its [new Secretary General](#), August 22. Mr. Samper will succeed the Venezuelan, Alí Rodríguez Araque. Under Article 10 of the UNASUR's Constitutive Treaty, the post of Secretary General may be held for a period of two years (renewable). The post is fulltime and nationalities must be rotated.

Related articles

- IDB-INTAL. "[UNASUR approves its General Regulations](#)," in: *INTAL Monthly Newsletter No. 190*, June 2012.



Regional And Global Overview





WTO: Trade facilitation and food security

With no consensus having been reached among the member countries of the World Trade Organization (WTO), the July 31 deadline for the General Council to adopt a revised draft of the Protocol to the Trade Facilitation Agreement (TFA) came and went.[1] The Protocol was a central element in the “[Bali Package](#)” agreed at the WTO’s Ninth Ministerial Conference in December 2013. The [lack of agreement](#) stems from differences over the possibility of establishing public food security stocks, another component of the Bali Package. The WTO Agreement on Agriculture provides that national agricultural production subsidies in developing countries may not exceed 10% of the value of their agricultural product. However, as agreed in Bali,[2] such programs may not be legally challenged by other WTO members, even when levels of domestic support exceed the limits allowed, until such time as the permanent agreement is adopted.

On the one hand, India argues that state food procurement programs from resource-poor farmers at above market prices constitute a fundamental part of its efforts to ensure food security (FAO, 2013). The country contends that it is necessary to adjust the benchmark prices for calculating the maximum allowed, since the average level for 1986-1988 (agreed in the Uruguay Round) is well below current food prices. It has thus made the Amendment of the Protocol relating to the TFA and the other outcomes of the Bali Package conditional upon a satisfactory solution being found to this issue, according to a [press release](#) from India’s Trade and Industry Ministry.


On the other hand, some countries feel that greater flexibility in this issue would upset the balance of the Bali Package, which they argue should be fully respected. In particular, they claim that greater flexibility in the granting of subsidies could spread distorting practices, thus affecting the income of producers in the remaining economies and potentially impacting negatively on food security.

The WTO’s Director-General, Roberto Azevêdo, [called on WTO members](#) to deepen their efforts to achieve an agreement in September, after the summer recess in Geneva.

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Matthews, Alan. 2014. [Food Security and WTO Domestic Support Disciplines post-Bali](#). ICTSD Programme on Agricultural Trade and Sustainable Development. Issue Paper No. 53.



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- IDB-INTAL. [“WTO: Looking ahead to the Bali Conference,”](#) in: *INTAL Monthly Newsletter No. 202*, June 2013.
- IDB-INTAL. [“Least developed countries ahead of the Bali Conference,”](#) in: *INTAL Monthly Newsletter No. 205*, September 2013.
- IDB-INTAL. [“Agriculture ahead of the Bali Conference,”](#) in: *INTAL Monthly Newsletter No. 206*, October 2013.
- IDB-INTAL. [“WTO: First multilateral trade agreement,”](#) in: *INTAL Monthly Newsletter No. 208*, December 2013.

[1] The TFA’s aim is to contribute to the simplification of customs procedures in order to reduce trade costs, increase the speed, efficiency, and transparency of operations, and to reduce bureaucracy and corruption. It also includes provisions on goods in transit, as well as providing capacity building support for the least developed countries.

[2] WT/MIN(13)/38-WT/L/913.

BRICS: Agreements and economic size

With regard to the [Sixth Summit of Heads of State and Government of BRICS](#) (Brazil, Russia, India, China, and South Africa) last July, this article, on the one hand, describes the agreements reached and, on the other hand, assesses their importance in the global economy, their trade flows, and the trade agreements among them.

The main areas agreed at the summit are based on two pillars. On the one hand, there is the coordination of member countries in international forums such as the G-20 financial forum, emphasizing the position of need for reform in the global governance structure to better reflect the growing influence of developing countries. On the other hand, there is cooperation among members, with an agenda covering several areas and focusing on financial cooperation. In this sense, the creation of the New Development Bank is key, primarily in financing infrastructure and development projects not only in BRICS, but also in third countries; the BRICS Contingency Reserve Arrangement; the agreement among national development banks, and a memorandum of understanding among export credit agencies (see IDB-INTAL 2014).

Table 1: BRICS economic indicators

2013	Population (millions)	GDP (US\$ billions flows)	Per capita GDP (US\$ flows)	Exports (US\$ flows)
Brazil	201	2.243	11,159	242,178
Russia	143	2.096	14,627	527,266
India	1,224	1.871	1,529	336,611
China	1,357	9.185	6,767	2,209,007
South Africa 1/	52	382	7,346	95,225
BRICS % world total	41.6 %	19.8 %		18.1 %

Note: 1/ 2012 data. Source: BRICS Joint Statistical Publication 2014 and BRICS Policy Center.

On the one hand, BRICS together represent 41.6% of the world population (due to the combined size of China and India), and nearly a fifth of GDP and world exports, due mainly to the role of China (Table 1).

Intra-BRICS exports account for 9% of total external sales in these countries, and this proportion is higher in the case of Brazil and South Africa due to the importance of China as a destination for their shipments. For the four remaining members, China is a major source of imports (Table 2). In general terms, the pattern of intraregional trade is not significantly different to what the members export to the rest of the world: Brazil sells metals, and oilseeds and derivatives to BRICS; Russia and India sell oil, minerals, and metals, while India also positions textiles and chemicals; China exports electrical and nonelectrical machinery, textiles, and other manufactured goods, and South Africa, metals, and ores.

Table 2: Trade flows in BRICS

Billions of US\$. Year 2013.

	Brazil	Russia	India	China	South Africa	BRICS share in total exports
Brazil	-	2.974	3.130	46.026	1.836	22%
Russia	1.985	-	6.983	35.625	0.286	9%
India	6.112	2.419	-	16.417	5.742	9%
China	35.895	49.591	48.432	-	16.831	7%
South Africa	0.657	0.403	2.998	12.059	-	17%
BRICS share in total imports	19%	18%	13%	6%	24%	

Source: WITS.



