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# Analysis Column







## INTAL's 50th Anniversary. Value Chains and Productive Restructuring in the New Global and Regional Context: The Automotive Sector

As part of the activities taking place to mark its 50th anniversary over the course of 2015, the Institute for the Integration of Latin America and the Caribbean (INTAL), in conjunction with the Interdisciplinary Institute of Political Economy at the University of Buenos Aires (IIEP BAIREES UBA), organized a series of four international seminars on the topic of “Productive Potential and Regional Export Performance: Policies and Commercial Strategies for External Integration.”[1] The last of these, “Value Chains and Productive Restructuring in the New Global and Regional Context: The Automotive Industry,” took place on June 22 at the School of Economic Sciences at the University of Buenos Aires ([calendar \[in Spanish\]](#)).

The seminar was an excellent opportunity to think about the future of industry in general and that of the automotive sector in particular, both globally and in Latin America. On the one hand, the panelists discussed the contribution that both industry in general and the sector make to development and job creation, and the role of global value chains. On the other hand, they described regulatory and technological innovations in the automotive industry and discussed concerns about emissions reduction and fuel consumption. In this regard, it was stressed that there are no developments in future technologies in the region (such as electric or hydrogen engines), which is partly a consequence of investment decisions made at the headquarters of major global companies. In addition, they highlighted the need for the coordination of automotive policies between MERCOSUR countries and for the inclusion of environmental and technological issues beyond commercial exchange in bilateral agreements, even though the impact of policies is limited by company strategies, which affect the entire chain in both the autoparts and car assembly plants segments. In any case, one policy objective should be attracting and establishing engineering centers at the scale the regional market allows.



At the opening of the seminar, INTAL Director **Gustavo Beliz** and IIEP researcher **Ricardo Carciofi** celebrated the joint work carried out by the two institutions that enabled this series of four international seminars to take place. They emphasized the participation of leading experts in the events and the relevance of the topics for Argentina and LAC. Gustavo Beliz introduced the seminar topic—the analysis of the new global industrial context, with a particular focus on the productive and technological transformations that the automotive industry has undergone and the implications of these for the region in general and for Argentina—and reviewed the main points arising from this topic. Following these opening remarks, the seminar consisted of a panel discussion involving Andrés López (UBA-CENIT), Fernando Porta (CIECTI-UNQ-UBA), and Mario Salerno (University of São Paulo), moderated by Ricardo Carciofi.





In his [presentation \(in Spanish\)](#), **Andrés López** referred, on the one hand, to the theoretical link between industry and development, noting that this sector is more productive than others in some developing countries, has positive knowledge and innovation externalities, generates more forward and backward productive linkages, and contributes to productive diversification. However, the industrial protectionism applied in some LAC countries involves a higher cost for consumers and is not reflected in foreign exchange savings because local content is even lower than in the past. In addition, while the industry may be labor intensive, productivity in some branches is currently lower than that in other sectors such as services or agriculture, especially in the Southern Cone. Furthermore, he listed certain key points regarding the fragmentation of production processes and global value chains (GVCs).

Dr López began by pointing out that it is important to identify the point at which value and employment are created for each good being traded. In this sense, the international trade statistics which measure value added (VA) are important because they show the country's position in the GVC. One example that is often cited to illustrate trade in VA is the iPhone (Esaith, 2013): while in 2009 this product contributed US\$1.9 billion to China's exports according to traditional trade statistics, it only represented a tiny fraction of its external sales (US\$73 million) when trade in VA was measured. The greatest addition of value to the iPhone takes place in Japan, the Republic of Korea, and Germany. This example illustrates that what is significant is the type of task being performed in the value chain: the greatest VA is generated in services such as innovation, standardization, R&D and design, on the one hand, and logistics, marketing, and branding, on the other. In contrast, assembly and manufacturing generate a smaller fraction of the VA.

Second, Dr. López showed that industrial value chains are increasingly internationalized and that less skilled employment plays a less important role within them. On the one hand, the increase of foreign VA in value chains around the world is evident, as is illustrated by the case of the German automotive industry (Timmer *et al.*, 2013). Offshoring was initially driven by lower wage costs, and

