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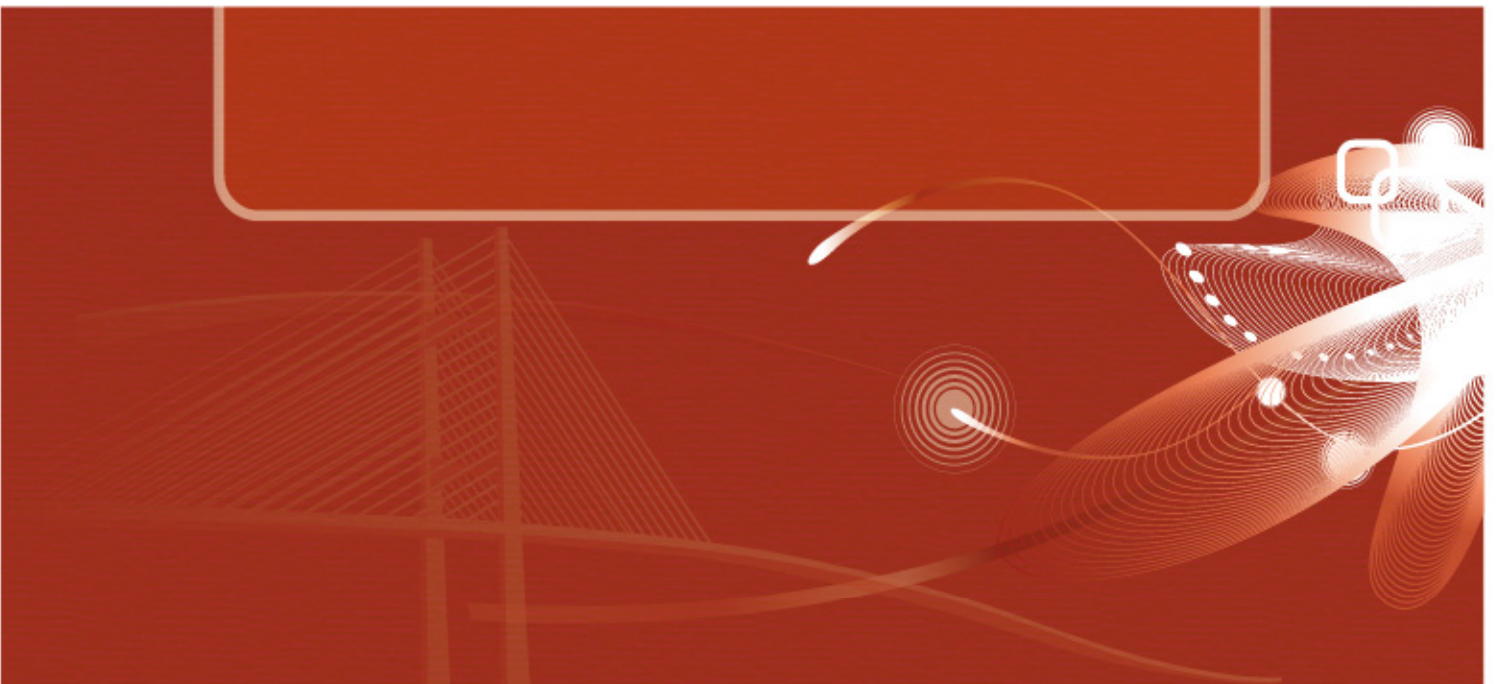
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Analysis Column





Inequality in Latin America: lessons from history

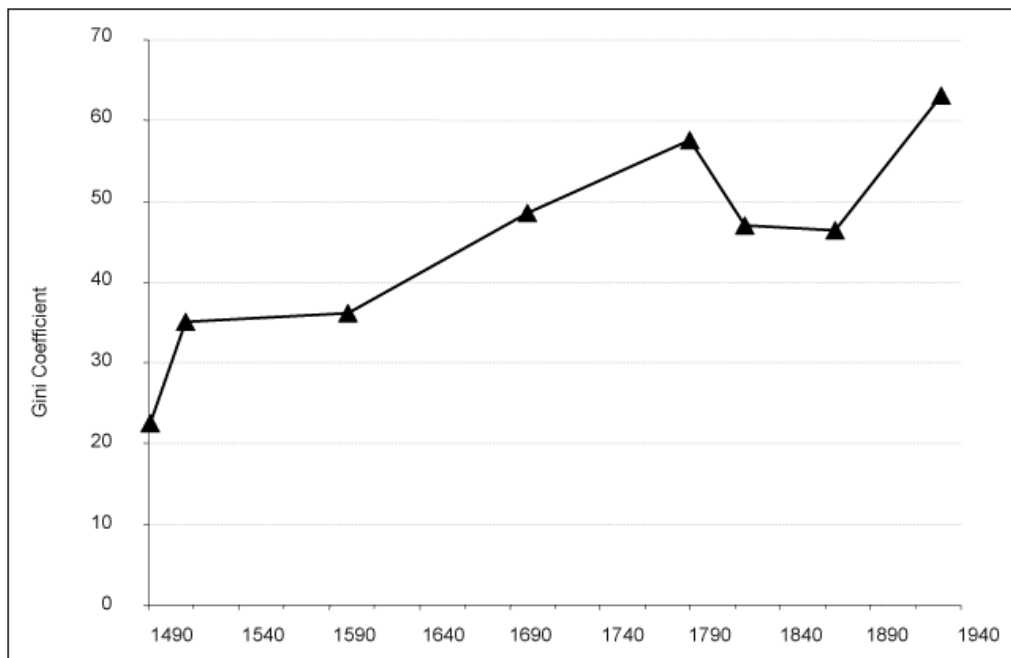
What lessons does a long-term perspective on inequality in Latin America offer us?[1] There is no doubt that many of these lessons are extremely useful when it comes to thinking about the challenges of the present. These are some of the conclusions to emerge from the presentations at the seminar “[Latin American inequality in the long term](#),” organized by IDB, the World Bank, and ECLAC in the Prebisch Auditorium of the Institute for the Integration of Latin America and the Caribbean (IDB-INTAL), Buenos Aires, Argentina, December 3-5, 2014. Among other contributions, the long-term view allows us to observe how variables such as education, fiscal policy, land ownership, the make-up of the elites, different economic strategies, and demographic and natural factors have affected equity, while also allowing us to discern what has happened with class, gender, and ethnic inequalities throughout history. Based on the main findings of a group of papers presented at the seminar, this article looks first at the central controversy over the history of inequality in the region and at the most innovative contributions presented on the subject. It goes on to review the long-term evolution of gender and ethnic inequalities. Last, it examines a long-term example of inequality, and concludes with some thoughts on the use of history when thinking about the challenges of the present.

Latin American inequality: a historical persistence?

If there is consensus over the increase in income inequalities in the latter decades of the twentieth century in the region, the more we look toward the past, the more positions diverge. However, the perspective that garners most consensus among historians is the one that places the origin of inequities in the colonial period. In general terms, and with nuances across various authors, such a judgment is based on the extractive nature of the colonial economy, the restrictions on economic development imposed by the Spanish and Portuguese crowns on their colonies, the structure of land ownership, and the powerful configuration of local elites which later crystallized in the nascent Republics as institutions, class structure, and power coalitions that perpetuated and reinforced the preexisting inequalities. The presentation by *Luis Bertola* at the seminar explored this line of argument. He contended the need to observe past inequality not just in relation to income, but in a broad perspective that includes the colony’s particular social structure, the existence of slaves and other forms of subordination and servitude, restrictions on citizenship, and access to land, as well as other dimensions. And, while these elements may not be reflected in income, they undoubtedly constituted deep-seated forms of inequality. Furthermore, he pointed out that the region’s problem since the nineteenth century has, above all, been economic volatility since the marches and countermarches in development have brought with them deep fluctuations in terms of inequality. He also stressed the need to reexamine the relationship between growth and inequality, arguing that, if it was to grow, the region apparently had to create inequality but that this inequality was also a weak basis for sustainable growth. Moving on to examples of national cases, the presentation by [Jorge Gelman and Daniel Santilli](#) for Buenos Aires through colonial times to the end of the nineteenth century, by and large shared this perspective of inequality with historical roots.


A different perspective was put forward by [Jeffrey Williamson](#) in his presentation (Figure 1). From the construction of long-term data sets (the earliest dating from the fifteenth century), he argues that, in the early years of the Conquest, the production of surplus was too low to bring about significant inequalities. This only increases from the seventeenth century, but, until the end of the nineteenth century, it remains below the inequity recorded at the time in Europe and United States. It would not be until after the First World War that the region began to raise its levels of inequity, while Europe was beginning to lower them. The question he raises was what happened after 1910 for the region to experience that increase in inequality that persists to the present day. With its novel methodological approach to the class structure of Brazil from 1839 to 1950, the presentation by [María Gómez León](#) also falls into this line of argument. Her paper identified periods in Brazilian history characterized by an increase in the middle class and a concomitant decrease in levels of inequality, particularly at the end of the nineteenth century and the start of the twentieth. She thus calls into question the traditional image of a Brazil characterized by a polarized social structure.

Figure 1: Likely inequality trends in Latin America 1491-1929



Source: Williamson presentation.

The presentation by [Pablo Astorga](#) on functional inequality in Latin America between 1900 and 2011 also asks us to revise certain ideas about the past. The author constructs a set of new data on



real salaries, comparable in the long term, for six Latin American countries,[2] and performs his own Gini coefficient calculations for occupational groups. From these, he claims there is no common pattern in the evolution of inequality in the region since the nineteenth century; rather, there are marked differences in national patterns toward the end of the first phase of industrialization and around the middle of the twentieth century. On the contrary, he asserts that there does indeed seem to be a common feature in the tendency toward growing inequality from 1960, which peaked toward the end of the last century. In general terms, the picture he paints seems inconsistent with the hypothesis of high, relatively constant inequality over the twentieth century, as there are significant differences over time not only between countries, but also within them. One interesting fact in terms of the current challenges is that in no country does the author find a phase of sustained increase in wage share accompanied by a concomitant reduction in wage dispersion. In other words, when the share of labor in the distribution of wealth increased, inequality between the different workers would also have increased. Its logical counterpart, particularly toward the end of the twentieth century, is the synchronicity between an increase in the average real wage and an increase in wage dispersion. As a corollary, he concludes that what appears to be absent in the economic history of the six countries surveyed are market-driven episodes of an increase in the average wage in conjunction with a decrease in wage dispersion. This is an area of great importance, since the presentation relates primary distribution between capital and labor to secondary distribution between individuals and households. Effectively, the decline in income inequality requires an improvement in both primary and secondary distribution, a synchronicity not currently to be seen.

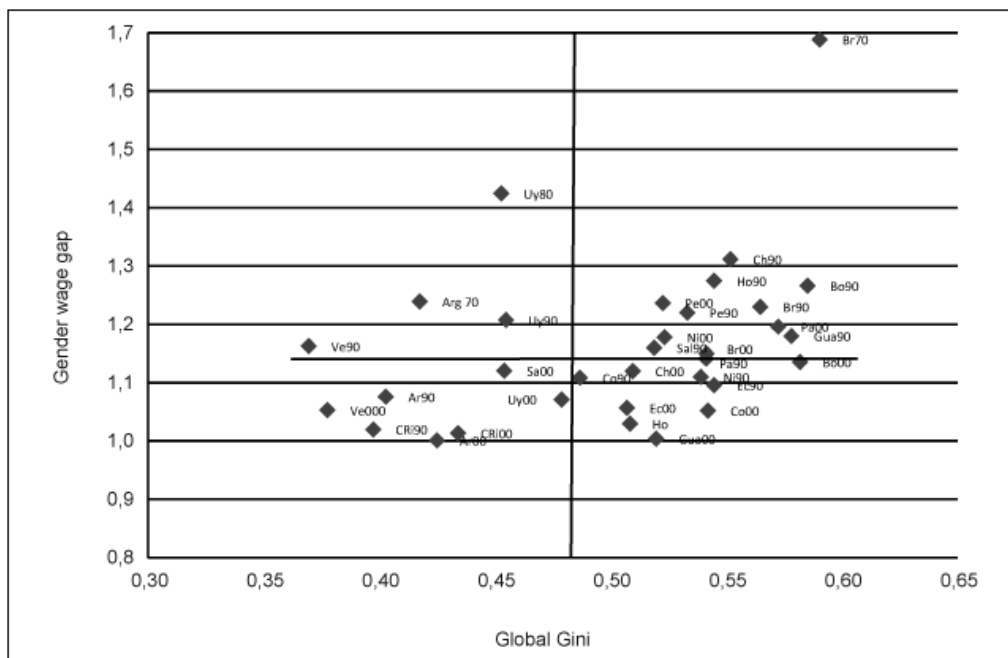
The presentation by [Leticia Arroyo Abad](#) with [Peter Lindert](#) also provides novel conclusions. The authors conducted what they have called the first multi-country study on how Latin American governments used taxes and public spending to manipulate income distribution. To do this they constructed a historical series for six Latin American countries[3] and combined this with recent studies of twenty-first-century fiscal redistribution patterns. The following, among other lessons, can be gleaned from their presentation. First, they argue that social spending accelerated in the post-war period. Then they show that redistribution in Latin America occurs essentially from young to old, mainly through the pension system. Third, they maintain that since the independences, the region has invested comparatively little in education and infrastructure. Fourth, they point out that progressiveness in the region has generally been in short supply. Fifth, they show that human investment in capital has involved greater—albeit more extensive—benefits than income-transfer policies. Last, they claim that social spending in the region has been not only volatile, but procyclical.

Race and gender inequalities in historical perspective

The evolution of gender and ethnic or racial inequalities over time was another theme at the seminar. [Silvana Maubrigades](#) presented an analysis undertaken with [María Magdalena Camou](#) on income distribution and women's participation in the Latin American labor force since the start of the twentieth century (Figure 2). The authors suggest that gender inequality in income terms is expressed primarily in two ways: through later, more restricted entry of women in the labor market, and due to a wage gap in relation to men. Their analysis concludes that there is an important “path dependence” at the national level in regard to the evolution of the labor market, given that countries with higher levels of education and of women's participation in the labor market (e.g.

Argentina and Uruguay) also have less gender inequality in this area. They conclude, in general terms, that a country's level of development is a predictor of the level of women's participation in its labor force. However, the study also shows that education does not have linear results in terms of reducing inequality, since it does not always correlate with an increase of female participation in the labor market or a reduction in the wage gap. This conclusion also has an important bearing on the present day: various studies have shown that not all inequalities decrease in coordinated fashion and, in particular, that our region has been more equitable in distributing educational goods than in distributing income, and that such disparities continue to the present day.

Figure 2: Global inequality and the gender gap



Source: Maubrigades presentation.

In the same vein but in relation to ethnic groups are the findings presented by [Enriqueta Camps](#) and [Stanley Engerman](#). Their presentation aimed to analyze the impact of race and inequality in the formation of human capital in the nineteenth- and twentieth-century Latin America. It pointed out that education in Latin America became available to the masses during the twentieth century, at primary and secondary level at least, while educational inequality fell, with the incorporation of women and people of all races. However, it also contends that the impact of the decline of the Gini education coefficient was not detected on the Gini income coefficient until the 1990s.

An approach to this issue in the case of Brazil was provided in the presentation by [Justin Bucciferro](#). The author started from the premise that there has been a significant reduction of racial inequality in Brazil over the past decade in relation to employment and income levels, literacy, and education. On this basis, he questions whether the decline is part of a long-term trend or is in response to more immediate contextual factors. The work contains evidence regarding racial inequality in Brazil from 1827 to the present day, focusing on the analysis of life expectancy, illiteracy levels, the number of years' schooling, and average monthly income, disaggregated by group (black, brown, white, Asian, and native American). The evidence has led him to conclude that there has been a general reduction of inequality in Brazil over time, and that this trend predates recent decades (Table 1). However, he added, progress toward greater equality across ethnic groups has been erratic and has had mixed results depending on the group analyzed.