So far, there are no far-reaching trade agreements among BRICS. In MERCOSUR, Brazil has signed fixed preference agreements with [India](#) and South Africa (and the other [SACU](#) countries), although it is not yet in force. These agreements only involve the liberalization of a limited group of products, but could, in the future, lay the groundwork for signing free trade agreements (FTAs). China and India are also negotiating the Regional Comprehensive Economic Partnership (RCEP) with other Asian countries, one of the most relevant regional mega-agreements currently under negotiation, while [India and South Africa](#) (also in the framework of SACU) are holding talks toward a partial scope agreement (PSA).

On the other hand, there is significant foreign direct investment (FDI) among BRICS. The most relevant involves China-India and Russia-China, with FDI flowing in both directions.

Related article

- IDB-INTAL. "[Sixth BRICS Summit](#)," in: *INTAL Monthly Newsletter No. 215*, July 2014.



Impact assessment







Impact assessment in integration and international trade

Impact assessment (IA) aims to establish the extent to which public policies and programs are effective. It is used to determine whether expected benefits materialize, if they can be improved, if resources are being used efficiently, and to answer other questions relevant to policy-making. This article is an introduction to the impact assessment in public policies and programs related to integration and international trade. It highlights both methodological challenges and practical implementation, and mentions their use in some IDB projects. Depending on the specific variants of these policies, existing studies can be classified into four main areas, as shown in Table 1.

Table 1: Classification of Impact Assessment studies

Policy	What Is Assessed	Studies
1.Trade Agreements	Effect of agreement on trade flows. ¹	Baier & Bergstrand (2009) estimate the effect of belonging to the European Economic Community (EEC) and the Central American Common Market (CACM) on trade flows between 1960 and 2000.
2. Trade Facilitation	Impact of programs aimed at reducing trade costs associated with regulations and procedures for goods crossing international borders.	Volpe, Carballo & Graziano (2012) assess the effect of customs waiting times on trade flows in Uruguay between 2002 and 2011.
3. Infrastructure & Trade	Effect on trade flows of transport infrastructure, such as roads, railways, and ports.	Volpe, Carballo & Cusolito (2013b) estimate the impact of new roads in Peru on exports between 2003 and 2010.
4. Export & Investment Promotion	Effect of programs on companies' exports performance and of investment promotion on foreign direct investment (FDI).	Volpe (2010) estimates the impact of various export promotion programs in Latin America. And Harding & Javorcikr (2007) estimate the impact of investment promotion on FDI in developing countries.

Note: 1/ It measures ex post effects, unlike other literature, which considers potential or ex ante effects, as the models of computable general equilibrium (CGE).

Methodological challenges

Impact assessment seeks to identify causal effects: the aim is to determine if the results in the unit of analysis (individual, company, etc.) can be **attributed** to public intervention or not, and it involves some methodological challenges. Unlike statistical analysis, where objectives can be inferred from **correlation** or dependence among variables, or estimate the probability of events, impact assessment seeks to establish **cause-and-effect relationships**. For example, in the context of an export promotion program, the fact that a company's external sales rise after completing the program is not sufficient to establish causality, as the rise may have been due to other factors. On the one hand, the key concept of impact assessment is **causal inference**. The main problem is that one cannot simultaneously observe a unit participating and not participating in the program. It is, therefore, necessary to estimate the outcome for participants if they had not been part of the program.

If beneficiaries are randomly assigned to a program (experimental design), the “control” group has features similar to the “treatment” group, with the exception that it does not take part in the program. Any differences between the two groups can, therefore, be attributed to the program. However, if the programs are not randomly assigned, as is usually the case, nonexperimental methods have to be deployed to estimate the “counterfactual,” i.e. to create a control group that resembles the treatment group in the observable characteristics.

On the other hand, it is difficult to establish the direction of **causality**. Two examples are given, illustrating the problem of reverse causality: according to Volpe (2010), the opening of a commercial office overseas may increase bilateral trade flows, but it may also happen that exporting countries increase the number of commercial offices in importing countries in answer to greater bilateral trade flows. According to Mesquita Moreira *et al.* (2013), lower transportation costs result in a higher levels of exports, but it may also that high volumes of exports give rise to economies of scale that bring down transportation costs.

This reverse causality necessitates greater efforts to avoid biasing in the estimates of the programs' effects. In the case of infrastructure, the location of which is determined by a complex interplay of political, economic, social, and even environmental factors, studies seek sources of exogenous variation in order to estimate its causal impact on the variables of interest. Volpe & Blyde (2013a), for example, use the earthquake in Chile in February 2010 as a sort of “natural experiment” to estimate infrastructure's impact on exports. The earthquake damaged some sections of road, affecting the transport costs of some companies sending goods to the border. The authors contrast the exports of the companies concerned with those unaffected, checking against other factors, and find that the destruction of infrastructure by the earthquake had a strong negative impact on the values and quantities exported by companies.

Table 2 shows some microdata-based methods that can be used in combination.

Table 2: Some methods used in Impact Assessment

Method	Description	Example of studies
1. Instrumental Variables	The effect of the program can be estimated by exploiting an instrumental variable correlated with the status of participation in the program, but not directly with the result.	Among other relevant variables, Sequeira (2014) estimates the effect of the rebuilding of a railroad and the consequent reduction in transport costs on the export behavior of firms in South Africa. The instrumental variable for the cost of transport is the distance between a company and a working rail station.
2. Regression Discontinuity Design)	A variable experience needs to experience a discontinuity, with a clearly defined threshold on the basis of which the beneficiaries of the program are selected, i.e. participation is subject to an index or scoring system. The results of the treatment group and the control group around the threshold are compared.	Casaburi <i>et al.</i> (2013) estimate the impact of improvements to rural roads on transport costs and on the price of the products in Sierra Leone. These authors exploit the discontinuity between restored roads (with a score based on a number of variables) and unrestored roads.
3. Differences-in-Differences	It measures the change over time of the treatment group against the control group.	Volpe, Carballo, & Cusolito (2013b).
4. Matching	For every unit receiving the treatment, at least one unit without treatment is identified, with features similar to the first, and a control group is thus built up.	Baier & Bergstrand (2009).