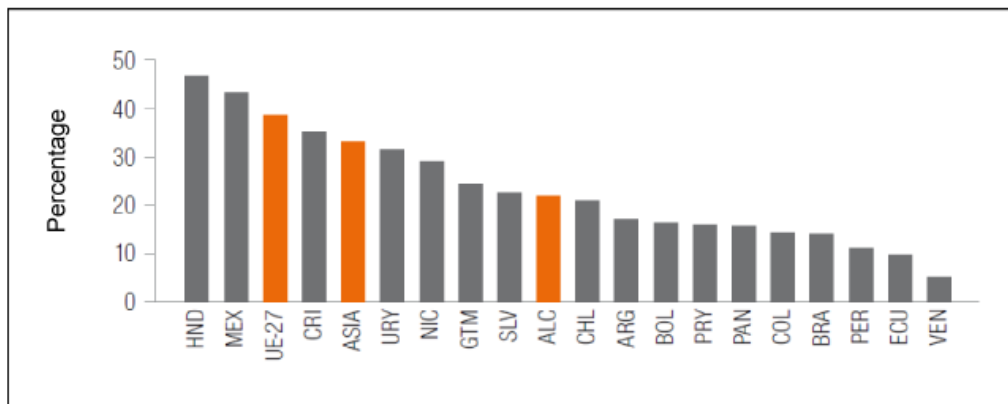
then by reductions in the cost of coordinating activities remotely, advances in ICT, etc. In addition, in the German automotive industry, the local content of low- and medium-skilled labor was reduced and the share of capital in foreign VA was increased, which may be due to automation or changed tasks.

Third, he pointed out some implications for the development strategies of the countries in the region. On the one hand, he showed that exported goods may use imported content or that foreign goods may include local VA, so protectionism may have the opposite effect to the one intended. On the other hand, he emphasized the role of services incorporated into manufactures, which increase VA in comparison with traditional measurements of trade.

Fourth, based on Blyde *et al.* (2014), Dr López showed that LAC's share in GVCs is low in terms of backward linkages, measured as foreign VA as a percentage of exports (Figure 1). In contrast, several South American countries are involved in forward linkages: domestic VA is used in other countries' exports (Figure 2).

**Figure 1. Share in GVCs through Backwards Linkages: Foreign Value Added as a Percentage of Total of Exports**

Average 2003–07

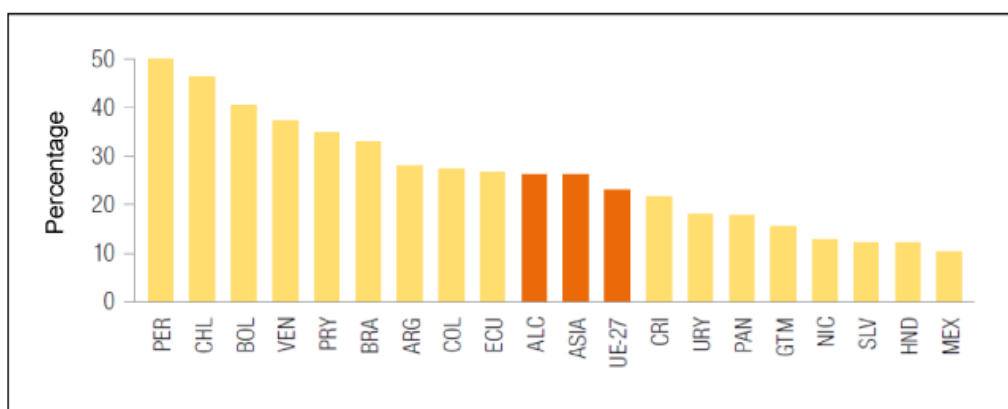


Source: Blyde et al. 2014.



Figure 2. Share in GVCs through Forward Linkages: Domestic Value Added  
Used in Other Countries' Exports

Average 2003–07




Source: Blyde et al. 2014.

Finally, he underlined the importance of exporting knowledge-based services associated with goods the region has advantages in, such as mining, hydrocarbons, or agricultural and livestock production. Also, in relation to industries that are not associated with raw materials, he highlighted the need for regional integration in order to rebuild a competitive industrial apparatus, based on the economies of scale that become possible in a larger market. One significant hurdle that must be overcome is the fact that there are few large local companies that are becoming internationalized, as these are necessary to organize GVCs.

In his [presentation \(in Spanish\)](#), **Fernando Porta** focused on the structural problems of the automotive industry in Argentina, in order to consider a suitable industrial and technological policy scheme for the sector.

Production and trade in the Argentine automotive industry falls under the bilateral agreement with Brazil for the administration of trade in the sector, based on the hypothesis of an expanded market and some regional division of labor, specialization, and complementarity, although the coordination of policies for the sector is limited. The car assembly plant segment of the automotive industry led the industrial growth phase in Argentina until 2012 (employment, output, exports, and productivity). The autoparts segment expanded less, below demand requirements, and with a tendency toward a growing trade deficit. This prompted a discussion on whether there was any point to an automotive industry that puts pressure on foreign accounts. One point of view emphasizes the inefficiency of automotive plants and the advisability of consumption at international prices. The opposite point of view encourages the exclusive production of local models. Between these two extremes, the automotive industry has a great impact on employment