Table 1: Life expectancy at birth (years) by race, 1950-2008

	1950	1960	1980	1991	2008
WHITE	47.5	54.7	66.1	70.8	73.1
NON-WHITE	40.1	44.7	59.4	64.0	67.0
DIFFERENCE	7.4	10.0	6.7	6.8	6.1

Source: Bucciferro presentation.

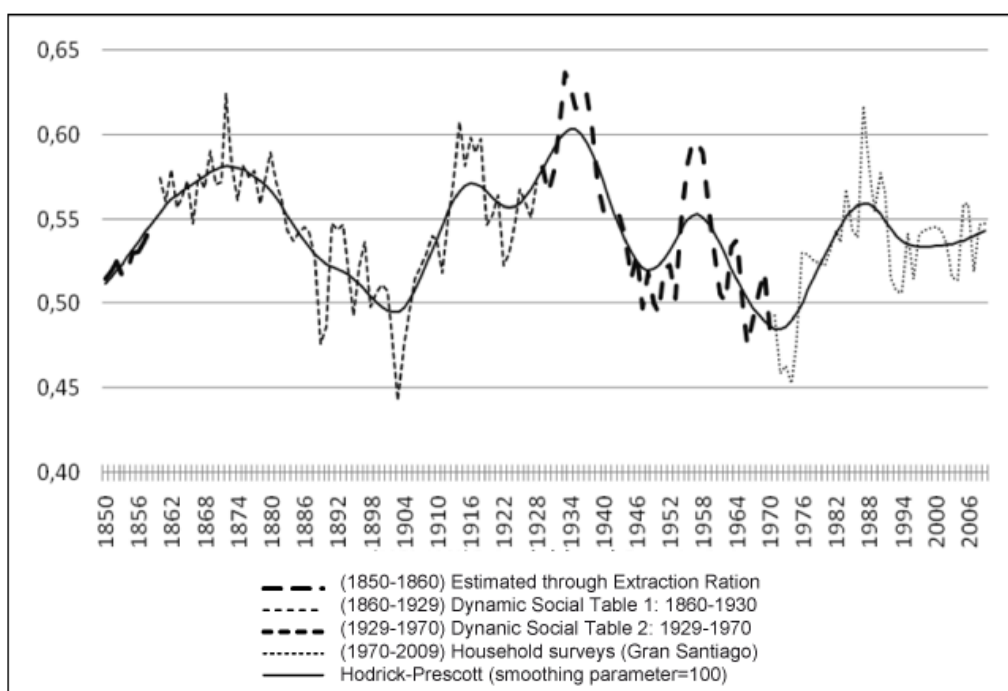
These investigations show, among other things, that, apart from the persistence of inequalities in gender and across ethnic groups, progress is not linear either in time or in all dimensions. As a benchmark, it is perhaps useful to bring in a lesson from studies of stigmatization, which show us the stubborn heterogeneity of stigmas: when they seem to have been eliminated in one dimension, they regroup, resurface, or are restated in others. Something similar no doubt occurs with gender and race inequalities: progress in some areas requires us to be more attentive if we are to detect the persistences or even reinforcement of inequities: for example, the increase in women's participation in the labor force does not necessarily imply a decrease in income gaps; it may, indeed, also involve a greater burden in terms of domestic and extra-domestic working hours in the home. Consequently, in such a case, where there is a gain in one dimension of inequality, there is a loss in another.



Inequality in the long term: a cyclical pattern

One interesting result is the observation of a cyclical pattern in long-term income inequality in the case of Chile (Figure 3). In his presentation, [Javier Rodríguez Weber](#) analyzed the relationship between economic growth and inequality, taking into account the incidence both of institutional factors and market forces in three periods in Chilean history from 1850 onwards. Among his findings, he demonstrated that growth has not always meant inequality; rather, the key is the type of growth, proving that the Kuznets curve—the assumption that every phase of growth involves an initial increase in inequality—is by no means valid for all countries or all development styles. Focusing next on the period 1938-1973, when there was a significant decline in inequality, he finds the positive attraction of the state's regulation of the visible economy in the promotion of industrialization and in a forthright policy of recomposition of the real minimum wage. Last, he explored the period 1973-2009, pointing out that, until the end of the Pinochet dictatorship in 1989, there was a significant increase in inequality, guided by a redistribution that strongly favored the elites. This was due to a dramatic drop in real wages and the opening-up of what the author calls new terrains for extracting a profit, broadly speaking, the privatization of education and social security.

Figure 3: The “best estimate” of income earners inequality in Chile, 1850-2009. Gini Coefficient.




Source: Rodríguez Weber presentation.

Closing remarks

This article has set out some of the lessons to be learnt from a long view of inequality in the region. First, the papers suggest that the controversies over inequality have by no means been laid to rest. We would seem to be heading for greater diversification of perspectives or, perhaps, for a suspension of the possibility of a single judgment for all countries and periods, in view of the variety of new national case studies, the greater light cast on hitherto rather shadowy periods, and, no doubt, the new variables and indicators to be taken into account in order to grasp inequality, particularly from a multi-dimensional perspective.

There is, however, already a large amount of data, the construction of historical series, and various indicators that, taken together, form an extremely useful source of information and knowledge to tackle the challenges of the present. We now know rather more about what has contributed to the phases of both falls and rises in income inequality, especially among individuals and people. We are confident of the fact that policies and institutions count, and that it is impossible to explain the persistence of inequality without putting the dynamics of social groups, and in particular those of the elites, at the heart of analysis. The various countries' histories also call certain ideas into



question: inequality is not a prerequisite for all growth, which depends on development style; nor does inequality necessarily improve consistently and inexorably in all dimensions. Other perspectives on distribution are also incorporated: for example, the view that keeps track of transfers taking place across generations, a dimension little studied in our latitudes. To put it briefly, an answer is sought to the initial question about the contribution of the long view, with some thoughts on the many lessons to be gleaned from it. It is also an invitation to readers to find their own answers in these and the seminar's other presentations.

[1] This article is by the consultant, Gabriel Kessler.

[2] Argentina, Brazil, Chile, Colombia, Mexico, and Venezuela.

[3] Argentina, Chile, Colombia, Costa Rica, Peru, and Uruguay.



The incorporation of disaster risk management in integration infrastructures in South America: Chile and Peru—a test case

Background

South America is exposed to various natural threats from its geological, climatic, and hydrological features.[1] One of the greatest of these threats is posed by the seismic activity that causes earthquakes and tsunamis, particularly on the Pacific coast and in the south of the continent. Flooding is another frequent event in South America as a result of climatic anomalies, unplanned urban expansion, and erosion, as well as unsustainable land use. Extreme temperatures and droughts are becoming more pronounced and more common in some parts of the region. Climate change is expected to increase both the likelihood and intensity of these phenomena. One of the causes of droughts and flooding in the region's countries is the El Niño Southern Oscillation (ENSO) phenomenon.[2]

Due to the threats existing in the region, as well as its high exposure and vulnerability, countries experience historic disasters from natural phenomena on a regular basis. Impact from natural disasters includes both social losses (e.g. fatalities), the physical destruction of physical assets, and the reduction of economic activity, all of which have been on the increase in the region in recent decades.


For example, between 1980 and 2013, South America suffered direct infrastructure losses due to large-scale disasters for a total of US\$16.5 billion, including US\$3.8 billion (23%) in losses in the transport sector and US\$640 million (4%) in power plants.[3] Table 1 shows the representative direct and indirect damage of the South American region in the last few decades.

Table 1: Representative direct and indirect damage in selected South American countries in recent decades

Country	Disasters/Year	Infrastructure Type	Millions of US\$		
			Direct Damage	Indirect Damage	Total Damage
ARGENTINA	Floods. Santa Fe 2003a/	Energy	6.1	1.4	7.5
		Transport and Telecommunications	76.1	96.1	172.1
BOLIVIA	Disasters 1982-1983b/	Energy	0.0	0.0	0.0
		Transport	62.0	36.0	98.0
	El Niño 97-98c/	Energy	0.0	1.4	0.0
		Transport	207.8	29.9	0.0
	La Niña 2008d/	Energy	0.7	7.4	8.1
		Transport	97.3	0.0	97.3
COLOMBIA	Coffee Axis Earthquake 1999e/	Telecommunications and Transport	19.5	20.9	40.3
	Winter Wave 2010-2011f/	Energy	472.3	11.6	484.0
		Transport	1827.1	225.1	2,052.2
ECUADOR	Disasters 1982-1983	Transport	164.3	45.0	209.3
	Floods 1982 and 1983g/	Transport	63.9	11.8	75.7
	Disaster 1987h/	Energy	3.5	0.3	3.8
		Transport	18.4	19.8	38.2
	El Niño 97-98i/	Energy	15.7	3.2	18.9
		Transportation and Telecommunications	99.1	687.7	786.8
	El Niño 97-98j/	Energy	15.7	3.2	18.9
		Transport	102.1	692.5	794.6
		Telecom	1.0	0.0	1.0
GUYANA	Floods 2005k/	Energy	0.3	0.8	1.0

PERU		Transport	16.7	0.9	17.6
		Telecom	0.5	0.3	0.8
	Floods 2006	Transport	2.1	0.0	2.1
	Disasters 1982-1983	Energy	10.2	9.5	19.7
		Transportation and Telecommunications	184.9	118.2	303.1
	El Niño 97-98l/	Energy	11.0	55.0	66.0
		Transport	604.0	114.0	718.0
	Floods 2006m/	Energy	0.2	0.0	0.2
SURINAME		Transport	0.3	0.0	0.3
VENEZUELA	El Niño 97-98n/	Energy	0.0	17.0	0.0
		Transport	0.0	2.3	0.0
	Landslides 1999o/	Energy	131.5	28.9	160.4
		Transportation and Telecommunications	320	462	782

Notes: a/ Economic Commission for Latin America and the Caribbean (ECLAC). 2003. "Evaluación del Impacto de las Inundaciones y del Desbordamiento del Río Salado en la Provincia de Santa Fe, República Argentina, 2003." b/ ECLAC. 1984. "The Natural Disasters of 1982-1983 in Bolivia, Ecuador, and Peru." c/ Development Bank of Latin America (CAF). "El Niño Lessons: Memories of the El Niño Phenomenon 1997-1998: Challenges and Proposals for the Andean Region." d/ ECLAC. 2008. "Evaluación del Impacto Acumulado y Adicional Ocasionado por la Niña - Bolivia 2008." e/ ECLAC. 1999. "El terremoto de enero de 1999 en Colombia: Impacto socio económico del desastre en la zona del Eje Cafetero." f/ ECLAC/Inter-American Development Bank (IDB). 2012. "Appraisal of Damages and Losses—Winter Wave in Colombia 2010-2011." g/ ECLAC. 1983. "Evaluation of the Effects of the 1982/1983 Floods on Economic and Social Development." h/ ECLAC. 1987. "The Natural Disaster of March 1987 in Ecuador and its Impact on Social and Economic Development." i/ ECLAC 1998. ECUADOR: evaluación de los efectos socio económicos del Fenómeno del niño en 1997-1998." j/ CAF. "El Niño Lessons: Memories of the El Niño Phenomena 1997-1998: Challenges and Proposals for the Andean Region: Ecuador." k/ ECLAC/United Nations Development Programme (UNDP). 2005. "Guyana: Socio-Economic Assessment of the Damages and Losses Caused by the January-February 2005 Flooding." l/ CAF. "El Niño Lessons: Memories of the El Niño Phenomena 1997-1998: Challenges and Proposals for the Andean Region: Peru." m/ ECLAC/UNDP. 2007. "Suriname: The Impact of the May 2006 Floods on Sustainable Livelihoods." n/ CAF. "El Niño Lessons: Memories of the El Niño Phenomena 1997-1998: Challenges and Proposals for the Andean Region: Venezuela." o/ ECLAC/UNDP. 2000. "The Socioeconomic Effects of the Floods and Landslides in Venezuela." Source: Based on the works by ECLAC, CAF, and UNDP cited below.



Proactive risk reduction measures are supported by the high levels of profitability they display. Several studies have determined that for every US\$1 invested in risk reduction, there is a saving of between US\$4 and US\$7 post-disaster, including costs of emergency care, rehabilitation, and rebuilding of damaged infrastructure (Moench et al., 2007; ISDR, 2011; ONEMI 2011). By applying this theory and if the countries are successful in cutting these direct losses by 5%, South America could save around US\$850 million of the public budget, a figure based on the total loss for 1980-2013 mentioned above (US\$ 16.5 billion). This amount could be reinvested in other more competitive priority sectors. While many of the member countries recognize this theory and the importance of disaster risk management (DRM) in the area of sustainable development, very little progress has been seen.

COSIPLAN-IIRSA's approach to DRM

In contrast, Chapter 6.1.5 of the [COSIPLAN-IIRSA Strategic Action Plan 2012-2022 \(PAE\)](#), *Infrastructure Disaster Management*, establishes a specific need for the subject of disaster risk management (DRM). Its goal is to provide member countries with clear procedures to prevent and reduce the effects of catastrophic events (earthquakes, floods, landslides, and tsunamis) that affect South American infrastructure, as well as laying connectivity recovery and public infrastructure plans designed with disaster management methodologies.

Results and current progress

In this sense, as the first initiative of Chapter 6.1.5 of the PAE 2012-2022, a Methodological Guide has been drawn up, incorporating DRM in regional infrastructures planned and implemented by IIRSA. The Guide was validated by the member countries at [the meeting of the COSIPLAN-IIRSA's Executive Technical Group \(GTE\)](#) in Santiago de Chile, Chile, in September 2013. 2014 also saw the production of the [User's Manual](#) to the Methodological Guide, explaining in greater detail the major guidelines and actions needed to fulfill the goal of PAE 2012-2022. The Methodology was validated at the meeting of the [GTE in October 2014 in Buenos Aires, Argentina](#).

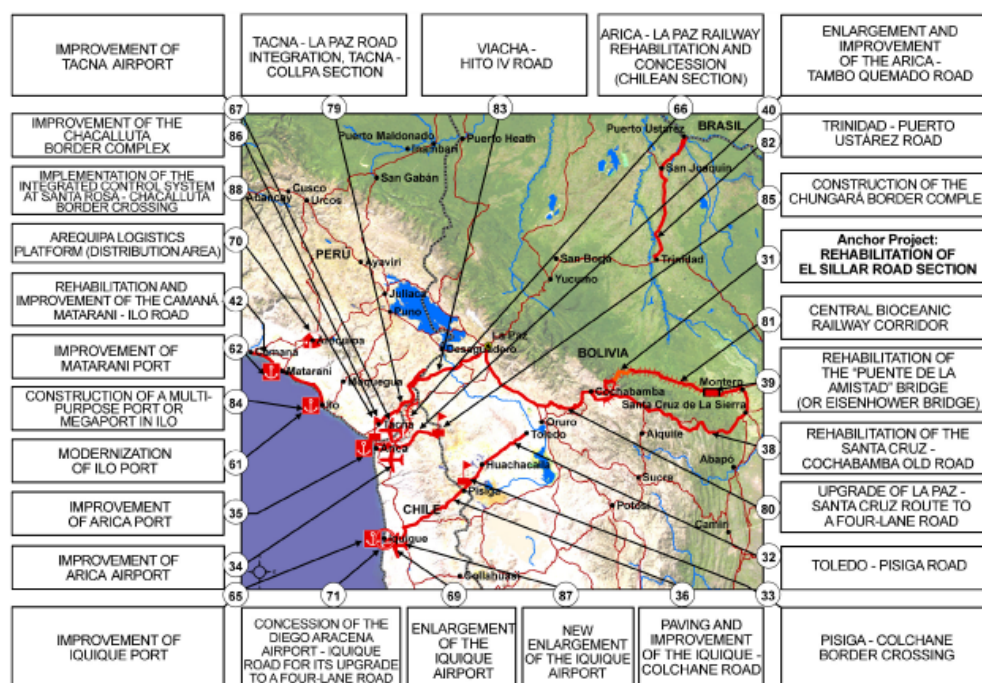
The guidelines of the Methodological Guide include the following phases and steps:

- PHASE I: Selection of prioritized infrastructure.
- PHASE II: Risk analysis for prioritized infrastructure.
 - Step 1: Defining performance indicators for each infrastructure;
 - Step 2: Describing components of each infrastructure;
 - Step 3: Defining the level of depth in the risk analyses for each infrastructure;
 - Step 4: Performing risk analysis and identifying potential risk reduction measures.
- PHASE III: Managing risk. Designing and implementing measures needed to reduce risk, drawing up emergency/contingency plans, and developing recovery plans.