Source: Table 6 Scanlan (2012), Gertler et al. (2011), and Khandker et al. (2010).

Practical implementation challenges

As happens in other areas of economic development (health, poverty, employment, education), impact assessment in international trade is a complex task involving various challenges, methodological questions aside, in terms of practical implementation. First, a frequent restriction for impact assessment is the limited availability and quality of the **data**. In particular, the baseline data must be collected before the implementation of the programs.

Second, impact assessment is usually costly, involving an investment of resources, that may represent a significant proportion of trade-associated projects, which tend to involve lower amounts than other health- or poverty-oriented (Cadot *et al.*, 2011).

Third, there are problems of **incentives** between those responsible for the programs and the assessors: program leaders may prefer not to disclose the results, especially if they are negative, or if future allocation of resources depends on them. Although the collaboration between them is important for the success of the IA, there must be a degree of independence for that assessment to be carried out with objectivity (Gertler *et al.*, 2011). Here, Cadot *et al.* (2011) argue that the decision to implement and finance impact assessment studies should not lie with project operators.

Impact Assessment in IDB projects


As part of the [Development Effectiveness Framework](#), IDB measures the ability to evaluate proposed projects with a series of development effectiveness matrices (DEM), which include impact assessment studies. For example, El Salvador's [Program to Support Production Development for International Integration](#) plans to measure its impact on total external sales, products exported, and target markets for assisted SMEs (using the differences-in-differences method, and the combined method of matching and differences-in-differences), comparing the results obtained with the information of the baseline year. Uruguay's [Program to Support Global Export Services](#) plans to assess their impact on the services exports and employment of supported companies (using the combined method of matching and differences-in-differences), on capacity building (using regression discontinuity design), and on the times and costs associated with the processes of foreign trade (using differences-in-differences), identifying baseline values.

Impact assessment in the *INTAL Monthly Newsletter*

In spite of the challenges involved, it is important for international agencies, the organizations that study public policies, and the officials responsible for designing and implementing those policies, to continue, wherever possible, to promote the deployment of impact assessment in international trade projects in order to gather evidence about the results achieved by programs. The *INTAL Monthly Newsletter* will be publishing news of interest on this issue, including any relevant studies.

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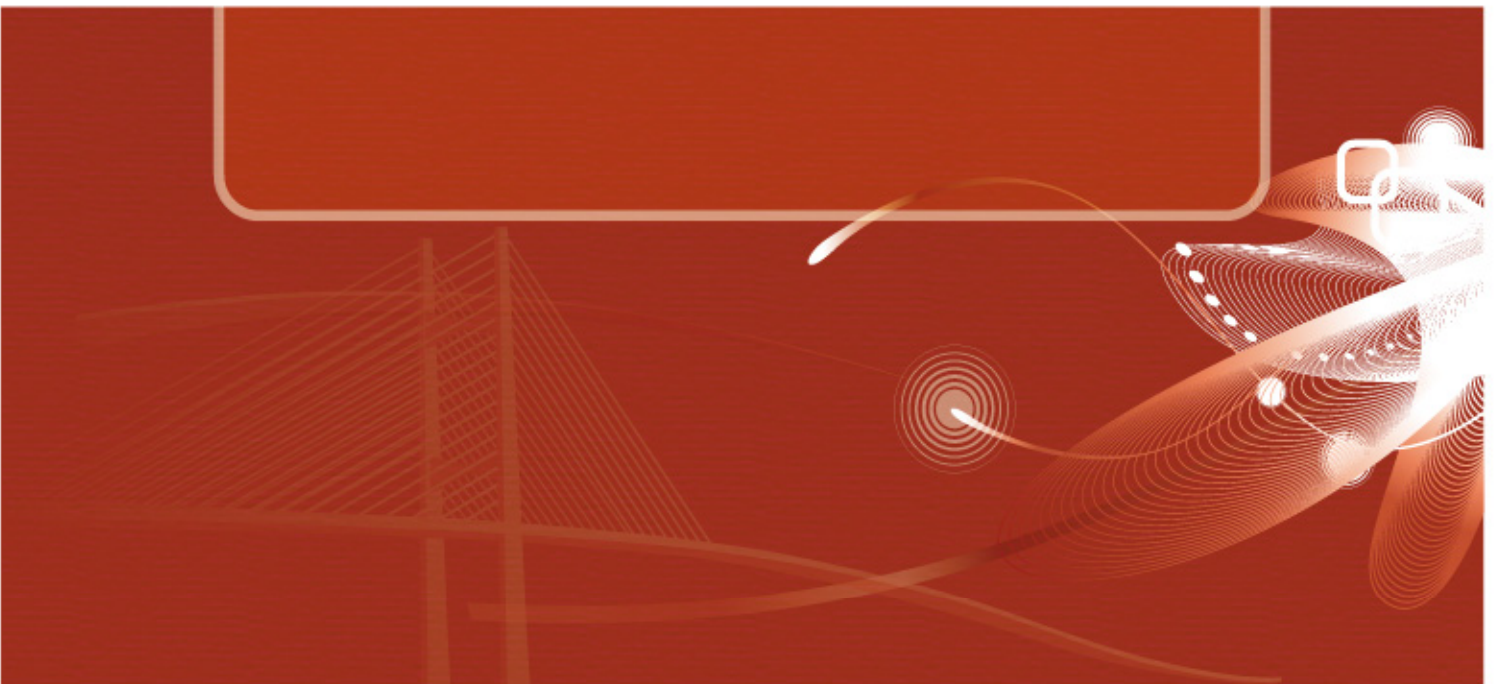
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Other IDB Activities







IDB President and Presidents of Honduras, Guatemala and El Salvador meet in Washington

Leaders seek to strengthen programs providing education, protection of at-risk youths, productive development and job creation in response to immigration crisis ([Link](#)).