(90,000 direct jobs and 150,000 indirect jobs) and entails externalities linked to the spread of technical progress. As such, eliminating the industry would imply even greater trade deficits. In this context, Argentina's automotive policy requires an integrated approach, with policy directed at the autoparts segment and a commitment from the car assembly plant segment to supplier development. The challenge will be designing a strategy to maintain the Argentine automotive industry's relative share of regional output volumes (around 20% of the MERCOSUR). To improve the foreign exchange balance, it would be important to promote the export of autoparts, since merely substituting imports may affect the segment's competitiveness; likewise, it is important to keep up with the major technological trends. Argentina's policies need to work within the context of five major constraints in order for the automotive complex to be able to converge towards smaller imbalances.

1. **Techno-productive constraints.** The international organization of the automotive industry is based on regional production and consumption centers, which limits potential productive strategies at the local level.
2. **Regulatory constraints.** The MERCOSUR is the main destination market for Argentina's automotive industry and is a protected environment that ensures a certain production dynamic, despite economic cycles. The main problem is the lack of any active coordination and cooperation regarding industrial policy within the bloc.
3. **Constraints related to the small scale and limited dynamics of the autoparts segment.** The vertical disintegration and low local content that characterizes the Argentine autoparts segment derives from the global and regional strategies of the car assembly plant segment and the lack of industrial policies for the segment.
4. **Constraints related to the limited mandate and autonomy of transnational subsidiaries operating in Argentina.** Major decisions (investment and local development strategies) are taken at the companies' head offices, which makes it difficult to plan a sectoral development scheme.
5. **Constraints related to widely used inputs.** The supplier market is concentrated, which limits the bargaining power of the autoparts segment.

Furthermore, Mr. Porta reviewed the sectoral policies of certain peripheral countries in Europe and Asia to see how they come to bear on the situation in Argentina.

Thirdly, he referred to Brazil's INNOVA-AUTO plan and expressed his regret that an INNOVA-MERCOSUR plan had not been thought of on the basis of industrial coordination and cooperation between countries.

After outlining these challenges, he pointed to some conclusions and possible lines of action towards an industrial policy:

- Implement a strategy to attract and localize global autoparts suppliers near car assembly plants, and to develop local suppliers.
- Develop strategies for opening up new markets in the region where the rate of vehicles per inhabitant is low, such as Peru, Ecuador, Colombia, Bolivia, and Chile.
- Focus sectoral policy incentives on the autoparts segment and conceive of industrial policy as a way of coordinating the demand that car assembly plants direct to autoparts suppliers.



In his [presentation \(in Portuguese\)](#), **Mario Salerno** discussed the evolution and prospects of the automotive industry in Brazil and the MERCOSUR.

The largest output of automobiles per continent takes place in Asia, Europe and North America. The automotive industry is configured in various ways in emerging countries: a) integrated markets: Mexico and Central Europe; b) emerging markets: MERCOSUR and the Association of Southeast Asian Nations (ASEAN); and c) protected autonomous markets: China, India, and Russia.

In South America, the most significant players are Brazil and Argentina, while the remaining countries have small outputs, in the context of an industry where scale is very important. While Brazil has a large output volume in comparison with the rest of the region, its productive scale is not as high in comparison with other relevant countries at the global level. Car assembly plants do not invest in future technologies such as electric or hydrogen engines.


The significance of the automotive sector lies in its immense economic and symbolic value. In Brazil, it represents 5% of the GDP, 23% of industrial output, and provides 476,000 direct jobs and 1.3 million indirect jobs. In addition, cars are a status symbol, a sign of individual freedom. Because of this, there are several specific policies for the automotive industry at the global level. Some examples of this are subsidies for electric cars in the United States and Europe, or the automotive agreement to facilitate trade between Argentina and Brazil that predates the creation of the MERCOSUR.

Research, development and engineering (R&D&E) are crucial for large-scale production in a given country. Platform design capabilities lie in the United States, the European Union, Japan, and the Republic of Korea. Car design takes place in conjunction with major autoparts suppliers, which have a special relationship with car assembly plants. It is easier and more economical for companies to begin production of a car in a location where there is design capability and where autoparts manufacturers have supply capability. It is difficult to make industrial policies in the automotive sector because decisions that are made at companies' head offices have an impact on the entire chain. In any case, in countries with a large enough production scale, one public policy objective should be attracting and establishing engineering centers.

At present, some technological changes and shifts in the global market are beginning to take place, such as:

- **Reductions in emissions and fuel consumption:** New engines (electric, hydrogen) and new fuels (ethanol, gas, biodiesel). However, the disadvantage of electric cars is their limited autonomy and the price of the batteries that they use; and hydrogen may represent a safety problem, among other things.
- **The connected car and the internet of things:** Has the potential to transform cars, but is at a highly experimental stage and implies very high costs for the moment.
- **Reductions in car use** in some central countries.