2015 activities and course of action

2015 will see the application of the Methodological Guide in a test case. At the GTE meeting in Buenos Aires, October 2014, it was agreed to go ahead with the pilot application to Project Group 5 of the Central Interoceanic Hub. This geographic area is exposed to the greatest threat of seismic activity and tsunami, the test case being concentrated in southern Peru and northern Chile (Figure 1).

Figure 1: Projects in Project Group 5 of the Central Interoceanic Hub



Source: COSIPLAN-IIRSA.

A [first technical workshop](#) was held in Santiago de Chile, Chile, January 19, 2015, with the aim of presenting and generating a common understanding of the scope, methodology, and results of the pilot application. A Regional Monitoring Group was set up at the workshop to provide support for this pilot initiative, made up of GTE/DRM Representatives from Chile and Peru, Chilean and Peruvian focal points, and IDB representatives, who will direct the activities and ensure the quality of the different products to be developed. The course of action with the Regional Monitoring Group will be undertaken sequentially, following the guidelines listed above. In accordance with the methodology, the steps to be followed are:

Phase I: Identifying integration infrastructure in exposed area

An exhaustive identification has been made of integration infrastructure located in the seismic silence zone of southern Peru and northern Chile, subdivided according to its affiliation to a Project Group, Integration and Development Hub, type of infrastructure, etc.

From the integration infrastructure identified by the Regional Monitoring Group, the following projects in Project Group 5 of the Central Interoceanic Hub have been selected on a preliminary basis:

Chile	Peru
1. Improvement of Arica Port	1. Modernization of Ilo Port
2. Improvement of Iquique Port	2. Improvement of Matarani Port
3. Improvement of Arica Airport	3. Improvement of Tacna Airport
4. New Enlargement of Iquique Airport	4. Tacna-La Paz Road Integration, Tacna-Collpa Section
5. Enlargement and Improvement of the Arica-Tambo Quemado Road	5. Rehabilitation and Improvement of the Camaná-Matarani-Ilo Road

Phase II: Disaster Risk Analysis

For each of the five preselected infrastructure projects in Chile and Peru, the steps listed below will be carried out independently:[4]

- Step 1: Defining performance indicators for each infrastructure.
- Step 2: Describing components of each infrastructure.
- Step 3: Defining the level of depth in the risk analyses for each infrastructure;

In all the above steps, active participation by representatives of governmental and academic institutions will be expected in the search, collection, and analysis of information on threats, prioritized infrastructure, and its components and operation.

- Step 4: Performing risk analysis and identifying potential risk reduction measures. Each country will select three of the preselected infrastructure projects, making a total of 6. Independent studies will be carried out for each infrastructure ahead of the commissioning of deterministic or probabilistic risk studies.

IDB support

In April 2014, the Inter-American Development Bank (IDB) approved Technical Cooperation (CT) RG-T2474, "[Support the incorporation of disaster risk management in the regional infrastructure. COSIPLAN-IIRSA](#)," in order to support the incorporation of DRM in the design and implementation of regional integration infrastructures (including border infrastructures), planned and implemented by COSIPLAN-IIRSA. This CT covers the activities of 2014 and 2015, up to the completion of the Risk Analysis study and the identification of potential risk reduction measures.

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National Office of Emergency of the Interior Ministry (ONEMI). 2011. "Política Nacional de Gestión del Riesgo de Desastre." Santiago de Chile.

[1] This article was prepared by Hori Tsuneki, an IDB Disaster Risk Management Specialist, Patricio Mansilla, an IDB Integration Infrastructure Specialist, and Rigoberto García, COSIPLAN-IIRSA National Coordinator for Chile, Ministry of Public Works.

[2] The region also has 204 active volcanoes.

[3] Taken from several ECLAC documents on [Disaster Impact Assessment in South America](#).

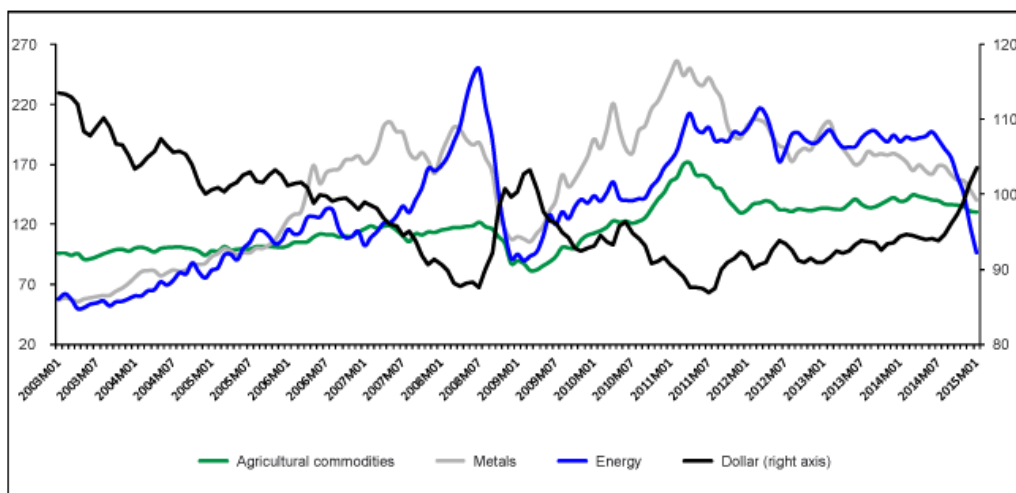
[4] Except in the case of similar infrastructure.

Falling commodity prices: an open-ended scenario

The prices of the major commodities have been following a trajectory of deceleration and stagnation since the second quarter of 2011 (Figure 1).[1] In addition to this, since mid-2014, there has been a sharp drop in the price of oil, and some forecasts are indicating a depressed outlook for the most commodity prices over the course of 2015 (World Bank, 2015).


Figure 1: Prices for selected raw materials and US dollar a/

2005=100 Index



Note: a/ The dollar exchange rate is a multilateral index of a broad basket of currencies—the so-called “broad dollar index”—produced by the Federal Reserve. A positive/negative slope indicates appreciation/depreciation. Source: IDB-INTAL based on IMF and EDF data.

Among the factors explaining these recent developments in the prices of raw materials are weak global growth after the financial crisis of 2008-2009, countries' uneven performance, the slowdown in the Chinese economy, and the appreciation of the US dollar ahead of the expected normalization of US monetary policy.



On this last point, the dollar appreciated against a broad basket of currencies[2] between July 2014 and January 2015 by around 10%. As indicated in the [Trade and Integration Monitor 2014](#) the value of the dollar impacts commodity prices through two channels. The first is its hard cash role: given that commodities are traded internationally in dollars, appreciation tends to lower the nominal price of these goods. The second channel involves expectations of a rise in the US interest rate leading investors to a flight-to-quality and to a consequent reduction of the demand for commodities in their role as a store of value.

A more specific factor affecting the fall in oil, copper, and iron ore prices is the increase in world production arising from the maturation of projects started during the high phase of the cycle. Investment decisions made when prices stood at very high levels have only recently led to increased supply, with a consequent downward pressure on prices against a background of relative weakness in global demand.

In the case of oil, preceding high prices made production profitable in deposits with higher unit costs than others with better production conditions thanks to innovative technologies. For example, there has been an intense process of substitution of foreign purchases by domestic production in United States since 2005: oil imports per unit of output (as measured in constant prices) in 2013 were 36% down on 2005 levels.[3]

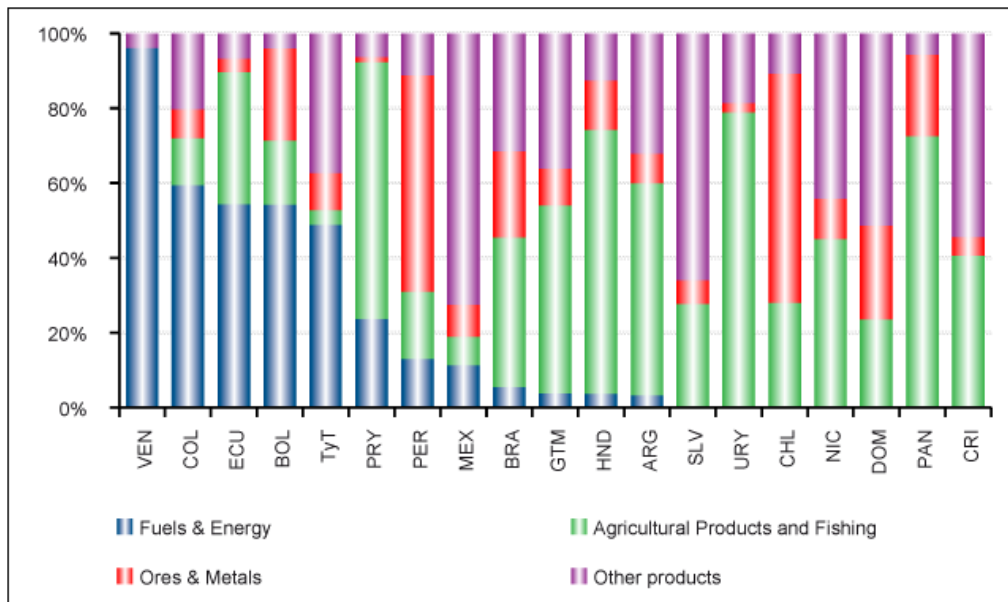
At present, the abundant oil supply means that the “energy” heading has seen the sharpest price falls in the group of commodities exported by the region. Between June and January 2015, the oil price[4] plummeted by 56%. Although, in the case of agricultural products and metals, the fall was relatively minor (-7.2% and -13.3% respectively), in January 2015, these headings accumulated falls to 24% and 45% as compared with their highs of 2011 (Figure 1).

Net exporters

On the side of exports from Latin American countries specializing in commodities, the current state of the market is a warning sign (Figure 2). Focusing on energy goods, and on oil in particular, the economies most affected by the recent evolution of the oil price are Venezuela, Colombia, and Ecuador. In these cases, more than half of the oil sales are external, while exports in Bolivia and in Trinidad & Tobago have a high natural gas component. Should it persist, the situation could also affect Mexico, with a 10% share of oil and a future sales strategy that has enabled it to stabilize its income from oil, which is fiscally significant.

Figure 2: Composition of selected LAC exports by major headings, 2013

As percentage



Source: IDB-INTAL based on DATAINTAL data.

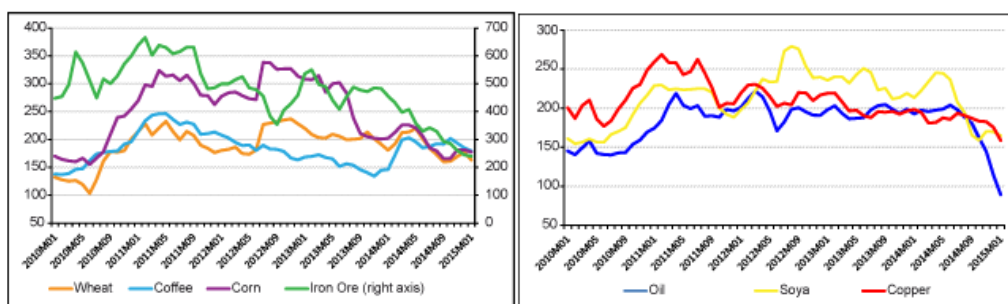
As exporters of other commodities, such as agricultural products, or ores and metals, the other South American countries will also feel the impact of higher oil prices on their exports. In January 2015, the price of iron ore was 30% down on the average for 2014, while the price of soya was 20% down on its 2014 average. The copper price fell 15% as compared to 2014 (Figure 3). In Chile and Peru, ores and metals accounted for about 60% of external sales; in Brazil, the heading represents almost 25% of total shipments (especially iron ore), while 40% are agricultural products. For Argentina, Paraguay, and Uruguay, the agricultural sector represents 57%, 69%, and 79% of total exports respectively.

Net Importers

The other side of the coin of the state of affairs in today's commodity markets is felt by net importers of these goods. As the Central American and Caribbean countries are net buyers of energy and certain agricultural products, the reduction in the prices of these raw materials should, in principle, have a positive effect on the balance of trade. It is, however, premature to establish the magnitude of this effect, since goods like coffee and sugar, whose prices are also falling and which play an important role in their exports, may counteract this effect. In recent years, in the expanding ores and metals markets, some of these countries also began to record significant exports of these products, which would not today have such favorable prospects.

Figure 3: Prices of selected products

2005 =100 Index



Source: IDB-INTAL based on IMF data.

In more general though not exhaustive terms, the current state of the commodity market could trigger various indirect effects that it is still hard to estimate. For example, the falling oil price may act as a factor in stimulating demand in markets that have been experiencing contraction or weak growth (e.g. some European countries); this could impact by increasing their imports from Latin America and the Caribbean. A reduction in the rate of inflation in the region itself (thanks to low energy prices) may also increase the purchasing power of incomes, and boost levels of activity and trade. It is worth underlining that, so far, the potential negative effects of the falling oil price on the profitability of the huge investments in the sector do not seem to have destabilized international financial markets. Furthermore, to this should be added the signs of consolidation of growth in United States, even though its effects on that country's import demand are still far from clear.

It is plausible to think that this state of affairs is the epilogue of a phase of high commodity prices, primarily between 2003 and 2008, but also post-crisis, during the international financial recovery. Despite the majority of the region's countries being in better macroeconomic shape when compared to similar events in the past—both in terms of borrowing and foreign trade results—the current situation is open-ended and its consequences still unfolding.

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[1] This article was prepared by the consultants Rosario Campos and Kathia Michalczewsky. The authors would like to thank Senior INTAL Economist, Alejandro Ramos Martínez, for his much valued feedback.