China y América Latina unidas a través de Desarrollo Urbano (only in Spanish)

Para 2020 tanto China como América Latina contarán con 7 ciudades de más de 10 millones de habitantes. Como hoy, no serán pocos los desafíos para una urbanización sustentable ([Link](#)).



IDB launches virtual business community for small and medium-size Latin American companies specializing in infrastructure

Trade Americas & ConnectAmericas Expo will bring together hundreds of companies from the sector on September 3-4 in Miami ([Link](#)).

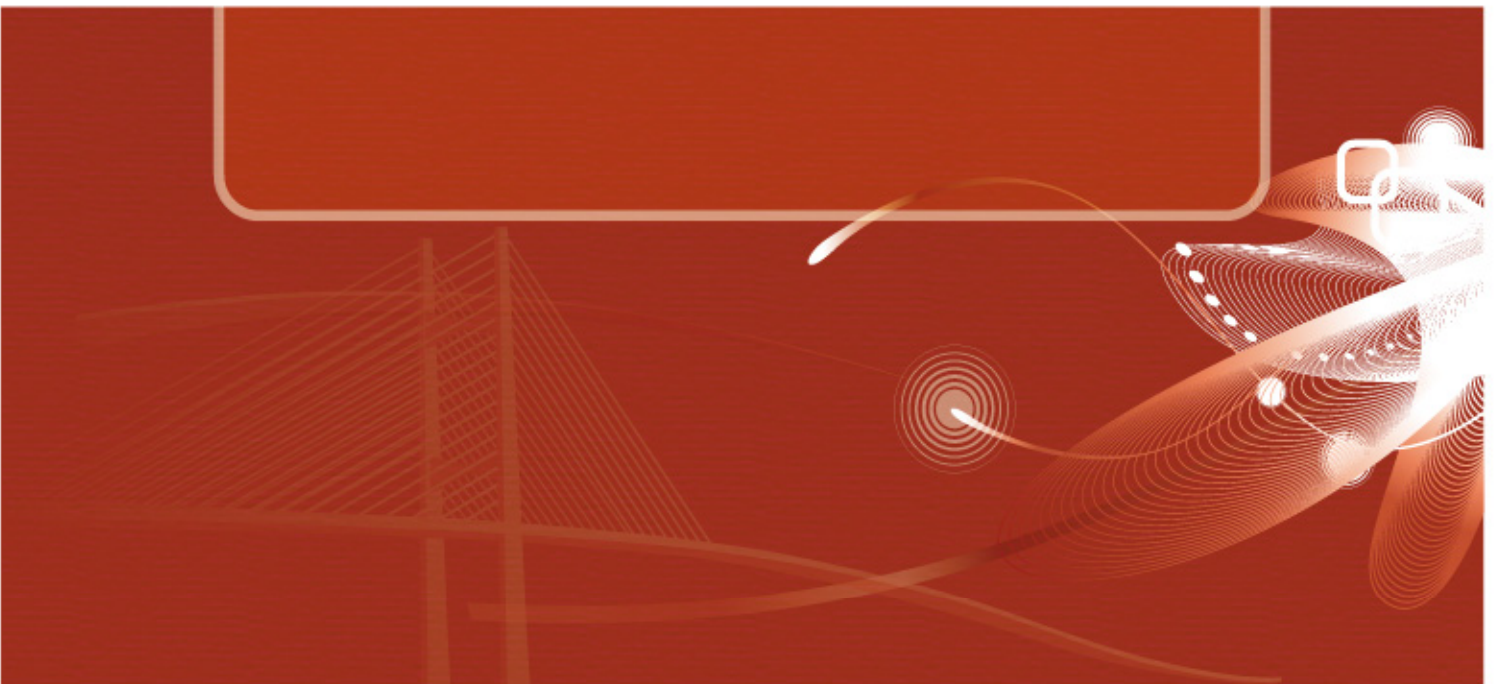


Inter-American Development Bank highlights catalytic role of women-led SMEs

The 2014 Global Banking Alliance for Women Annual Summit will be held September 17-19 in Washington, D.C. ([Link](#))



Integration and Trade Sector







Integration & Trade Journal No. 38: Support to Border Integration and Border Trade Facilitation in Latin America and the Caribbean (LAC)

The double challenge of borders: security and facilitation

The Inter-American Development Bank, in the framework of its integration mandate in the region, has been supporting and working in actions to further the development of border areas, as well as cooperation and cross-border integration through binational and regional agreements. The latest issue of the *Integration & Trade Journal* seeks to reflect a variety of experiences in this field and includes a series of contributions that explore the challenges and opportunities for improvement in the field of facilitation, security, integration, and development in border areas in the various subregions of LAC.

To access the full issue of *Integration & Trade Journal No. 38 (Spanish version)* click [here](#). (English version forthcoming in September).



Legal Instruments of Integration (IJI) Observatory

Trending of the month

Progress in negotiations and agreements with the EU

The most relevant trend in July 2014 at the level of the region's trade negotiations and agreements has been the emphasis on new developments in those involving the European Union (EU) as a partner. Ecuador, Central America, and the countries of the Southern Common Market (MERCOSUR) are the major players in this line of action.

Ecuador

- After the [Fourth Negotiating Round between Ecuador and the EU](#) in Brussels, Belgium, July 9-17, the parties reached an agreement that will allow Ecuador to join the Multi-Party Trade Agreement already concluded with Peru and Colombia. Mechanisms were agreed to safeguard the interests of the most sensitive production sectors.

Central America

- One year on from the signing of the Association Agreement (ADA) between Central America and the EU, the Secretariat for Central American Economic Integration (SIECA) undertook an [analysis of bilateral trade between the Parties in the first trimester of 2014](#). It is being sought to make better use of the agreement.

MERCOSUR

- Four of the five [MERCOSUR](#) countries (Brazil, Argentina, Paraguay, and Uruguay) completed the drafting of a single offer to negotiate a free trade agreement (FTA) with the old continent. Their proposal is awaited for the exchange to be made.