Investment in R&D&E is concentrated at company head offices and there are no companies in Latin America that are well positioned in disruptive technologies (the internet of things, connectivity, batteries, solar energy), all of which converge into a scenario in which the region's importance is reduced. In particular, Brazil or Argentina will not lead the future growth of the sector because they are not investing in developing these global trends. Looking to the future, there are several different possible scenarios.

- 
1. The region maintains its production centers but there is an increase in imported content.
  2. Local companies emerge with disruptive technologies that impact the global market.
  3. New engines (electric/hydrogen) bring about a deoligopolization of the industry.
  4. The electric or hydrogen-based car is not successful.

Below is a [video](#) of the event.

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[1] This article was written by IDB consultant Rosario Campos.



# Trade in the Era of Nanotechnology

To mark its 50th anniversary, over the course of 2015, INTAL is organizing special events and publications that focus on the future of integration. [1] One of the core themes is regional trade in the era of disruptive technologies. Over the year, the *Monthly Newsletter* has included a series of articles in connection with this topic, which have addressed the [general impacts of technological change on trade](#), [services based on information and communication technologies](#), [digital manufacturing technologies](#), and [the bioeconomy](#).

The aim of this article is to provide an introduction to nanotechnology and its uses, analyze its main potential impacts on trade, and the opportunities and challenges it poses that are of most relevance to Latin America and the Caribbean (LAC).

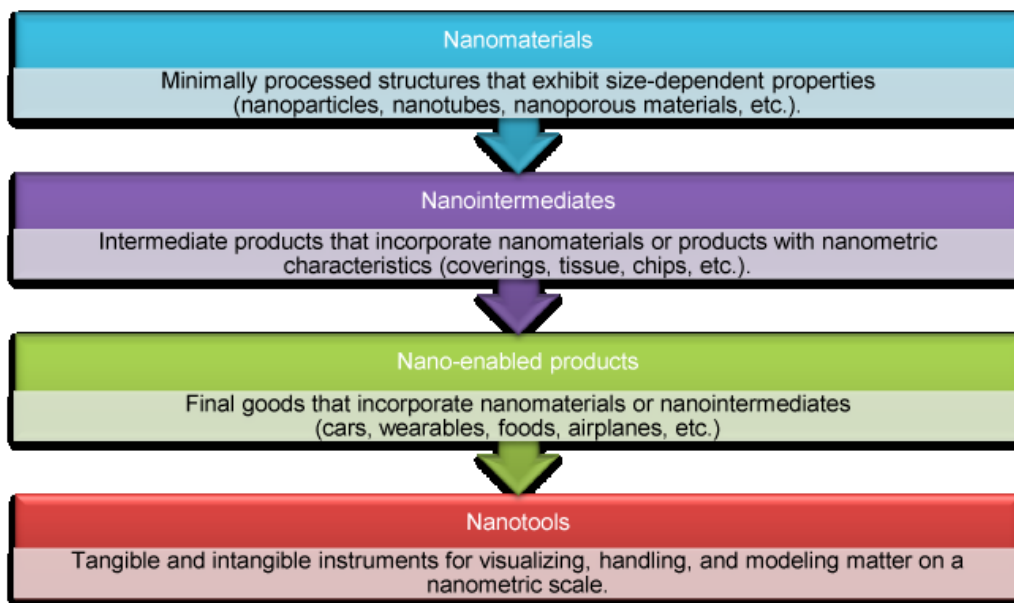
## What is nanotechnology?

Nanotechnology is the application of technology at the nanoscale. That is to say, it is the use of ultrafine particles, fibers, tubes, wires, and other structures with at least one nanometric dimension (that is, of a size ranging from 1 to 100 nanometers, with 1 nanometer being equivalent to one billionth of a meter).[2] For example, the thickness of a human hair is approximately 100,000 nanometers, as compared to a nanotube only 1 nanometer thick, while a nanoparticle (which measures approximately 4 nanometers) is a million times smaller than an ant.