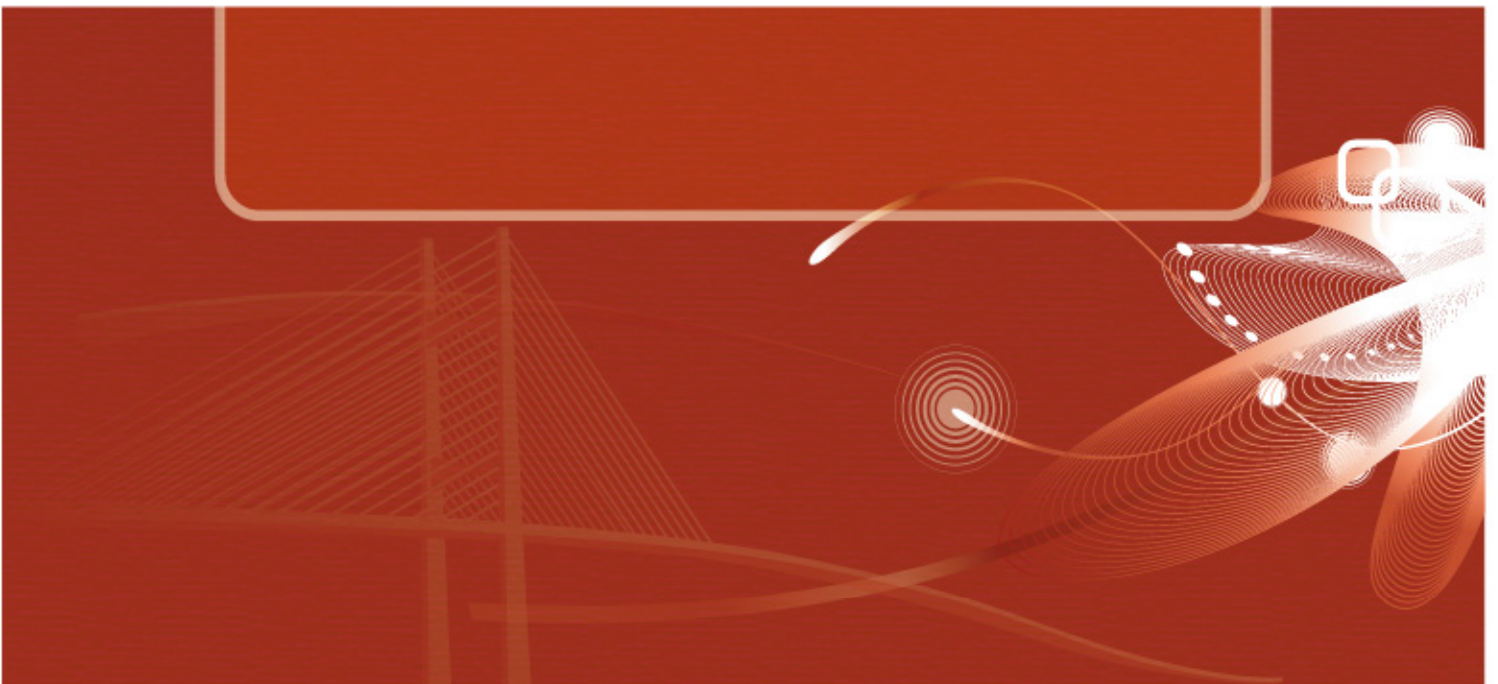
[2] This is the "broad dollar index" prepared by the Federal Reserve. For more details on the impact on commodity prices of the appreciation of the dollar, see Giordano (2014).

[3] See Giordano (2014), pp. 30-31.

[4] Simple average of Brent, West Texas Intermediate, and Dubai Fateh. Source: IMF.



Integration Blocs







Pacific Alliance

Nineteenth Technical Group Round

The [Nineteenth Technical Group Round of the Pacific Alliance](#) was held in Bogota, Colombia, January 21-22.

Delegates reviewed the progress of the various Technical Group projects:

- Cooperation: the Round assessed the progress of the Academic and Student Mobility Platform, which has awarded 800 fellowships.
- Services and capital: it agreed guidelines for the Mixed Joint Committee on Services and Investment to improve the investment and business climate.
- Tourism: it focused on quality policies that seek to improve standards and thereby attract international visitors.
- Education: it established regulatory guidelines for strengthening and developing technical education systems.
- Small and medium enterprises (SMEs): it focused on the construction of an Observatory.
- Innovation: a workshop will be held to promote entrepreneurship and innovation policy design.
- Foreign relations and communication strategy: progress was made in defining courses of action for relations with international organizations and Observer States.

There were also Group meetings in the following areas:

- Institutional Affairs.
- The Experts Committee of the Pacific Alliance Business Council (PABC).
- Movement of persons and migration transit facilitation.

The meeting approved the Pacific Alliance Sports Diplomacy project, which seeks to contribute to regional integration through sporting and cultural events by supporting social inclusion processes. These meetings are in preparation for the next meeting of the High Level Group (GAN) and the Tenth Summit of the Pacific Alliance, to be held in Urubamba, Peru in June 2015.





The Caribbean

Caribbean countries see energy integration

A Special Meeting of the Council for Trade and Economic Development (COTED) of the Caribbean Community and Common Market (CARICOM), was held in Georgetown, Guyana, February 4-5, to discuss regional energy integration in the Caribbean.

The meeting defined the steps to be taken for the establishment of the Caribbean Centre for Renewable Energy and Energy Efficiency (CCREEE), the creation of which was approved in November 2014. Supported by the United Nations Industrial Development Organization (UNIDO), the Government of Austria, and the “DOCK” program of the Alliance of Small Island States (AOSIS), [1] the CCREEE aims to support and coordinate the CARICOM countries’ energy efficiency and renewable energy programs.

During the meeting, Energy and Environment Ministers also discussed the Post-2015 Development Agenda, highlighting the need to develop regional strategies to attract capital to support climate adaptation projects.

The Caribbean countries are part of the “[Sustainable Energy for All](#)” initiative, a multisectoral alliance of governments, civil society, academia, and the private sector, launched by the United Nations (UN) Secretary-General in 2011 to support countries in the adoption of more energy-efficient technologies and the increasing use of renewable energy. The Inter-American Development Bank is the [regional hub](#) for Latin America and provides an [online platform](#) to galvanize the region’s efforts toward sustainable energy.

[1] This is an initiative by the member countries of the [Alliance of Small Island States \(AOSIS\)](#). It provides a for collective institutional mechanism to support small islands transforming their domestic energy sectors in line with sustainable economic development and to help generate resources for climate change adaptation.



IDB Governors meet in Caribbean

The [Fourth Meeting of the Governors of the Caribbean Country Department of the Inter-American Development Bank \(IDB\)](#) was held in Nassau, Bahamas, February 18-19.

The meeting, which was attended by IDB President, Luis Alberto Moreno, discussed proposals for the organizational structure and capitalization of IDB's private sector, and the Bank's long-term financial policies. The event served as preparation ahead of the [IDB-IIC Annual Meeting 2015](#) in the South Korea, March 26-29.



Central America

Guatemala, El Salvador, and Honduras move toward customs union


The three countries making up Central America's Northern Triangle agreed a plan to liberalize their border crossings for the movement of goods and persons within six to eight months. The formation of a Customs Union in the region is supported in the Protocol to the General Treaty on Central American Economic Integration (Guatemala Protocol) within the Framework Agreement for the Establishment of the Customs Union and in the commitments over integration within the framework of the Association Agreement with the European Union.

The initiative, which was launched by Guatemala and Honduras in November 2014, and which was joined by El Salvador, has made progress over the last few months in the framework of meetings that have defined the guidelines to start the customs unification process across the three countries. The development of the strategy should be ready by the end of the first quarter of 2015. The planning is in the hands of representatives from various different institutions in each country (economy, national defense, environment, agriculture, migration, etc.), since it is necessary to have agreements in place in such areas as taxation, security, sanitary and phytosanitary measures, immigration, and so on.

In migration, they agreed to launch a regularization process for Salvadorians and Guatemalans working in the two countries with irregular immigration status.

In addition to administrative and control aspect, measures will also be taken relating to electronic and physical infrastructure in order to expedite the passage of people and goods at borders. In this area, mechanisms will be implemented for information exchange, intelligence, and the fight against organized crime.

In terms of infrastructure development, El Salvador will finance the construction of the Manuel José Arce and Anguiatú Binational Bridges, and Guatemala, the El Jobo Bridge on the Las Chinamas-Valle Nuevo border.



According to the [planning](#) announced in June 2015, the model will be implemented with software, infrastructure, and equipment, ahead of an October launch.

According to the [Guatemalan government](#), the implementation of the customs union in these countries will entail a growth of at least 1% of GDP across the board. It should be remembered that El Salvador, Honduras, and Guatemala account for more than half of Central America's GDP and international trade, and two-thirds of its population.

Although United States is the main trading partner for all three of these countries, the region itself is an extremely significant destination for all economies: in the case of El Salvador, around 40% of its exports are directed to the isthmus and close on 30% involve sales to Guatemala and Honduras. Guatemala sends 30% of its total exports to the rest of Central America, with almost 20% going to the rest of the Northern Triangle. Last, Honduras exports almost a quarter of its total to the isthmus, with 15% going to El Salvador and Guatemala. These three economies' relevance as trading partners reflects the importance of the proposed formation of the Customs Union.

El Salvador, Guatemala, and Honduras also jointly promoted the [Plan of the Alliance for Prosperity](#), a program that seeks to prevent irregular migration to United States and which has the support of the Inter-American Development Bank (IDB), at an approximate cost of US\$15 billion. The grave phenomenon of migration of unaccompanied children came to light in 2014, with the US authorities estimating that around 18,000 children crossed its southern border alone last year. As a result of this situation there has been a proposal to implement this five-year Plan, which will seek to foster job creation and development in the region.

For more information, follow these links: [\[1\]](#) [\[2\]](#) [\[3\]](#) [\[4\]](#) [\[5\]](#) [\[6\]](#) [\[7\]](#) [\[8\]](#) [\[9\]](#).

Guatemala seeks to expand trade ties

Guatemala has made progress in recent months in trade links with other economies in Latin America and the Caribbean.

On the one hand, the Central American country has sought closer ties with the economies of the Caribbean Community and Common Market (CARICOM) in order to strengthen and deepen both diplomatic and trade relations through trade agreements expanding business opportunities, attracting new investment, and enhancing export capacity and quality.

With this objective, [Guatemala signed a partial scope agreement \(PSA\) with Trinidad & Tobago, February 6](#), which is in addition to a similar agreement it already has in place with Belize.

The talks were held in six rounds, between April 2012 and June 2013. Both economies granted each other immediate liberalization for a specific group of goods; in some cases, this will be applied gradually over a maximum period of ten years. Trinidad & Tobago will be given preferential treatment to import products to Guatemala such as rabbit meat, evaporated milk, cream, pumpkins, kidney beans, cassava, pineapples, papayas, food preparations, prepared tomatoes and peas, and butter. Guatemala, for its part, will import the following goods to Trinidad & Tobago's market with preferential tariffs: beef, cheeses, roses, chrysanthemums, gerberas and other flowers and ornamentals, cabbage, cucumbers, asparagus, sweet corn, nuts, watermelons, strawberries, and chocolate.

In 2013, Guatemala exported around US\$18 million to Trinidad & Tobago in sugar, minerals, alcoholic beverages, vinegars, paper and cardboard articles, and other headings, and imported from the Caribbean country almost US\$95 million in oil derivatives, iron, steel, propane gas, paper and cardboard, alcoholic beverages, vinegars, etc.

On the other hand, [Guatemala received support from the Chilean government to enter the Pacific Alliance \(PA\)](#), which consists of Chile, Colombia, Peru, and Mexico. Guatemala qualifies for PA membership by having trade agreements with all its partners: Mexico, under the Single Free Trade Agreement (FTA) between Central America and Mexico; Chile, in a similar format since 2010; and Colombia, under the Colombia Agreement-Northern Triangle since 2009. The FTA with Peru has been signed, but has not yet come into force.[1]

In 2013, Guatemala exported US\$646 million to the PA countries (7% of total exports) and imported almost US\$3 billion from those economies (19% of total purchases), mainly from Mexico. Its sales consist almost entirely of rubber, palm oil, and sugar cane, while oil accounts for a large share of its purchases, although these are quite highly diversified in manufacturing.

[1] For more details on the agreements and negotiations, see IDB-INTAL's [Legal Instruments of Integration](#).



Japan-SICA Forum for Dialogue and Cooperation

The [Seventeenth Meeting of the Japan-Central American Integration System \(SICA\) Forum for Dialogue and Cooperation](#) was held in Guatemala, February 5-6, to strengthen the Isthmus's relations with the Asian country.

The meeting was attended by the Deputy Foreign Ministers of the SICA Member Countries, the Director-General for Latin America and the Caribbean of the Japan Foreign Ministry and SICA's General Secretariat.

SICA's technical and scientific cooperation initiatives with Japan were presented, including: housing, gender, health, education and culture, disaster prevention; micro, small, and medium enterprises; public administration, and emerging technologies. Particular attention was drawn to [Japan's technical and scientific support](#) in the Phase II Disaster Prevention (BOSAI) Project and the Strengthening of Micro, Small, and Medium Enterprise (KAIZEN) Project.

The participants also expressed interest in preparing a new document to replace the [Declaration of Tokyo](#) and the [Action Plan 2005](#).^[1]

Last, [it was agreed to celebrate the 80th anniversary of diplomatic relations](#) between Central American countries and Japan in the framework of the Third Summit of SICA-Japan Heads of State and Government in the second semester of 2015, and the holding of the Second SICA-Japan Business Forum in Guatemala City, Guatemala, in May was reaffirmed.

[1] The Tokyo Declaration and corresponding Action Plan contain cooperation initiatives between the two regions on such issues as democratic consolidation, the strengthening of citizen security, the economy, development, tourism, natural disaster reduction, regional integration, education, and cultural exchange.



Regional launch of the Mesoamerican Information Highway

The [regional launch of the Mesoamerican Information Highway \(AMI\)](#) took place in the framework of the Twenty-Third Meeting of Mesoamerican Forum of Telecommunications Authorities (FMAT). The AMI is a high-capacity fiber-optic network installed on the [Central American Electrical Interconnection System \(SIEPAC\)](#), which extends 1,800 kilometers from Mexico to Colombia and physically integrates the member states, with connection points in the capitals.

The [initiative](#), which arose from the presidential mandate of the Thirteenth Summit of Heads of State and Government of the Tuxtla Mechanism for Dialogue and Cooperation in December 2011, will facilitate Internet connectivity and accessibility, connect up the region's members with each other and the rest of the world, promote the use of Information and Communication Technologies (ICTs), and also reduce connection and service tariffs. The AMI is expected to contribute to: trade facilitation by interconnecting customs and streamlining procedures; the development of e-government with more efficient services in the public arena; and regional security through database connections and information sharing facilitation.

Mesoamerican Information Highway



Source: Central America Telecommunications Network
(<http://www.redcasiepac.com/index.php/es/>).

The project, which required a total investment of US\$790,000, has been carried out with funding from non-reimbursable technical cooperations by the Inter-American Development Bank (IDB), which has put up US\$492,000, and other institutions, such as the Central American Bank for Economic Integration (CABEI), and the Development Bank of Latin America (CAF).

Click [here](#) to watch the video of the AMI Launch, produced by El Salvador's Foreign Ministry and the National Office of the Mesoamerica Project.

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





Andean Community

CAN refusal to authorize Ecuadorian safeguards

The General Secretariat of the Andean Community of Nations (CAN) issued a [Resolution](#), February 6, opposing the safeguards exchange rate applied by Ecuador on imports originating in Colombia and Peru. The communiqué claims that “it did not find sufficient evidence to verify the existence of a breach of competition conditions as a consequence of the depreciation of the currencies of Colombia and Peru”.[1]

The dispute between the Andean countries dates back to January 5, 2014, when, in response to a depreciation of the Colombian peso and the Peruvian sol, Ecuador decided to start applying a customs duty of up to 7% on products from Peru and up to 21% on those from Colombia. It should be remembered that, having adopted the US dollar as its currency, Ecuador cannot influence the relative prices of its goods and services by intervening in the foreign exchange market.