360° view

July saw progress being made in 5 trade negotiations (4 advanced and 1 concluded). There was also relevant activity in other ongoing agreements.



Advanced negotiations

- [First Negotiating Round of the FTA between Mexico and Turkey](#) in Ankara, Turkey, July 14-16.
- [VI Sixth Negotiating Round toward an Economic Association Agreement between Colombia and Japan](#) in Bogota, Colombia, July 14-18.
- [Summit Meeting of the Community of Latin American and Caribbean States \(CELAC\) and the People's Republic of China](#) in Brasilia, Brazil, July 17, 2014.

Concluded negotiations

- Close of negotiations between Ecuador and the EU in Brussels, Belgium, July 17.

Trade agreements

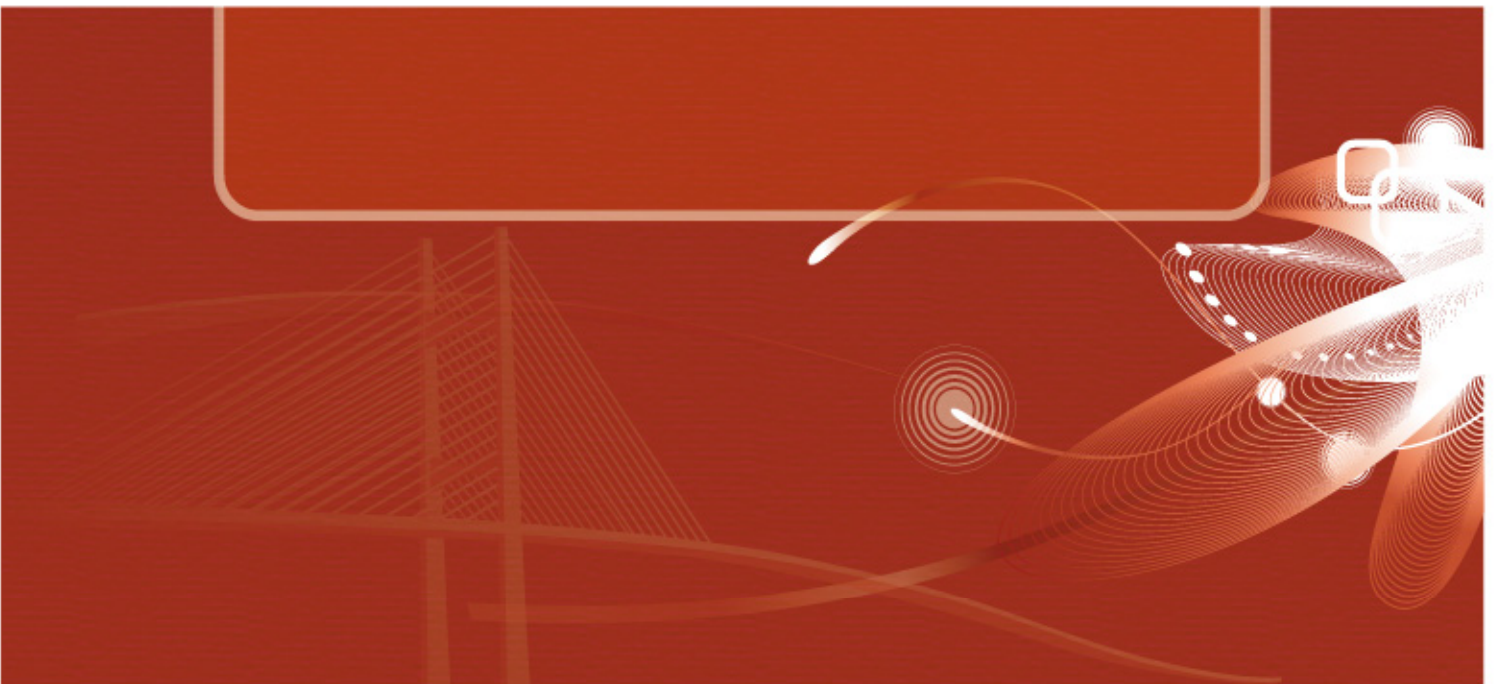
- [Thirty-Fifth Annual CARICOM Heads of Government Conference](#) in Saint John's, Antigua & Barbuda, July 1-4.
- [IV Fourth Meeting of the Mexico-Bolivia Permanent Binational Commission](#) in Mexico, D.F., Mexico, July 2.
- [First CARICOM-Japan Summit](#) in Trinidad & Tobago, July 28, 2014.
- [XLVI Forty-Sixth MERCOSUR Presidents Summit](#) in Caracas, Venezuela, July 29.
- [Working Meeting](#) of the High-Level Group of Vice-Ministers of Foreign Affairs and Foreign Trade of the Andean Community (CAN) to move forward with the reengineering of the Andean Integration System.

IJI is a compilation of normative texts, comments, and follow-up on the basic legal commitments of the various integration processes of Latin America and the Caribbean. To learn more about advances and developments in trade agreements and negotiations visit the [IJI website](#).





INTAL Documentation Center








Reviews

Kiriyaama, N. (2012), “Trade and Innovation: Synthesis Report,” OECD Trade Policy Papers, No. 135, OECD Publishing.

Innovation involves new developments in the creation and diffusion of products, processes, and methods (marketing, business organization), and is a source of economic growth, enabling the establishment of industries, businesses, and jobs. This report by the Organization for Economic Cooperation and Development (OECD) analyzes three channels through which trade impacts on innovation—an issue less studied than its links with economic growth—by reviewing works containing empirical evidence and some policy implications.

First, trade acts as a channel for technology transfer. Imports and foreign direct investment (FDI) make it easier for companies to access technology, which may work as a basis for product, process or organizational innovation. By looking at various different works, the report assesses the spillover effect of the countries investing most in research and development (R&D) on factor productivity and business innovation in the less developed countries. The review also examines the impact of FDI on innovation in recipient countries, through spillover effects both horizontal (companies that copy multinational subsidiaries’ behavior) and vertical (by technology provision). Trade in technology, through intellectual property licensing, is another important channel of diffusion. Second, trade can affect innovation through competition, with contrasting but not contradictory effects. On the one hand, competition influences innovation by acting as an incentive for firms to become more efficient. On the other hand, it reduces the monopoly rents that induce a firm to invest in innovation.