Nanotechnology enables one to take advantage of nanomaterial properties that do not exist on larger scales (quantum effect[3]) and increased reactivity (surface effect[4]) (Foladori and Invernizzi, 2012). As such, one of the main advantages of nanotechnology is its role in improving the features or functionality of traditional materials (Manyika *et al.*, 2013): nanomaterials are ultralight, waterproof, extremely hard and resistant, and are excellent conductors of electricity. In contrast with other disruptive technologies of today, these materials are not a recent invention. In some cases, they exist in nature (such as marine spray or volcanic dust), and others have been used for several centuries and have been obtained with the aim of improving the characteristics of other substances. For example, the colors of the stained glass windows made in Europe during the Middle Ages contained nanoparticles.[5]

Modern nanotechnology began to develop approximately 30 years ago, when tools for observing and measuring at the nanoscale became available. The nanotechnology value chain includes four links: nanomaterials, nanointermediates, nano-enabled products, and nanotools (Diagram 1). At present, the use of nanotechnology is notable in the fields of chemistry, biology, physics, engineering, medicine, and computer science, and it is applied in a diverse range of industries, including the electronics, ICT, energy, automotive, food, and security industries, among others.

Diagram 1. Nanotechnology Value Chain



Source: Compiled by author based on data from Argentina's Secretariat of Planning and Policy for Science, Technology, and Productive Innovation (2013).

## Main Uses

While no precise estimates exist, in 2015 the global market for nanotechnology would stand at between US\$1 trillion (Fischer *et al.*, 2013) and US\$2.7 trillion, in the case of nano-enabled products (Secretariat of Planning and Policy for Science, Technology, and Productive Innovation, 2013). Given the growing knowledge of its uses and the dissemination of these, nanotechnology will continue to expand over the coming years and may transform many activities.

The next section details some of the sectors where the impact of nanotechnology could be most significant and some examples of its applications:[6]

- *Agriculture and agrifood*: crop monitoring and pathogen detection, food preparation to improve quality and nutrition[7], smart packaging to extend product durability, traceability and authentication, smart sensors for agricultural machinery, more precise vaccines, etc.
- *Electronics and ICT*: more efficient systems arising from the use of nanometric transistors, sensors based on carbon and silicon nanotubes, etc.
- *Automotive industry*: improvements to mechanical and physical characteristics of automotive parts, smart sensors for cars, etc.
- *Energy*: more efficient oil production through the use of nanoparticles, spread of solar


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- *Textiles and apparel*: smart clothing (wearables), use of silver nanoparticles with antibacterial effects in fabrics used for medical uniforms or hospital linen, etc.
- *Metalworking*: new techniques for processing, characterization, the study of properties, nanoalloys, etc.
- *Chemicals and cosmetics*: more efficient catalyzation, improvements to product properties, bactericides, nanotechnological processing to prevent dust adhering to paintings or glass, etc.
- *Medicine*: diagnostic and therapeutic procedures for diseases such as cancer and Alzheimer's, dental implants and bone repairs using nanoceramics, etc.
- *Security*: sensors for hazardous substance detection, nanorobots for the deactivation of explosives, etc.

## Nanotechnology and Trade

Nanotechnology can affect international trade flows in various ways. First of all, the countries pioneering the incorporation of this technology will potentially have greater productivity and competitiveness gains than later adopters. According to the United States' National Nanotechnology Initiative, the largest investments in nanotechnology R&D are in the United States, the European Union, Japan, China, the Republic of Korea, and Taiwan, among others. Second, the use of advanced nanomaterials and their derivatives could increase the demand for some resources and reduce the demand for others. For example, the spread of graphene[8]—one of the most significant nanomaterials—would increase the demand for graphite, which is needed to produce it (currently the main suppliers of graphite are China, India, and Brazil) while simultaneously partially replacing demand for copper, silicon, or steel, among others (Gayá, 2015). Third, obstacles to trade that derive from regulatory issues may appear. On the one hand, these could lead to more significant technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures related to the potential health, safety, and environmental risks that this technology may have, which are not yet precisely understood. For example, concerns have arisen in the European Union regarding the use of toxic chemicals in graphene production, which could result in the implementation of precautionary measures[9] (Gayá, 2015), despite the fact that the World Trade Organization (WTO) establishes that there must be a scientific basis for such measures. On the other hand, regulatory differences at the national level could also hinder trade flows. Indeed, the different approaches to the regulation of nanotechnological products in the United States and the European Union pose challenges to the negotiation of the Transatlantic Trade and Investment Partnership (TTIP) (TACD, 2013). According to Bell *et al.*, (2013), paramount importance should be placed on the establishment of common standards for the different types of nanomaterials, measurement techniques, risk management regulations, etc. Although some regulatory coordination efforts have been made within the framework of the International Organization for Standardization (ISO), the United Nations Industrial Development Organization (UNIDO) and the Organization for Economic Co-operation and Development (OECD), and the World Health Organization (WHO), among others, significant differences persist. A group of European countries are promoting the NANoREG project, which seeks shared nanotechnology regulation and involves some public institutions in the countries in question, together with Australia, Canada, the Republic of Korea, the United States, Japan, and Brazil.