The countries affected called on the CAN Secretariat to issue a ruling on the measure. The recently issued negative ruling calls on Ecuador to lift the safeguards applied with immediate effect and to compensate the companies affected by the implementation of the safeguards.

Related articles

- IDB-INTAL. “[Peru and Ecuador resolve trade disputes](#),” in: *INTAL Monthly Newsletter No. 218*, October 2014.
- IDB-INTAL. “[Exchange-rate safeguard dispute between Andean countries](#),” in: *INTAL Monthly Newsletter No. 218*, January 2015.

[1] See Andean Community, [Press article](#), February 6, 2015.

Paraguay and Uruguay forge closer bilateral ties

The Foreign Ministers of Paraguay and Uruguay [met](#) in Asunción, Paraguay, in the first week of February to strengthen bilateral relations. Chief among the topics covered by the meeting were the installation and first meeting of the Paraguay-Uruguay High Level Group (GAN), in the framework of which working subgroups were formed on: the free movement of persons; productive integration; infrastructure and logistics; education, culture and tourism; institutional affairs, and information exchange for positioning in regional organizations.

The Ministers also formed the High Level Commission responsible for Uruguay's provision of port facilities to Paraguay in the deep-water port to be built in Rocha, as well as agreeing to coordinate actions to facilitate Paraguayan access to free warehouses and related port facilities in Uruguay. In addition, they agreed to hold the Second Meeting of the Bilateral Trade and Investments Commission in Montevideo in the first half of 2015.



Agreements with Asian countries

Two MERCOSUR countries sign agreements with Asian partners

Argentina-People's Republic of China

The Presidents of [Argentina and China](#) signed multiple cooperation agreements. Chief among them is a general framework for cooperation on peaceful uses of nuclear energy, as well as the signing of an agreement that provides for the construction of an enriched-uranium, light-water power station in Argentina funded by China and using Chinese technology.

In a similar vein, another of the conventions provides a framework for cooperation between Argentina's Economy Ministry and the Export-Import Bank of China (CEXIM) toward financing investment projects in Argentina.

Another development is the creation of the Argentina-China Business Forum (FONAC), which will bring together representatives of the two countries' governments and corporate sectors and whose objective will be to promote bilateral economic relations.

The Argentina-China Joint Action Plan 2014-2018 will promote cooperation over scientific-technological and innovation policies on agrifood, technology-driven industries, clean and renewable energy (particularly bioenergy), nanotechnology, biotechnology exploiting biomass, biomedicine, information and communications technologies, technology diffusion, and the forestry sector.

In the agricultural sector, cooperation will include animal health (most notably the joint project to produce a vaccine against foot-and-mouth disease), seeds, dairy produce, and trade in and modernization of both livestock and agriculture.

The remaining agreements provide for bilateral cooperation in space technology, culture, tourist visa facilitation, media, health, and mutual legal assistance in criminal matters.

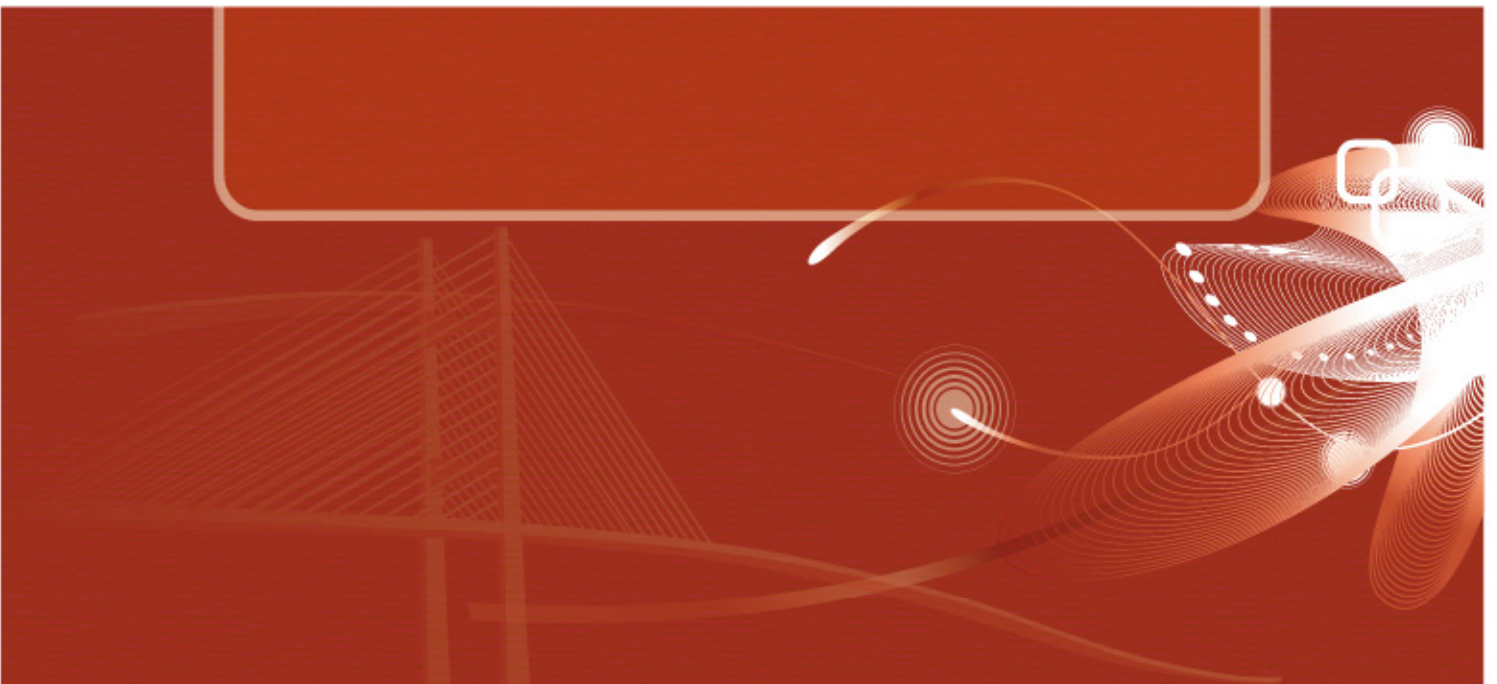
Uruguay-Japan

[Uruguay and Japan](#) signed the Agreement for the Liberalization, Promotion, and Protection of Investment. The agreement seeks to generate favorable conditions for bilateral investments by ensuring fair and equitable national treatment of investors, and favoring capacity building and access to resources.

Japan's main investments in Uruguay are concentrated in the automotive sector, notably an airbag manufacturing plant to supply a terminal in Brazil, opened in 2012.



Regional And Global Overview





Eighth round of US-EU talks

The eighth round of negotiations on the Transatlantic Trade and Investment Partnership (TTIP) Agreement was held in Brussels, Belgium, in the first week of February. According to a European Commission (EC) [communiqué](#), the round discussed the main topics, with the exception of investment protection and dispute settlement between investors and states, one of the issues where most differences persist.

In market access, the round reviewed the priorities and sensitivities of the tariff elimination offers exchanged by the two parties, as well as the liberalization of trade in services and the opening-up of government procurement markets.

As mentioned in previous editions of the *INTAL Monthly Newsletter*, any agreement on regulations will have a very significant impact on trade. On the one hand, given that tariffs between United States and the European Union (EU) are relatively low, the harmonization or mutual recognition of standards is expected to reduce nontariff barriers and consequently promote bilateral flows. On the other hand, it will affect the rest of the world, not just because exporters will have to adapt to new rules to enter US and EU markets, but because it is likely to establish a basis for regional and multilateral negotiations.

The eighth round saw an exchange of proposals on regulatory cooperation, technical barriers to trade, sanitary and phytosanitary measures, and conformity assessment, with the aim of moving forward in building consensus ahead of the next meeting. It also discussed sectoral issues in such sensitive areas as chemicals, cosmetics, medical devices, automotive, pharmaceuticals, and engineering.

Two further rounds of talks are expected to be held, as well as a series of intermediate meetings on specific sectoral topics before any agreement is concluded.

Related articles

- IDB-INTAL. "[Mega-agreement negotiations: how will they influence Latin America?](#)," in: *INTAL Monthly Newsletter No. 204*, August 2013.
- IDB-INTAL. "[2nd round of TTIP negotiations](#)," in: *INTAL Monthly Newsletter No. 208*, December 2013.
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- IDB-INTAL. "[EU publishes tentative TTIP texts](#)," in: *INTAL Monthly Newsletter No. 221*, January 2014.



Third CELAC Summit

The Third Community of Latin American and Caribbean States (CELAC) Summit was held in San José, Costa Rica, January 28-29.

The Heads of State and Government, and representatives of the 33 member countries approved the [Political Declaration of Belén](#), a relevant [Action Plan](#), and twenty seven special declarations.

The Belén Declaration consists of seven sections establishing positions and commitments on such topics as sustainable development and equity, the post-2015 development agenda, climate change and global warming, the promotion of peace, and the strengthening of extraregional ties and intraregional cooperation.

The Action Plan establishes an operational plan to comply with the Belén Declaration in areas such as food security, family agriculture, education, culture, labor, migration, drugs, citizen security, corruption, science and technology, productive development, infrastructure, environment, and energy.

The event also saw the handover of the *Pro Tempore* Presidency to Ecuadorian President, Rafael Correa.

Seventh round of RCEP talks

The [Seventh Round of Negotiations for Regional Comprehensive Economic Partnership \(RCEP\)](#) was held in Bangkok, Thailand, February 9-13.

The negotiations, on this occasion, focused on trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, and institutional and legal issues. There was also a meeting of e-commerce experts, who discussed the scope and methodology of negotiation in this area.

The next round is to be held in April, and it is hoped that the negotiations will be concluded by the end of 2015.

The RCEP negotiations were launched at the end of 2012 and got under way in May 2013, with the aim of unifying under a single agreement the bilateral free trade agreements that the countries of the Association of Southeast Asian Nations (ASEAN) have with six other countries in the region (Australia, New Zealand, China, Japan, South Korea, and India), and of moving forward in areas not yet covered by these agreements. This group of countries represents approximately 30% of global GDP and trade, and almost half of the world's population. Intraregional trade is also of great importance for the group as a whole, accounting for 40% of its total exports.

Related articles

- IDB-INTAL. "[Negotiating scenarios in the major economies](#)," in: *INTAL Monthly Newsletter No. 201*, May 2013.
- IDB-INTAL. "[Mega-agreement negotiations: how will they influence Latin America?](#)," in: *INTAL Monthly Newsletter No. 204*, August 2013.



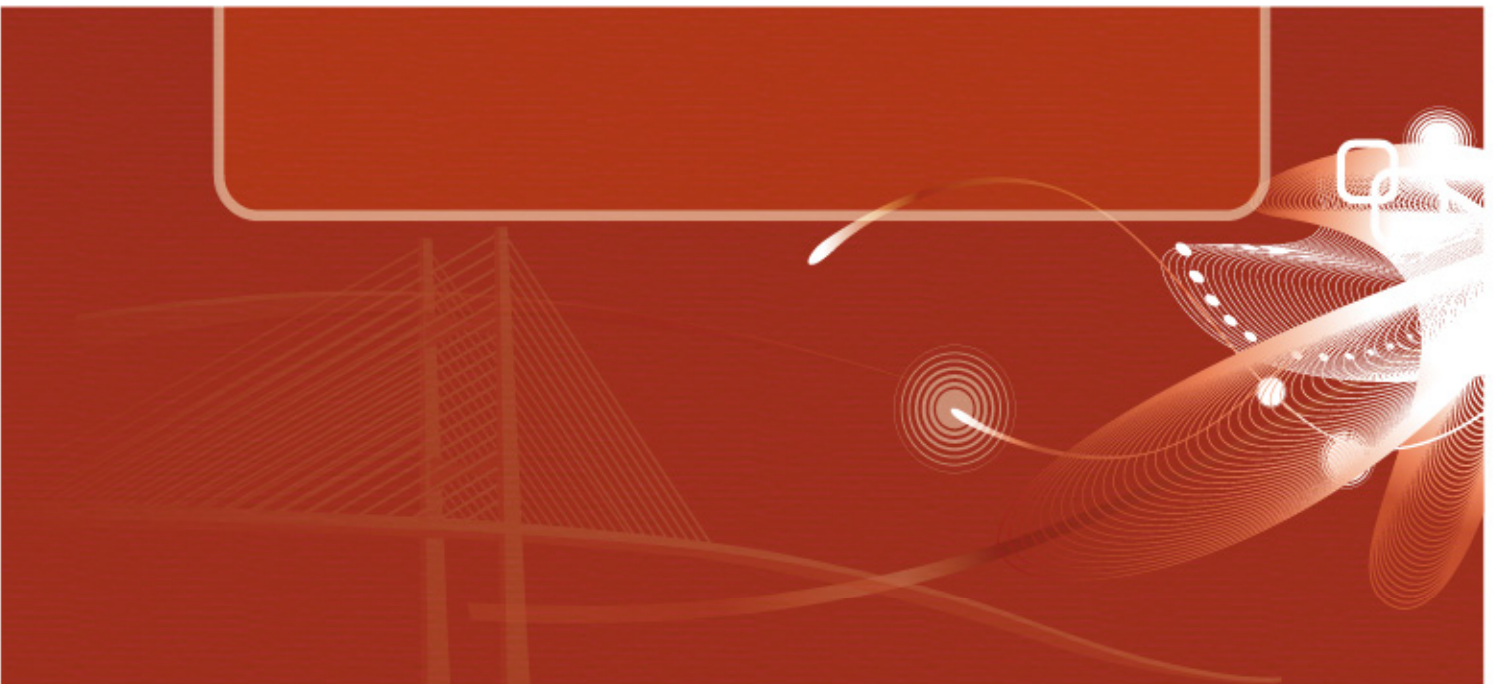
G-20 Finance Ministers meet

The Finance Ministers and Central Bank Governors of the [Group of Twenty \(G-20\)](#) countries met in Istanbul, Turkey, February 9-10, to discuss measures to sustain economic growth and combat tax evasion. A [communiqué](#) issued at the close of the meeting highlights, among other issues, the fact that global economic growth remains low, particularly in advanced regions such as the Eurozone and Japan, and that global trade has failed to pick up again after the economic crisis. The communiqué backs the central banks' policy of monetary expansion, particularly in the Eurozone, in order to galvanize investment and overcome the deflationary risks present in the global economy. Macroeconomic and structural strategies were also discussed, with the aim of boosting investment, promoting employment, and enhancing trade.

The Secretary-General of the Organization for Economic Cooperation and Development (OECD), Ángel Gurría, presented a report entitled "[Going for Growth](#)." The report assesses the progress of the economic reforms implemented in OECD countries since 2013. It also identifies priorities for achieving higher, more inclusive growth, chief among which were trade liberalization and the streamlining of labor market regulations.



Impact assessment





Impact assessment of SME support policies in Chile and Mexico

This article reviews two policy impact assessments of small and medium enterprise (SME) promotion in Chile and Mexico. An overview of impact assessment can be found in the relevant article in [*INTAL Monthly Newsletter No. 216*](#), explaining the purpose and methodologies used.

The work by Tan (2009) assesses SME support programs in Chile, using panel data at company level for the period 1992-2006. It divides companies into two groups, depending on whether they have participated in the programs (the treatment group) or not (the control group). In particular, it discusses the policies implemented by the public agency, the Production Development Corporation (CORFO), aimed at stimulating innovation, technology transfer, partnerships between companies, supplier development, and financing, among other elements. It studied a sample of 603 companies, 207 of which participated in at least one program. Using the difference-in-differences method to see the changes over time in the treatment group compared to the control group, combined with propensity score matching to assess pretreatment characteristics), the work finds evidence that participation in the programs has significant positive effects on sales, productivity, wages, and exports. In terms of the temporary effect, the research finds that the effects are not immediately visible and only become apparent a few years after implementing the programs.