Third, exporting can encourage innovation activities. While the exporting companies are usually more productive than those geared only toward the domestic market, the direction of the causality is not set in stone: on the one hand, there is a selection bias (the most productive firms self-select toward export markets) while, on the other, exportation can make businesses more productive (“learning by exporting”).



In terms of public policy, the report highlights three sets of issues: the absorptive capacity of technology, trade liberalization, and the protection of intellectual property rights.

First, *absorptive capacity* (the degree to which companies and countries can benefit from the international technology diffusion) depends on aspects in which public policies can have a direct and indirect influence. These include the skill levels of the workforce, R&D capacities, the business climate, macroeconomic stability, quality of regulation, and the actions taken by governments to overcome market failures.

Second, according to the works cited, multilateral *liberalization* and the reduction of technical barriers to trade can promote the innovation efforts of exporting companies.

Third, the protection of *intellectual property rights*—mainly by patents—is positively associated with innovation and technology transfer, although it has different impacts depending on the sector: it is more efficient in the chemicals and pharmaceuticals sector than in the information and communications industry, where it is more difficult to identify the patentable elements and product lifecycles are shorter.

The publication's value lies in its comprehensive review of the empirical evidence in the literature on the various different channels through which international trade can boost innovation, including policy recommendations to develop it. While the report describes some effects of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (WTO), it nevertheless omits certain important issues. It would be interesting, for example, to have an overview of these issues' coverage in regional trade agreements (RTAs), both recent and under negotiation, as well as the risks for developing countries in modifying their intellectual property laws to bring them into line with the commitments undertaken in the framework of the WTO and the RTAs.

Kiriyaama, N. 2012. "Trade and Innovation: Synthesis Report." Paris: OECD. [Link](#)



Bibliographic alert

This weekly alert disseminates information on the highlighted documents recently uploaded in the INTAL Documentation Center Data Base (CDI). It also provides links to open access bulletins and journals in Spanish, Portuguese and English. Click [here](#)

Monthly Highlights

***Messerlin, P. (2014). The Transatlantic Trade and Investment Partnership and the Developing Countries. Paris: Grupe d'Economie Mondiale.**



Autor: Messerlin, Patrick

Título: The Transatlantic Trade and Investment Partnership and the Developing Countries

Edición: Paris: Grupe d'Economie Mondiale, may 2014 [40 p.]

Serie: Policy Brief; MAY.

Temas: <RELACIONES COMERCIALES><NEGOCIACIONES COMERCIALES><PAISES EN DESARROLLO><COMPRAS DEL ESTADO><INVERSIONES>

Resumen: This paper aims to provide an overview of the main aspects of the TTIP negotiations and an very early assessment of the results that could be expected with a focus on the possible TTIP discriminatory impact on non-TTIP countries ... The paper is organized in seven sections. The six first ones deal with a distinct negotiating "block": industrial goods, farm and food products, services, investment, government procurement, and "new rules". There is no section on the intellectual property rights per se because the three main issues in this domain are included in the negotiating block to which they pertain (patents in the industrial goods block since it focuses on pharmaceuticals and chemicals, geographical indications in the farm and food products block, and copyright protection in the services block because of its relation with cultural and audiovisual services). The seventh section focuses on a key question: what could and should do non-TTIP countries? The TTIP endeavor is the biggest mega-PTA to date, hence it can legitimately raise concerns on its discriminatory impact on non-TTIP countries.



Accesos al documento:HM GEM-TRADE.POL. MAY. [2014]

Documento Electrónico

[texto completo](#). Si no pudo acceder haga click [aqui](#)

***Ortiz, M., coord. (2014). Las Américas y la Unión Europea ante los nuevos escenarios en las relaciones comerciales y políticas. San José: FLACSO.**



Autor: Ortiz, María Salvadora, coord.

Título: Las Américas y la Unión Europea ante los nuevos escenarios en las relaciones comerciales y políticas

Edición: San José: FLACSO, junio de 2014 [211 p.]

ISBN: 978-9977-68-276-1

Temas: <RELACIONES INTERNACIONALES EN GENERAL><RELACIONES COMERCIALES><COMERCIO EXTERIOR><POLITICA COMERCIAL><ACUERDOS REGIONALES DE COMERCIO><ACUERDOS DE LIBRE COMERCIO><UNION EUROPEA, UE>

Geográficos: <AMERICA LATINA><EUROPA>

Resumen: Con motivo de la apertura del proceso de negociaciones entre EE.UU. y la UE sobre un acuerdo de libre comercio (Transatlantic Trade and Investment Partnership, TTIP), en junio de 2013, la Secretaría General Iberoamericana (SEGIB) convocó a un seminario que reunió a un grupo de destacados expertos europeos y latinoamericanos para debatir las consecuencias del mismo en las economías emergentes de América Latina y el Caribe ... Las discusiones del seminario se organizaron en torno a tres temas: 1) las posibles consecuencias del TTIP sobre los países de América Latina; 2) las relaciones transpacificas de América Latina, vis a vis su vínculo atlántico, y 3) las oportunidades de colaboración de los Estados Unidos y Europa en la actual escena latinoamericana.

Nota de contenido:

Presentación / Iglesias, Enrique V. [p. 5]

Introducción / Ortiz, María Salvadora [p. 9]

Sesión inaugural

- Nuevos acuerdos regionales: riesgos y oportunidades / Iglesias, Enrique V. [p. 19]
- España ante el futuro acuerdo UE-EE.UU. / Gómez de Olea, Pablo [p. 29]
- Convergencia y diversidad de los procesos de integración / Estrella, Rafael [p. 35]
- América y Europa: una relación con grandes posibilidades / Poveda, Tomás [p. 39]

I: El tratado de libre comercio entre EE.UU. y la Unión Europea: consecuencias y efectos en América Latina

- A modo de introducción / Fernández de Soto, Guillermo [p. 45]
- Situaciones diferentes, un mismo objetivo / Salafranca, José Ignacio [p. 47]

47]

- La diversidad de América Latina de cara al Acuerdo Transatlántico / Ferrero-Waldner, Benita [p. 57]

- Un escenario de oportunidades / Dueñas, Tomás [p. 67]

- Comentarios finales / Quenan, Carlos [p. 73]

II: Las Américas: ¿Miran hacia el Atlántico o hacia el Pacífico?