According to Falkner and Jaspers (2012), the harmonization of standards would require improved risk assessment and management. Likewise, to ensure that standards do not become barriers to trade for countries who have difficulty reaching them, further efforts are needed in terms of capacity building.

### **Nanotechnology in Latin America and the Caribbean: Overview, Opportunities, and Challenges**

Several LAC countries carry out nanotechnology-related activities, including Brazil, Mexico, Argentina, Colombia, Chile, Venezuela, Peru, Uruguay, Dominican Republic, Costa Rica, Cuba, Guatemala, El Salvador, Ecuador, and Panama (Foladori and Invernizzi, 2012). There are public incentive programs, academic research projects, consortia between universities and private companies, exclusively private-sector activities, cooperation schemes with the United States and/or the European Union (such as those that exist in Argentina, Brazil and Mexico), and bilateral agreements between organizations within the region (Lavarello and Cappa, 2010).

The main areas of research into nanotechnology and the application of this in LAC are agrifoods, nanobiotechnology, nanomaterials, nanoelectronics, nanomedicine, water treatment, environmental remediation, renewable energies, textiles, and nanocomposites for the automotive industry, among others.

The countries of the region are competitive in a number of these sectors, so strengthening comparative advantages will depend largely on the ability to develop and adopt these and other innovations. While many LAC economies are promoting nanotechnology, investments in both the public and the private sectors are much lower than those of OECD countries or some emerging countries in Asia. For example, Pastrana *et al.* (2012) point out that 0.33% of the patents for nanotechnological developments in the World Intellectual Property Organization (WIPO) belong to LAC, and within this subgroup, 9 of every 10 are from Brazil or Mexico.

In order to improve and expand the region's competitive position, it is necessary to:[10]

- Strengthen linkages between the public and private sectors and the academic world.
- Promote the development of human capital through specific training and greater interaction between the disciplines that are usually associated with nanotechnology (physics, chemistry, materials engineering) and the specific activities where it is applied (agronomy, veterinary science, medicine, other engineering, etc.).
- Improve the availability of technological infrastructure.
- Extend and increase funding for these activities and improve the dissemination of existing programs.
- Actively participate in international discussions on the regulation of nanotechnology, in order to improve the chances of meeting standards and avoiding market access barriers created by said regulations.

### **Conclusions**

Although nanomaterials have existed for several centuries, the development and dissemination of nanotechnology over the last few decades could radically transform numerous activities, as was the case with information and communication technologies.

Nanotechnology could bring about social benefits in terms of improvements to the treatment of

X]gYUgZñY'XYj Y'cda YbhcZWUub`YbYf[ nññY'fYXi Vñcb'cZk Uñf'dc`i hñcbz]a dfcj Ya Ybrñhc`ñY` bi hf]ñcbU`ei U']ñmcZZccXñYñW

However, there are doubts about the effects of nanomaterials and their derivatives on health, the environment, and safety. This implies the need for regulation to prevent negative impacts without generating unnecessary restrictions to innovation and trade, and to generate harmonized standards in order to prevent barriers arising from regulatory differences. In addition, nanotechnology could impact specialization and trade patterns by improving the competitiveness of pioneering countries and, to a lesser extent, of those that produce the resources necessary for this, to the detriment of those who lag behind in technological terms or whose exports have been replaced—at least partially—by these products. In this context, it is vital that LAC public policies increase their efforts to improve their international positioning in terms of nanotechnology.

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[1] This article was written by IDB/INTAL consultant Romina Gayá.

[2] Source: National Nanotechnology Initiative (NNI).

[3] Materials have different optical, electrical, thermal, mechanical (in terms of resistance/flexibility), and magnetic properties when they are at the nanoscale than when they are larger in size. For example, carbon in the form of graphite is soft, but in the form of nanotubes it is up to 100 times harder than steel.

[4] The smaller the size of a material, the greater its surface area and therefore its reactivity in comparison with materials with the same mass but of a larger size.

[5] Source: NNI.

[6] Source: NNI, Al-Rodhan (2015), Fischer *et al.* (2013), MINCYT (2011). Secretariat of Planning and Policy for Science, Technology, and Productive Innovation (2013).

[7] For example, nanotechnology is used to homogenize the texture and enhance the flavor of ice cream, to reduce fat content, to include fortifiers or slimming agents, etc.

[8] Sheet of carbon atoms with a thickness of one atom.

[9] The restriction or prohibition of a particular activity or product based on the assumption that it implies a serious risk to public health or the environment, even when there is no conclusive scientific evidence to support this claim.

[10] See Falkner and Jaspers (2012).