The work by López Acevedo & Tinajero (2010) assesses SME development programs in Mexico, using panel data for the period 1994-2005.

It analyzes programs of various agencies and ministries to develop integration in production, financing, sectors, innovation, and other areas. The sample takes in approximately 2600 companies, 1,600 of which have participated in at least one program. Like Tan (2009), the authors used a difference-in-differences method with propensity score matching and found that participation in some programs has significant positive effects on value-added, gross production, wages, employment, and exports. In terms of the temporary effect, they too found that the effects are not immediate, but take some years to appear after the interventions.

Both works present the results of SME programs in Chile and Mexico, making use of extensive databases at the company level and taking into account previous research. Their contribution at the regional level is, on the one hand, to show the programs' effectiveness, frequently called into question over the lack of systematic assessment mechanisms. On the other hand, they provide evidence of the need for interventions to have prolonged maturation periods. In this respect, they are a reference source for those responsible for designing public policies aimed at SMEs, especially those that promote the internationalization of these companies.



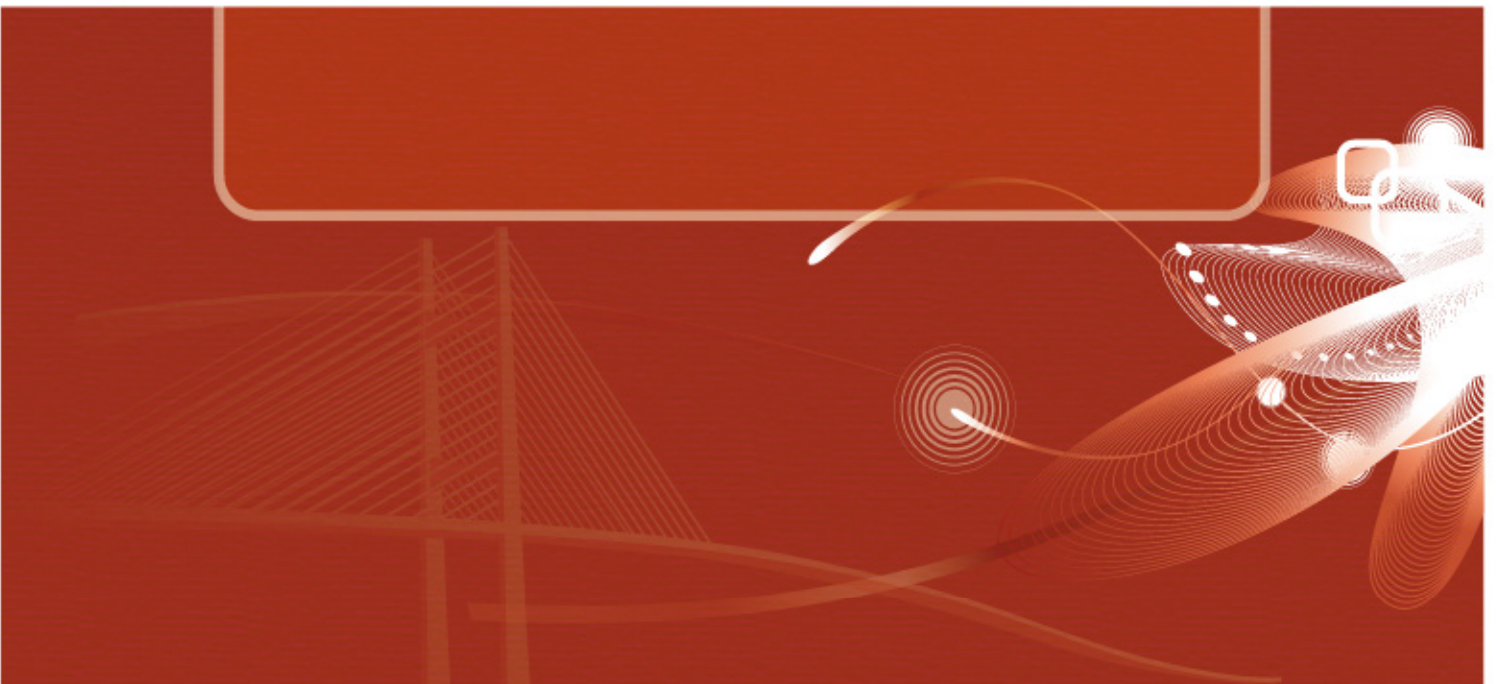
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Lopez Acevedo G. & Tinajero M. 2010. "[Mexico. Impact Evaluation of SME Programs Using Panel Firm Data.](#)" The World Bank. Policy Research Paper 5186.

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Integration and Trade Sector





Legal Instruments of Integration (IJI)

Observatory

Trend of the month

In January 2015, overall regional trade policy was characterized by buoyancy in the main advanced negotiations and by activity in existing agreements. The highlights include:

- The CELAC Summit
- The Eighth Round of TTIP Negotiations
- The deepening of existing regional trade agreements (RTAs)
- The opening of dialogue between Chile and Dominican Republic towards a trade agreement.

360° view

January saw the approval of the free trade agreement (FTA) between Panama and Trinidad & Tobago and the announcement of fresh negotiations, as well as the publication of the Closing Package of the European Ecuador-Union Trade Negotiation, and progress in 11 existing agreements and 8 trade negotiations (1 new, 5 advanced, and 2 concluded).

Panama-Trinidad & Tobago

- The [trade agreement between Panama and Trinidad & Tobago](#) was ratified January 22, in order to expand and consolidate access of Panamanian agricultural and industrial products to the Caribbean.

New negotiations


- Chile and Dominican Republic have opened [dialogue toward negotiating a trade agreement](#).

Advanced negotiations

- [Eighth Round of Negotiations for the Transatlantic Trade and Investment Partnership \(TTIP\)](#)
: The Round got under way February 2, 2015.
- The Pacific Alliance Technical Groups brought their [Nineteenth Meeting](#) in Bogotá, D. C., Colombia, to a successful close January 23, 2015. The gathering worked on the commitments and projects undertaken in this deep integration mechanism.
- The Third Summit of Heads of State and Government of the Community of Latin American and Caribbean States (CELAC) was held January 28-29, at which the [Political Declaration of Belén](#) was issued.
- Colombia and Japan: [In the trade agreement, industrial sectors also stand to gain.](#)
- Peru-Turkey.
- The [Second Round of Negotiations toward a Peru-Turkey agreement](#)
- Colombia-South Korea: [No agreement was reached with industry](#) in the signing of the FTA with South Korea.
- Ecuador-European Union: The Ecuador-European Union [Negotiation Close Package](#) was published.

Trade Agreements

- Chile-Australia: a significant [meeting of 200 leaders from Australian and Chilean business, academia, and government](#) was held in Santiago de Chile, Chile.
- [Chile and Japan have embarked on deepening their bilateral agreement](#) to making good on the commitment taken by both countries in September 2014 to deepen coverage of goods in the Strategic Economic Partnership Agreement (AAEE).
- [Chile and Colombia evaluated their bilateral relations at the Fifth Free Trade Commission:](#) Market access, regulatory aspects, public procurement, investment, and environmental issues, were some of the topics on the agenda.
- Andean Community of Nations (CAN): [Clarification over the request by the Republic of Ecuador regarding the foreign exchange safeguard.](#)
- United States-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR): [Costa Rica vs. El Salvador Dispute: tariff treatment for Goods Originating in Costa Rica.](#)
- Union of South American Nations (UNASUR), South American Infrastructure and Planning Council (COSIPLAN)-Initiative for the Integration of Regional Infrastructure in South America (IIRSA): [V Ordinary Meeting of COSIPLAN Ministers.](#)
- Association of Caribbean States (ACS): [17th Intersessional Preparatory Meeting of the ACS Ministerial Council.](#)
- Latin American and Caribbean Economic System (SELA): [Free zones must conclude adaptation to the framework of WTO provisions by December 2015.](#)
- SELA supports a [regional survey on Cross-Border Paperless Trade Facilitation.](#)
- [UNASUR is to present initiatives to tackle the world drugs problem in the Region.](#)
- [Declaration by UNASUR Secretary-General](#), former president Ernesto Samper Pizano, on relations between Venezuela and Colombia

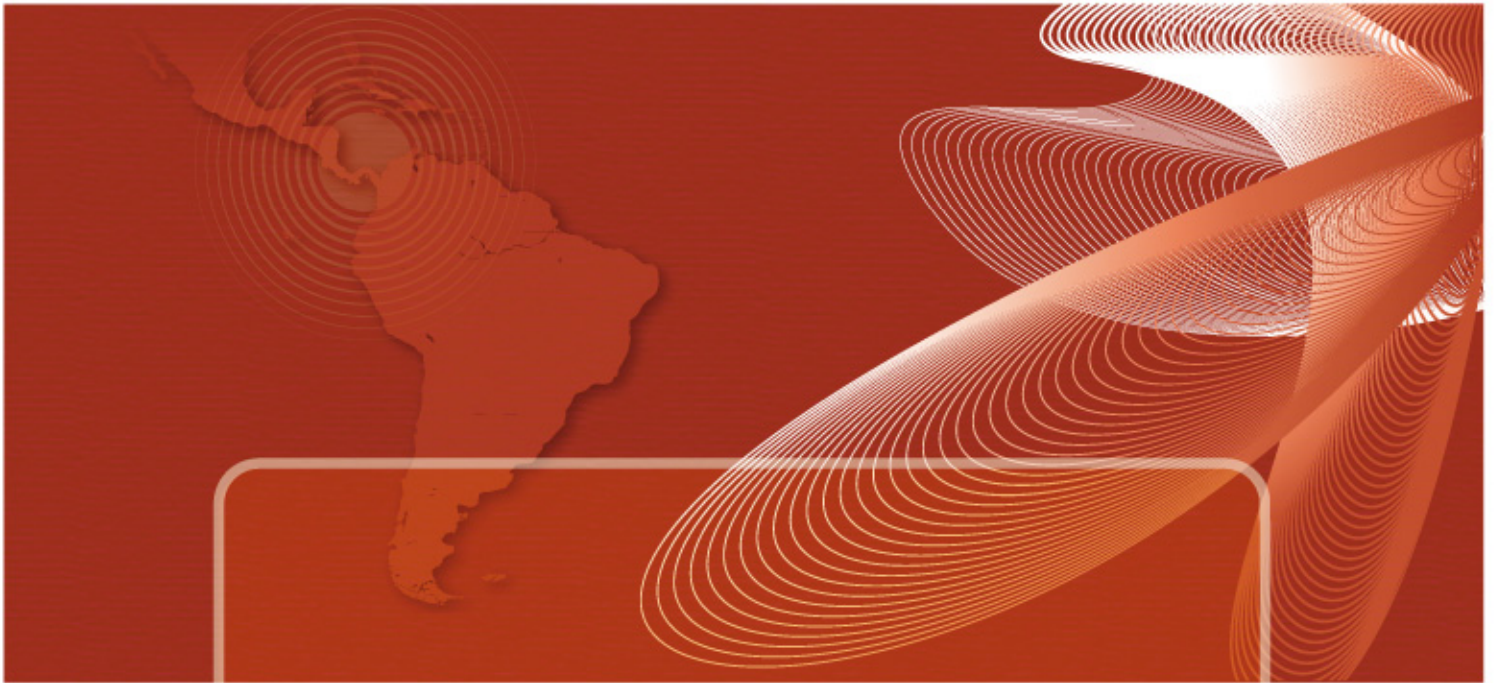


IJI is a compilation of normative texts, comments, and follow-up on the basic legal commitments of the various integration processes of Latin America and the Caribbean. To learn more about advances and developments in trade agreements and negotiations visit the [IJI website](#).

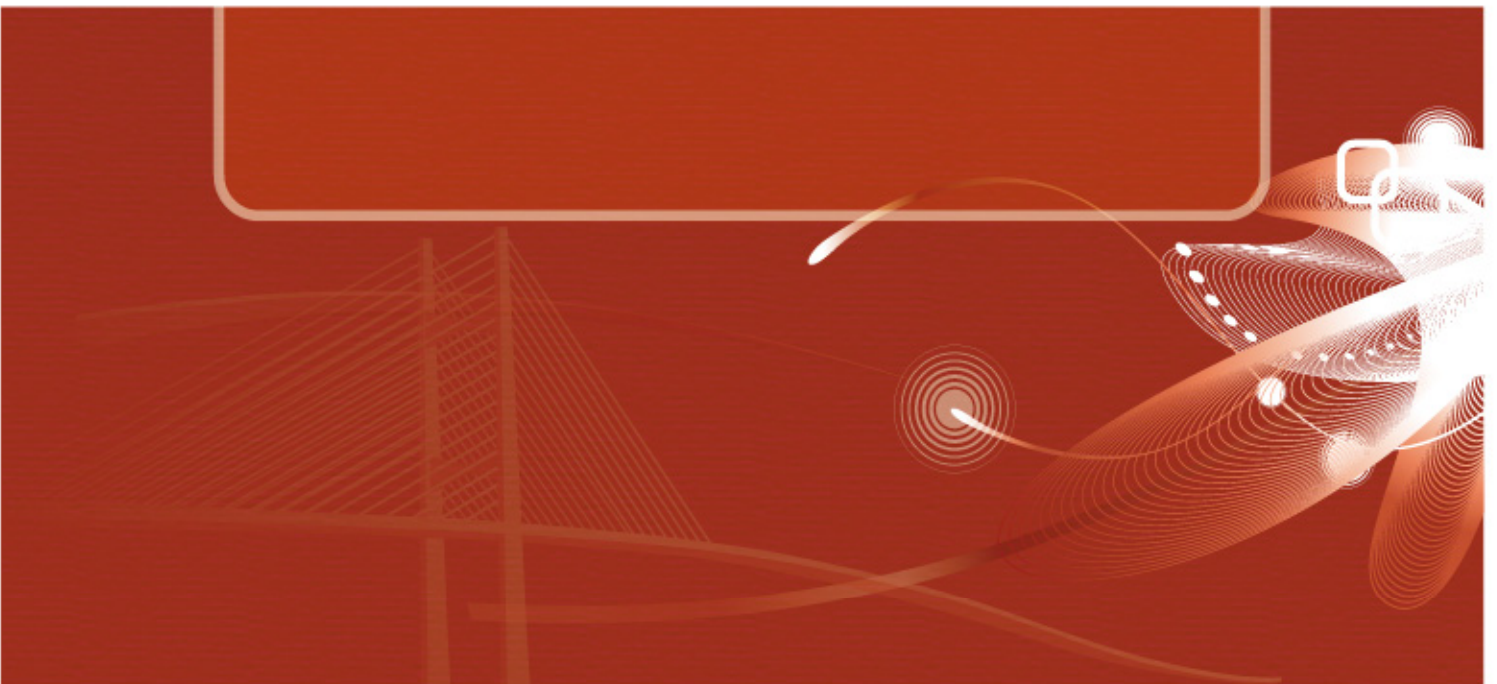


2015 Call for Proposals to promote Regional Public Goods in Latin America and the Caribbean

The Inter-American Development Bank (IDB) launched the 2015 Call for Proposals of the Initiative for the Promotion of Regional Public Goods in Latin America and the Caribbean (LAC), which supports projects aimed at resolving shared challenges and seizing opportunities for development through regional cooperation. ([Link](#))