- Solidez de las relaciones transatlánticas / Roy, Joaquín [p. 83]

- Una pregunta clásica, una respuesta clara / Blanque, Jean Michel [p. 87]

- América Latina ante una opción de suma variable / Muñoz, Heraldo [p. 93]

- Comentarios finales / Gratius, Susanne [p. 103]

III: Oportunidades de colaboración EE.UU. - Europa en la actual arquitectura latinoamericana

- Conciertos y desconciertos en el Triángulo Atlántico / Sanahuja, José Antonio [p. 109]

- Un escenario de oportunidades y desafíos / Schäfer, Roland [p. 131]

- Superar el Estado-Nación / Fonseca Morillo, Francisco [p. 137]

- Comentarios finales / González Vallvé, José Luis [p. 143]

Clausura

- Aceptar la incertidumbre / Iglesias, Enrique V. [p. 149]

- El centro geoestratégico se traslada a América / Poveda, Tomás [p. 157]

- Un acuerdo con implicaciones globales / Quiñonez, Alfonso [p. 163]

- Evitar falsas dicotomías / Estrella, Rafael [p. 169]

Epílogo / Iglesias, Enrique V. [p. 171]

Anexo

- Relatoría / Gratius, Susanne [p. 181]

Accesos al documento:339.9 / ORT-AME / 2014

Documento Electrónico

[texto completo](#). Si no pudo acceder haga click [aquí](#)

***Dussel Peters, E., coord. (2014). La inversión extranjera directa de China en América Latina: 10 estudios de caso. México: Unión de Universidades de América Latina y el Caribe.**



Autor:Dussel Peters, Enrique, coord.

Título:La inversión extranjera directa de China en América Latina: 10 estudios de caso

Edición:México: Unión de Universidades de América Latina y el Caribe, 2014 [352 p.]

ISBN:978-607-8066-09-4

Temas:<RELACIONES MULTILATERALES><RELACIONES BILATERALES><DESARROLLO ECONOMICO><COMERCIO INTERNACIONAL><ECONOMIA INTERNACIONAL><INVERSIONES><INVERSION EXTRANJERA DIRECTA, IED>
Geográficos:<CHINA><AMERICA LATINA>

Nota de contenido:

Introducción / Dussel Peters, Enrique [p. 7]

· Argentina y China: nuevos encadenamientos mercantiles globales con empresas chinas. Los casos de Huawei, CNOOC y Sinopec / López, Andrés; Ramos, Daniela [p. 13]

1: Los flujos de comercio e inversión bilaterales [p. 14]

2: Caso 1. Industria petrolera (CNOOC y Sinopec) [p. 23]

3: Caso 2. La industria electrónica (Huawei) [p. 46]

· Las relaciones económicas entre Brasil y China a partir del desempeño de las empresas State Grid y Lenovo / Freitas Barbosa, Alexandre de; Tepassê, Angela Cristina; Neves Biancalana, Marina [p. 61]

1: Cuadro general de las relaciones económicas entre Brasil y China en los años 2000 [p. 61]

2: El desempeño de State Grid en Brasil [p. 75]

3: El desempeño de Lenovo en Brasil [p. 95]

· La inversión extranjera directa de China en Perú. Los casos de China Fishery Group y Chinalco / Fairlie, Alan [p. 133]

1: Relaciones comerciales y de inversión Perú-China [p. 140]

2: Casos de estudio de empresas chinas en Perú [p. 148]

· China y Uruguay. El caso de las empresas automotrices Chery y Lifan / Bittencourt, Gustavo; Reig, Nicolás [p. 227]

1: Relaciones económicas (comercio e inversiones) entre Uruguay y China [p. 229]

2: Estudios de caso: empresas Chery Socma y Lifan [p. 241]

3: Principales características de la empresa china Chery y las actividades de su filial Chery Socma [p. 249]

4: Principales características de la empresa china Lifan y las actividades de su filial Besiney S.A [p. 258]

· La inversión extranjera directa China en México. Los casos de Huawei y Giant Motors Latinoamérica / Dussel Peters, Enrique [p. 273]

1: El comercio y la IED entre México y China (2000-2013) [p. 275]

2: Dos estudios de caso: Huawei y Giant Motors Latinoamérica [p. 290]