# The New Realities of Global Trade: The Growing Influence of South–South Trade

Since 2000, developing economies have been growing at a faster rate than advanced ones. This change in the growth pattern has also been reflected in global trade. Exports from emerging countries are expanding at higher rates than those from developed countries and, in particular, external sales to the South are growing more than sales to the North.[1]

Although there has been a downturn in the growth of developing economies following the post-crisis recovery, they continue to expand more rapidly than the advanced world. It is therefore unlikely that the long-term trend towards the strengthening of South-South trade will be reversed in the short term, although it could lose momentum.

This phenomenon was studied and presented in the [\*Trade and Integration Monitor 2013: After the Boom: Prospects for Latin America and the Caribbean in South-South Trade\*](#), the annual report from the Inter-American Development Bank's Integration and Trade Sector. This article highlights the major findings of the report and provides updates for the information contained in it.

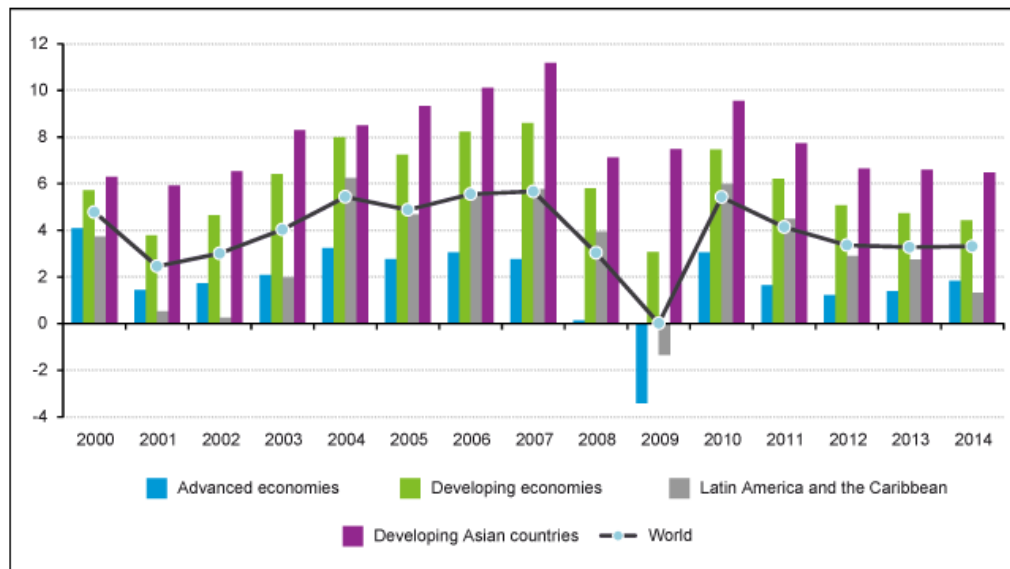
## Changes in Growth Patterns

Between 2003 and 2007, the global economy and global trade expanded significantly, at rates of 5% and 7%, respectively (Figure 1). However, the post-crisis recovery was followed by widespread cooling-off: the global GDP grew by around 3% on average between 2012 and 2014, and global trade grew by only 1%. Despite the fact that there has been a downturn in growth in all regions, developing countries maintained relatively higher expansion rates. While advanced economies grew by only 1.5% on average during this period, the growth rate for emerging economies was 4.7%, driven mainly by Asia and, to a lesser extent, Africa. The GDP of Latin America and the Caribbean increased by an annual average of 2.3% over this period.

In this context, the slow growth of developed countries' economies and their limited prospects for the expansion of trade have given emerging countries a predominant role in the global economy. While the traditional destination markets of the North offered moderate opportunities for growth, those of the South contributed to the structural transformation of trade in Latin America and the Caribbean (LAC). As such, South-South trade has become the main driver of the region's exports.

Figure 1. Gross Domestic Product

Rates of change at constant prices, in percentages, 2000–2014



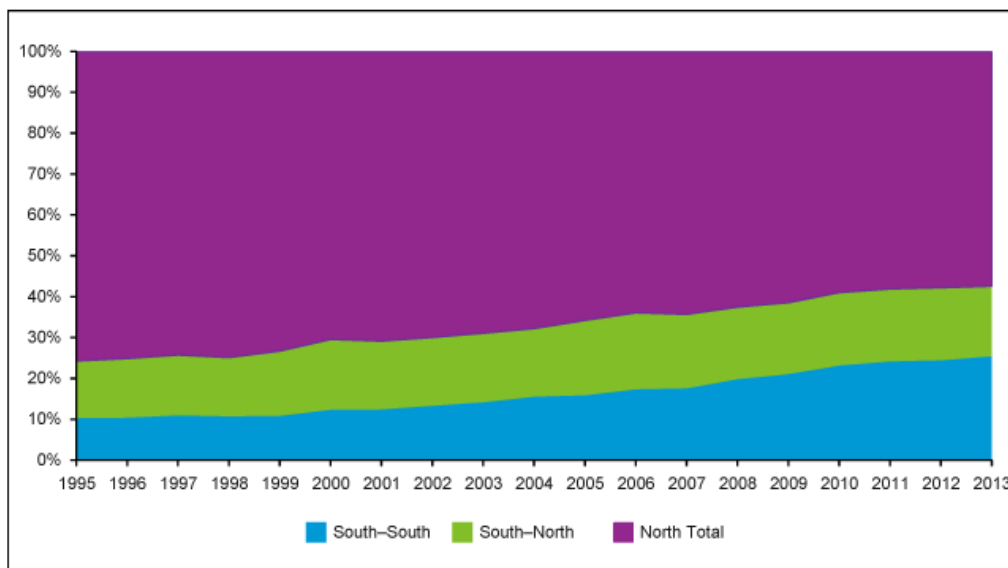
Source: Update of the Trade and Integration Monitor 2013 using IMF data.