Other IDB Activities







Inter-American Development Bank to hold Annual Meeting in Busan, Republic of Korea

The Inter-American Development Bank (IDB) will hold its Annual Meeting in Busan, Republic of Korea, March 26-29, bringing finance officials and business leaders from its 48 member countries to discuss the economic outlook and development challenges of Latin America and the Caribbean, as well as investment opportunities and the exchange of best practices between the region and Asia. ([Link](#))

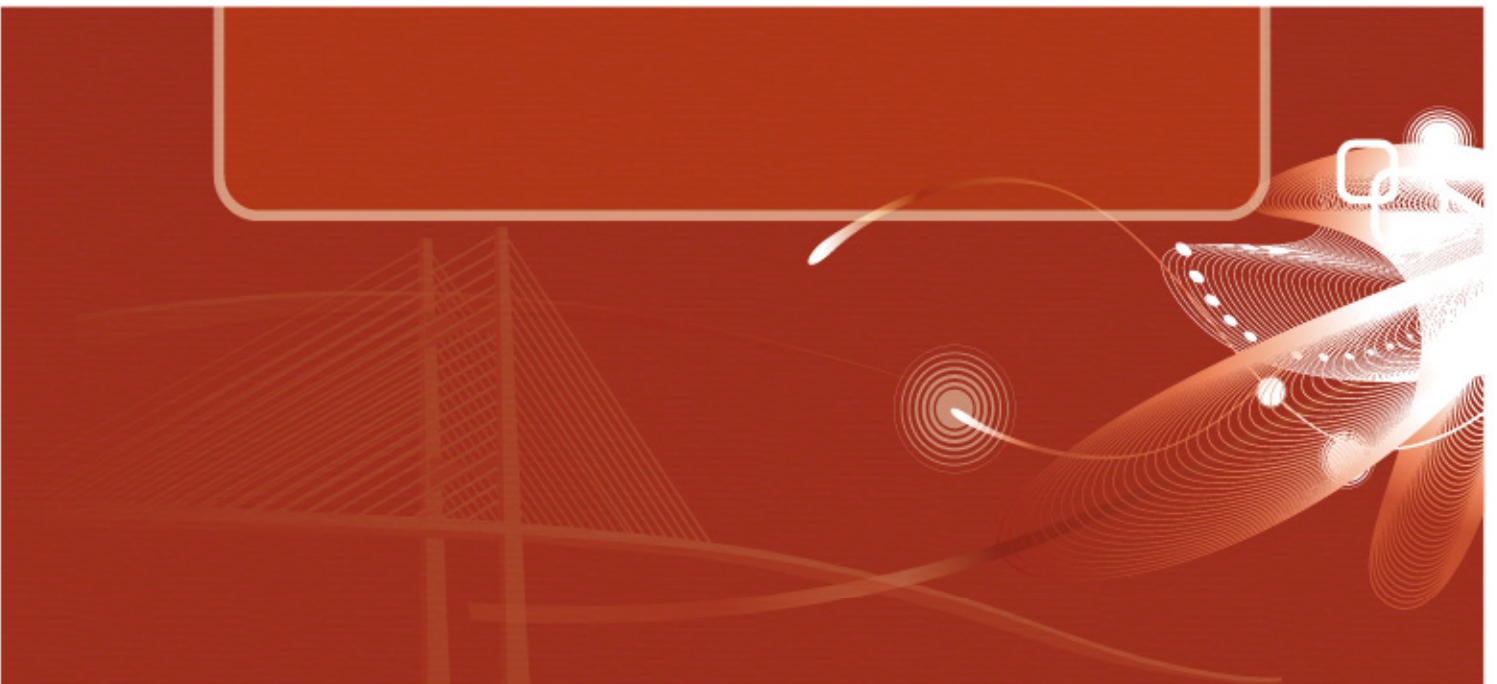


The IDB adopts Creative Commons licenses that will facilitate knowledge dissemination

The Inter-American Development Bank (IDB) announced today that it has adopted certain Creative Commons licenses that will allow the public to copy, share, redistribute, and publish content from some of the Bank's publications. With these licenses, the Bank seeks to be able to disseminate its content more quickly and freely, benefiting individuals, governments, organizations, and others interested in the non-commercial use of its knowledge products. ([Link](#))



INTAL Documentation Center







Reviews

First Forum of China and the Community of Latin American and Caribbean States (CELAC): Exploring opportunities for cooperation on trade and investment. Santiago de Chile: ECLAC, January 2015.

This publication was prepared by ECLAC in connection with the First Community of Latin American and Caribbean States (CELAC)-China Forum in Beijing, China, in January 2015. The document is divided into three sections. The **first section** describes the current international context and its impact on Latin America and the Caribbean (LAC). It highlights lower global growth than before the 2008-2009 crisis, with the US economy among the most dynamic in the developed countries, in opposition to the Eurozone and Japan. It shows that the performance of world trade in general and of LAC's exports in particular largely depend on the evolution of the Eurozone, given its weight in gross world product (GWP) and its import-intensive growth pattern. It reminds us that the strengthening of the dollar after the normalization of US monetary policy has put an end to the cycle of high commodity prices (with a high share in the region's export basket) generally seen between 2003 and 2011. The document also points out that developing countries—and especially China since 2012—have decelerated, due to a slowdown in exports and investment. In particular, it links LAC's sharp slowdown since 2012 with the negative impact of the international context, which is set to continue throughout 2015. Particularly noticeable is the slowdown in the largest South American economies and the drop in their exports in 2014, in contrast to Mexico and Central America's higher growth in GDP and foreign sales. It also shows that global trade-GWP elasticity has fallen since 2011, i.e. global trade has slowed more than GWP. The stagnation in LAC exports is explained by lower buoyancy and demand among the region's main trading partners—the European Union and China—and by the fall in intraregional trade. Another feature of the international context highlighted above is the uncertainty over the future of the negotiations in the framework of the World Trade Organization (WTO), as opposed to the emergence of deep integration initiatives, such as mega-agreements,[1] which could modify the governance of the world trade flows in the next few years.




The **second section** describes trade and investment relations between China and LAC. It emphasizes that the Asian giant has gone from being a lesser trading partner to one of the region's most significant: between 2000 and 2013, China's share in regional exports rose from 1% to 10 %, while its weight in imports increased from 2% to 16% in the same period. Some of the challenges facing the region are that: (i) the trade balance for all LAC countries is in deficit, with the exception of Brazil, Chile, and Venezuela; (ii) trade with China is inter-industry, with LAC exporting raw materials and importing manufactured goods; and (iii) Latin American shipments to the Chinese market are concentrated in relatively few products.

The publication points that Chinese foreign direct investment (FDI) in the region has grown considerably since 2010, although flows are still fairly limited. In any case, the official data clearly do not capture all flows, as China uses third countries as tax havens to channel its investments. FDI from China in the region is concentrated mainly in natural resources, such as oil and gas extraction, and mining.

Linked to China's growth pattern, the paper argues that the features the authorities are seeking to change include sacrificing consumption for investment, emphasizing manufacturing over services, energy inefficiency, environmental deterioration, and income concentration. In other words, China aims to rebalance its growth model through economic reforms, with more consumption, and less exports and investment. ECLAC contends that this opens up a space for the regional diversification of exports to China, from quality goods to specialist services.

The **third section** concludes with the region's need to take a leap forward where the quality of its relations with China is concerned. The challenge for LAC is to ensure that its ties with the Asian country strengthen the incorporation of innovation and knowledge. It thus suggests there is a need for the region to take a more concerted strategic approach toward China and Asia in general, which goes beyond the bounds of national efforts. It points out that the CELAC-China Forum is a platform for dialogue over future cooperation with a consistent stance and specific proposals. The work also points out that China recognizes the region's importance as a partner and has reflected this in the proposal for the "1+3+6" cooperation framework for 2015-2019, presented at the China-LAC Leaders' Summit in Brasilia, July 2014. The "1" means one plan for the entire region, with the single goal of inclusive and sustainable development. The "3" refers to the three engines of regional cooperation: trade, investment and financial cooperation, with the objective of achieving certain set quantitative goals. "6" refers to the six specific fields that China sees as priorities. These are energy and natural resources, infrastructure construction, agriculture, industry, scientific and technological innovation and information technologies.

The publication comes at a time of various cooperation meetings between the region's countries and China. The document deals with issues to be incorporated into LAC's national and regional public policies in order to improve the quality of ties with China. It is common knowledge that economic relations with China present the region with enormous challenges that must be addressed. This publication contributes to an understanding of what these are, at the same time as thinking about the problems involved and what action to take.



First Forum of China and the Community of Latin American and Caribbean States (CELAC): Exploring opportunities for cooperation on trade and investment. ([Link](#)).

[1] The Trans-Pacific Partnership Agreement (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and the Regional Comprehensive Economic Partnership (RCEP). The work also draws attention to the negotiations to create a Free Trade Area of the Asia-Pacific (FTAAP), including all members of the Asia-Pacific Economic Cooperation (APEC) Forum.



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

* Bridging the skills and innovation gap to boost productivity in Latin America : The Competitiveness Lab: A World Economic Forum Initiative. (2015). Geneva: WEF.



Título: Bridging the skills and innovation gap to boost productivity in Latin America : The Competitiveness Lab: A World Economic Forum Initiative

Edición: Geneva: WEF, January 2015 [41 p.]

Temas:

<COMPETITIVIDAD><PRODUCTIVIDAD><REGIONALISMO><INVERSIONES><TECNOLOGIA><EMPRESAS><SECTOR PUBLICO><POLITICA REGIONAL><COOPERACION REGIONAL>

Geográficos: <AMERICA LATINA>

Resumen: Latin American leaders face a challenge and an opportunity to boost competitiveness by addressing the region's productivity lag. Supporting a transition towards higher productivity levels - which requires improving the functioning of its institutions; the quality of infrastructure; the allocation of production factors; and, crucially, strengthening the region's skills, technology and innovation base - will be key to the region's well-being and prosperity. This report analyses the current situation and challenges in Latin America's skills and innovation landscape and recommends ways to address these challenges. This effort is the first output of the Competitiveness Lab initiative, which will continue to focus on key competitiveness issues and challenges of global relevance and applicability in other regions and/or countries. The Competitiveness Lab seeks to achieve this by designing competitiveness strategies, defining policies in specific areas of competitiveness and facilitating public-private collaborations.

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1: Executive summary [p. 5]

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1.2: Structure of this report [p. 5]

1.3: Summary of the current state and root cause analysis [p. 5]

] 1.4: Summary of the recommendations [p. 7]

2: Recommendations to bridge Latin America's skills and innovation gap
[p. 8]

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2.2: Strengthen framework conditions [p. 9]

2.3: Enhance the efficiency of investment [p. 9]

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2.6: Foster intra-regional cooperation [p. 11]

2.7: Employ a flexible implementation approach [p. 12]

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**3: Annex: Current state and root cause analysis of Latin America's skills
and innovation gap** [p. 13]

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3.3: Root causes of skills and innovation gaps in Latin America [p. 24]

3.4: Overcoming the skills and innovation gaps: Examples [p. 29]

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3.6: Appendix [p. 38]

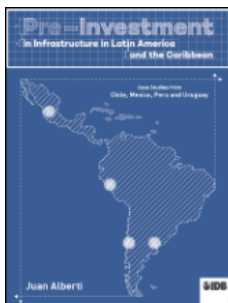
Accesos al documento:

339.13 / WEF-BRI / 2015

Documento Electrónico

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

* Alberti, J. (2015). Pre-investment in infrastructure in Latin America and the Caribbean : Case studies from Chile, Mexico, Peru, and Uruguay. Washington: BID.



Autor: Alberti, Juan

Título: Pre-investment in infrastructure in Latin America and the Caribbean : Case studies from Chile, Mexico, Peru, and Uruguay


Edición: Washington: BID, January 2015 [73 p.]

Temas: <INVERSIONES><INFRAESTRUCTURA><PROYECTOS DE INFRAESTRUCTURA><SECTOR PUBLICO><EMPRESAS><ESTUDIOS DE CASOS>

JEL: H1; H4; H5

Geográficos: <CHILE><MEXICO><PERU><URUGUAY><AMERICA LATINA><CARIBE>

Resumen: There is evidence that suggests that an "infrastructure gap" vis-à-vis other industrial and developing regions opened up in Latin America and the Caribbean (LAC) over the past two decades. In this context, the Inter-American Development Bank (IDB) conducted a public consultation process in 2013 during which several participating stakeholders from the public and private sectors analyzed the current situation. They indicated a particular need to improve the pre-investment phase of the infrastructure project cycle in LAC. Therefore, this report studies why the region is having a problem with the pre-investment phase and what the consequences are. It uses a multiple-case-study design to confirm that the countries' institutional strategy for pre-investment is failing because: it has not been adapted to address new problems; the strategy does not always consider political acceptability issues; there are undesired interactions between the different institutions participating in the process; and there is a lack of sufficient resources to implement the strategy correctly. In order to analyze the consequences of the current strategy, this paper develops a benchmark using previous findings and other smart practices. LAC institutionalism and this benchmark are then used as two possible alternatives to draw a policy analysis. Outcomes are estimated for the two alternatives in terms of transactional hazards, using the new transaction cost regulation body of knowledge, and the alternatives are compared in terms of cost-effectiveness, considering that these hazards are responsible for potential cost overruns and delays. The analysis concludes that a flawed pre-investment process in LAC is probably contributing to cost overruns and delays. Specific institutional recommendations are put forth to mitigate these consequences, including institutionalizing stakeholders' participation when generating a vision and



goals for future infrastructure investments; increasing governmental capacity, particularly in terms of human resources, to develop specific types of pre-investment studies; and institutionalizing the participation of self-described "interested parties" when a project is first accepted, and before project implementation starts. The paper concludes that there is room for feasible policy improvements in the pre-investment phase in LAC that would enhance infrastructure delivery, boost growth, and promote development in the region.

Accesos al documento:

624.1 / ALB-PRE / 2015

Documento Electrónico

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

* Ramstein, C. y Ribera, T. (2014). The LAC region in the face of climate change: perspectives on national policy and international cooperation. París: IDDRI.



Autor: Ramstein, Céline; Ribera, Teresa

Título: The LAC region in the face of climate change: perspectives on national policy and international cooperation

Edición: París: IDDRI, november 2014 [14 p.]

Serie: Working Papers; 16/14

Temas: <POLITICA AMBIENTAL><POLITICA REGIONAL><COOPERACION INTERNACIONAL><CAMBIO CLIMATICO><PROTECCION AMBIENTAL>

Geográficos: <AMERICA LATINA><CARIBE>

Resumen: The LAC region is at a crossroads: while its emissions are still relatively low compared to global emissions, they are changing quickly. The region will face tremendous impacts from climate change, while adaptation and mitigation policies could present many opportunities for strengthening regional integration. This collection has been prepared by think tanks in countries that belong to many different negotiating groups within the UNFCCC, as well as economic alliances, and therefore can play a key role to advance new ideas and find "bridges" between different positions.

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 - 2.1: Reconciling development and decarbonization (Libélula) [p. 8]
 - 2.2: Enhancing the adaptation framework in the 2015 climate agreement (IDDRI) [p. 9]
 - 2.3: The importance of agriculture, forestry and other land-use in the 2015 climate agreement (CATIE - Tropical Agricultural Research and Higher Education Center) [p. 9]
 - 2.4: Financing low-carbon and climate resilient development (Fundación Torcuato Di Tella) and engaging the productive sector in the climate change negotiations (Fundação Getulio Vargas) [p. 10]

Accesos al documento:

HM IDDRI-WP 16/14 [2014]

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* **Panorama económico y social de la comunidad de Estados Latinoamericanos y Caribeños, 2014. (2015). Santiago de Chile: CEPAL.**



Título: Panorama económico y social de la comunidad de Estados Latinoamericanos y Caribeños, 2014 = Economic and social panorama of the Community of Latin American and Caribbean States, 2014

Edición: Santiago de Chile: CEPAL, enero de 2015 [54 p.]