Accesos al documento: 339.9 / DUS-INV / 2014

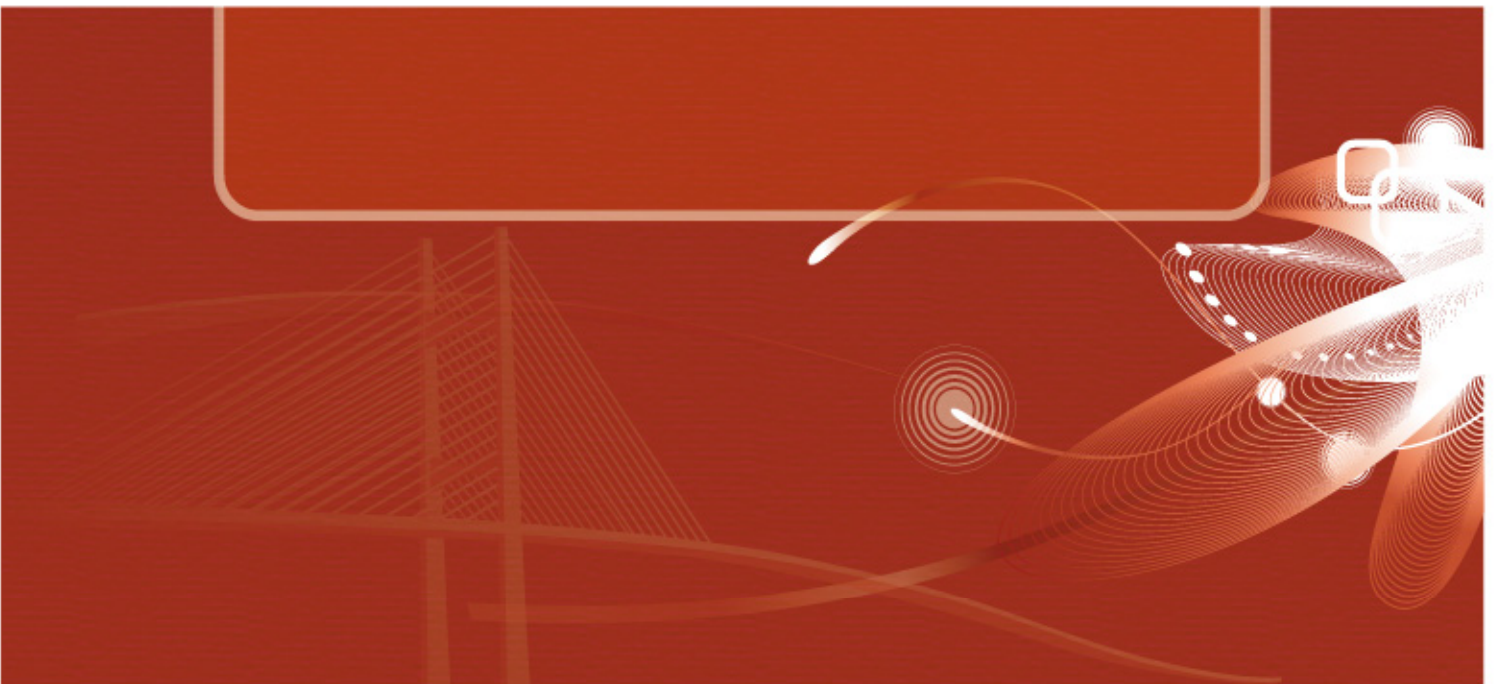
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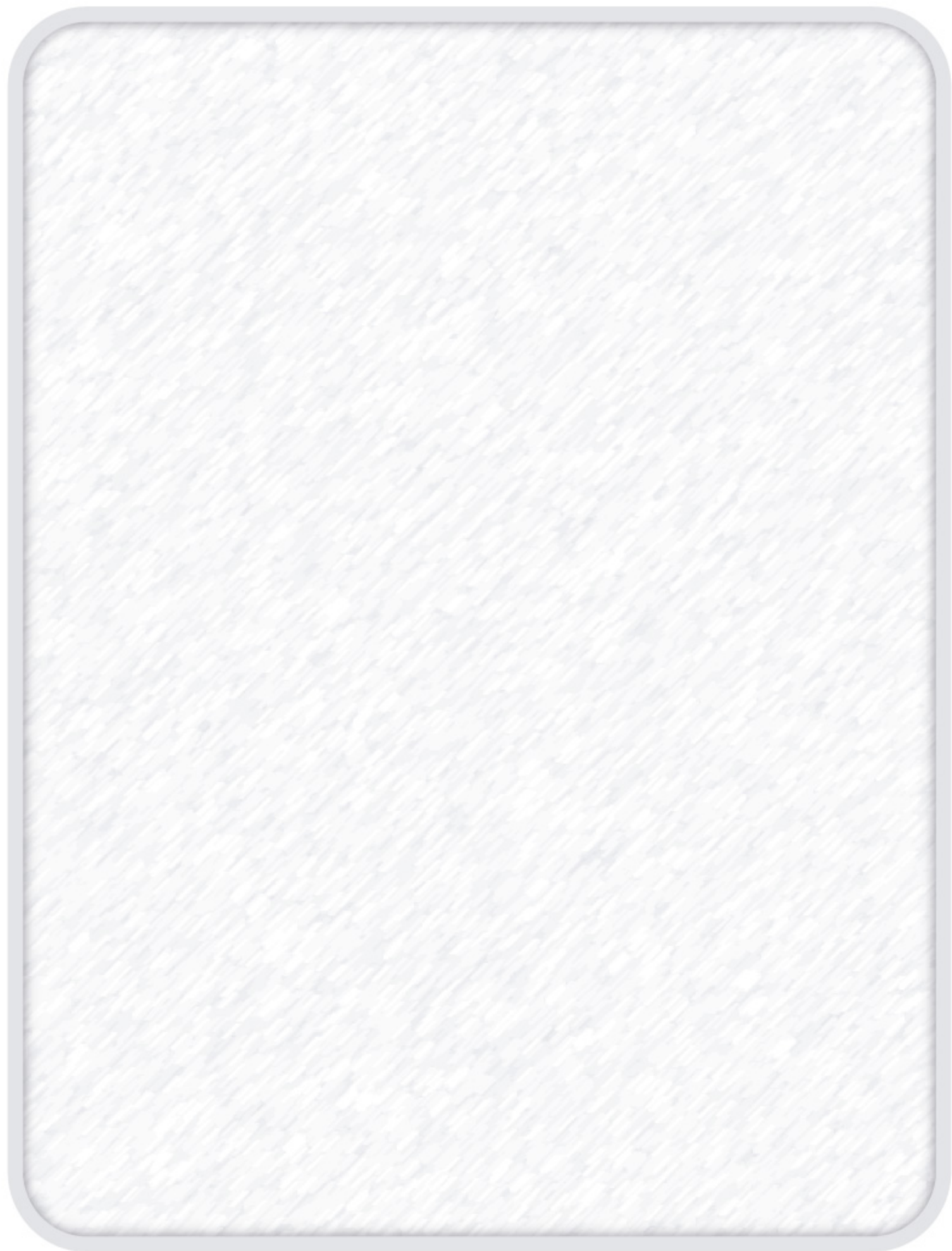
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