Temas: <COYUNTURA ECONOMICA><CONDICIONES SOCIALES><MERCADO DE TRABAJO><POLITICA FISCAL><COMERCIO INTERNACIONAL><CADENAS DE VALOR><POBREZA><INTEGRACION PRODUCTIVA><DISTRIBUCION DEL INGRESO><DEMOGRAFIA><DESARROLLO URBANO><GENERO><MUJERES><INVERSION EXTRANJERA DIRECTA, IED><COMUNIDAD DE ESTADOS LATINOAMERICANOS Y CARIBEÑOS, CELAC>

Geográficos: <AMERICA LATINA><CARIBE>

Resumen: Este "Panorama Económico y Social de la Comunidad de Estados Latinoamericanos y Caribeños" es una contribución de la Comisión Económica para América Latina y el Caribe (CEPAL) a la tercera Cumbre de Jefes de Estado y de Gobierno de la Comunidad de Estados Latinoamericanos y Caribeños (CELAC), que se realizará en San José en enero de 2015 ... En esta oportunidad, el documento se divide en seis secciones donde se presenta sintéticamente la situación de América Latina y el Caribe en temas económicos, sociales y de población, así como de inversión extranjera, comercio e igualdad de género.

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B: Las empresas transnacionales latinoamericanas y caribeñas: estrategias y resultados [p. 23]

C: Efectos de la inversión extranjera directa sobre el empleo en América Latina y el Caribe [p. 24]

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 - C: La segregación residencial y la reproducción de las desigualdades [p. 36]
 - D: Gasto social en América Latina [p. 37]
- V: Población [p. 39]
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 - B: Diversidad de la urbanización en América Latina [p. 43]
- VI: Igualdad de género [p. 45]
 - A: Autonomía económica [p. 47]
 - B: Autonomía en la toma de decisiones [p. 48]
 - C: Autonomía física [p. 49]
 - D: Violencia contra las mujeres [p. 50]

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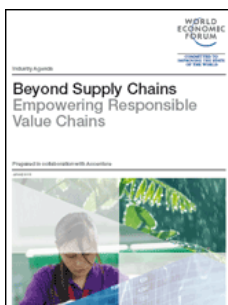
338 / CEPAL-PAN / 2015

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[English version](#). Si no pudo acceder haga click [aquí](#)

* Beyond supply chains : Empowering responsible value chains.
(2015). Washington: WEF.



Título:Beyond supply chains : Empowering responsible value chains

Edición:Washington: WEF, 2015 [32 p.]

Temas:<CADENAS DE VALOR><COMERCIO INTERNACIONAL><INVERSIONES><SECTOR PRIVADO>

Resumen:Over the past few years there has been mounting pressure on global supply chain directors not only to increase supply chain performance for commercial gain but also to ensure that their supply chains are having a positive social impact, which the World Economic Forum define as their impact on the environment and their ability to improve local economic activity. Major catastrophes such as the Rana Plaza factory collapse in Bangladesh in 2013, and evidence of child labour and unsafe working conditions in the extended supply chains of multinationals, have put significant pressure on chief supply chain officers to adopt responsible supply chain behaviors. The "Beyond Supply Chains" report, created in collaboration with Accenture, has identified a set of companies that are implementing world-class supply chain practices that are best in class from a commercial perspective, while also improving environmental impact and local economic conditions - building "ethical supply chains". We call this the "triple supply chain advantage". Beyond Supply Chains identifies a set of 31 proven supply chain practices. The report shows that companies applying these practices can increase revenue by up to 20 per cent for responsible products, reduce supply chain costs from 9-16 per cent and increase brand value by 15-30 per cent. Adopting the triple advantage can also shrink carbon footprint by up to 22 per cent while enabling companies to contribute to local development.

Accesos al documento:

338.2 / WEF-BEY / 2015

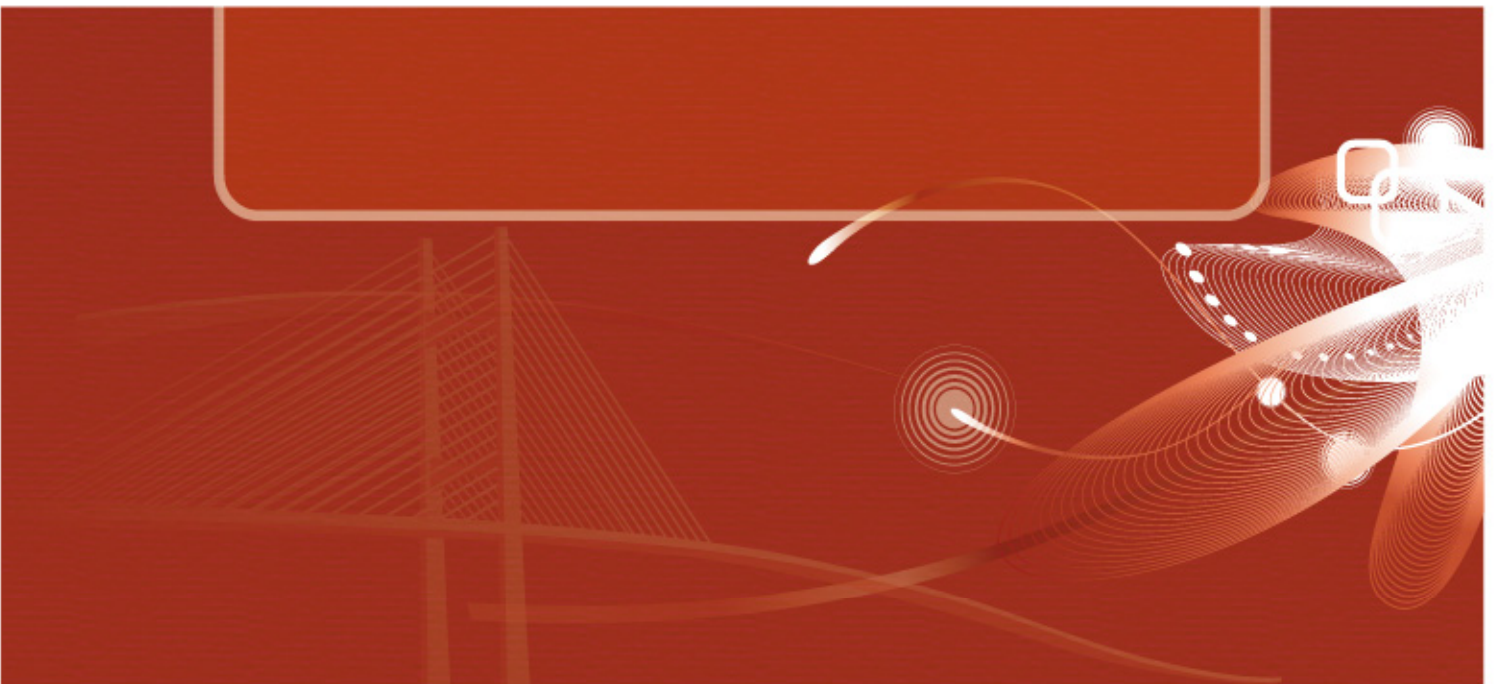
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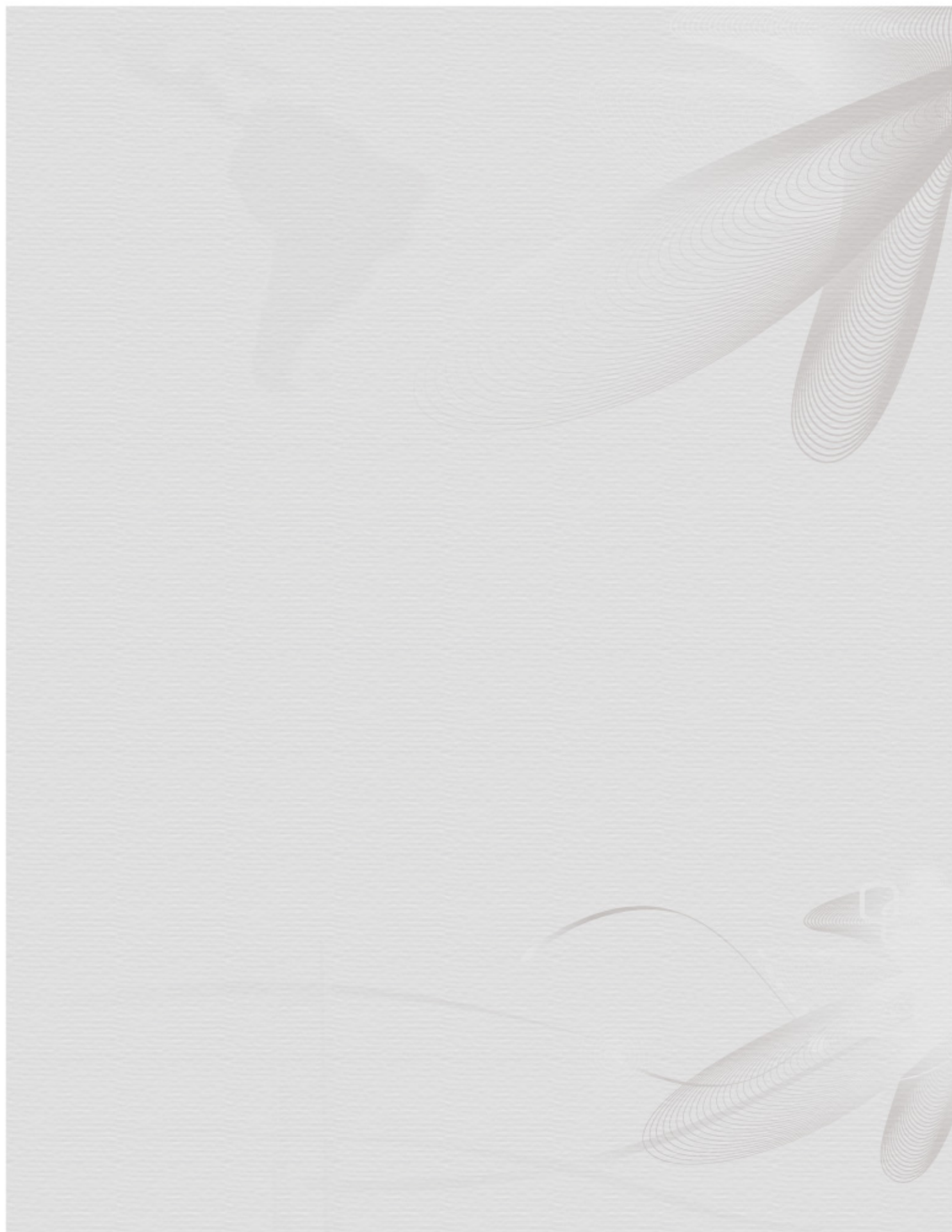
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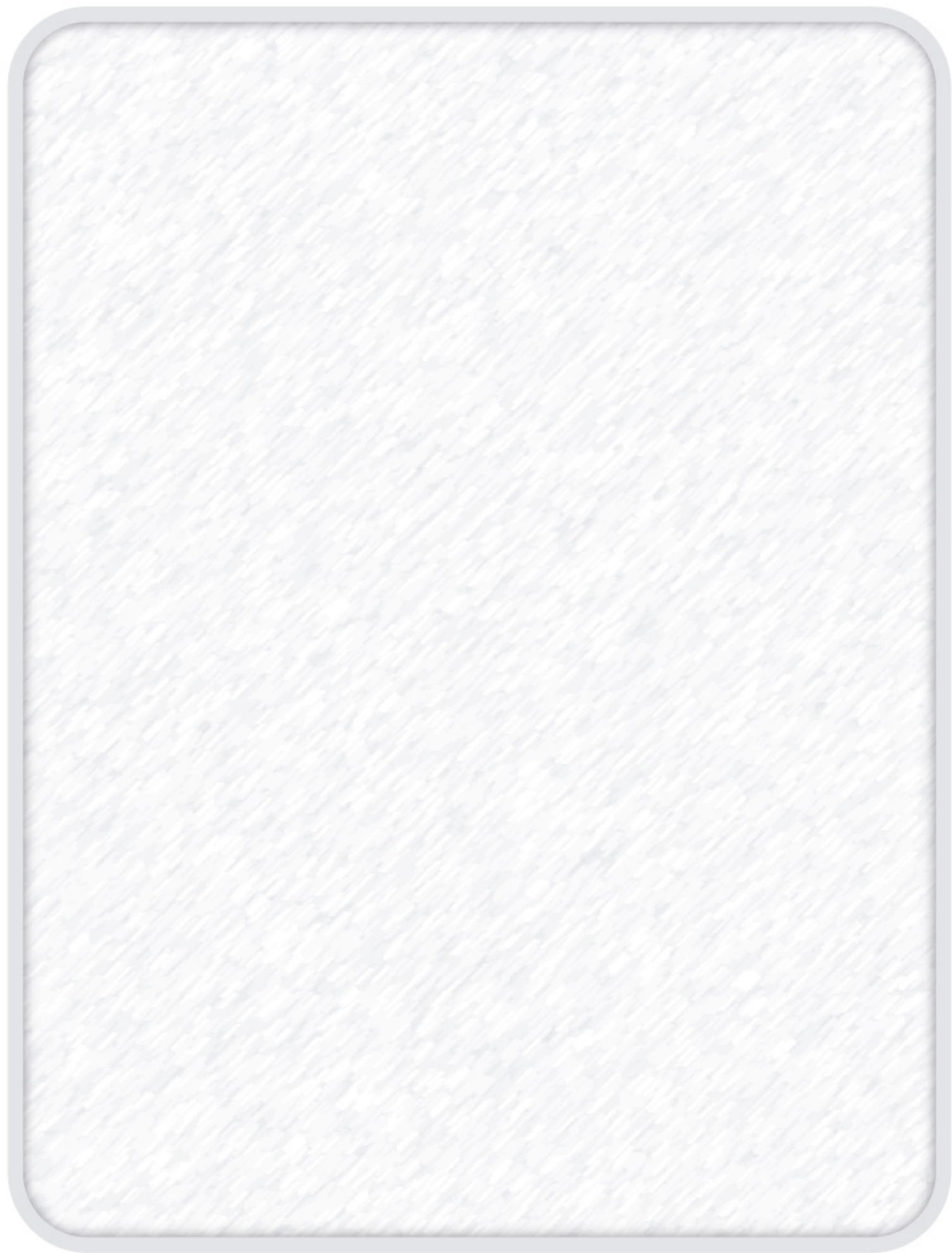
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Links to original information sources in this issue:

- Communiqué : G20 Finance Ministers and Central Bank Governors Meeting.(2015). Istanbul: G20. [Link](#).
- Comunidad Andina, CAN. (2015). Resolución N° 1762: Solicitud de la República del Ecuador para la aplicación de medidas de salvaguardia por devaluación monetaria a las importaciones originarias de Colombia y Perú. Lima: CAN. [Link](#).
- Declaración de Tokio: Centroamérica y Japón amigos unidos hacia el futuro. Tokio: Ministerio de Relaciones Exteriores de Japón. [Link](#).
- García Bercero, I. (2015). Press conference. Brussels: European Comission. [Link](#).
- Plan de Acción de la Declaración de Tokio. Tokio: Ministerio de Relaciones Exteriores de Japón. [Link](#).



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