### The Growth in South-South Trade

The growth in trade reflects the divergent performances of the North and the South. In the mid-1990s, exports from the South accounted for a quarter of the global total, while in 2013 this proportion was at 43%. This increase was mainly driven by South-South exports, which went from 10% of the total external global sales in 1995 to 25% in 2013. At the same time, the relative importance of South-North external sales in global trade grew from 14% to 17%.

Figure 2. Growth in South-South Trade

Percentage of global trade, 1995–2013



Source: Update of the Trade and Integration Monitor 2013 using UN Comtrade data.

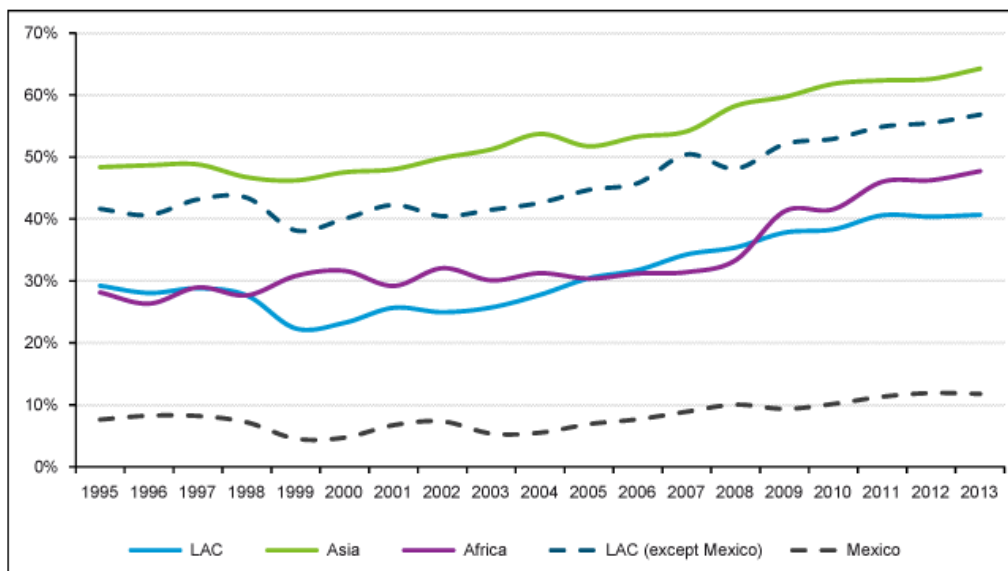
South-South exports have grown steadily since the end of the 1990s: in 1999, the South itself accounted for 41% of the destination markets of total exports from the South. This proportion reached 53% in 2008 and 60% in 2013. As such, the South is now its own main trading partner. Most South-South trade originates in Asia, which in 2013 accounted for 88% of South-South exports. The relative importance of trade from LAC to the South has not changed substantially and stands at around 8%. With regard to the importance of the South as a destination market for exports from each region, in Asia such exports constitute two-thirds of the total external sales, 16 percentage points higher than 20 years ago (Figure 3). It should be noted that the bulk of this trade is concentrated within Asia itself. For LAC, the share ratio stands at 41%, half of which corresponds to trade within the region. However, this figure conceals significant differences between the countries that make up the region. Mexico's relative importance as an exporter, and the fact that its main trading partner (United States) is in the North, reduces the South's share ratio in Latin American exports.

The relevance of LAC as a destination market for its own exports has been declining as the relative importance of Asia has increased, especially in the case of exports to China, which have gone from 20% of South-South external sales at the end of the 1990s to 45% in the last few years. The increase in LAC exports to Asia reflects the growing complementarity between these regions.



Figure 3. Share of the South in the Total Exports from Each Region

Percentage, by region of the South, 1995–2013

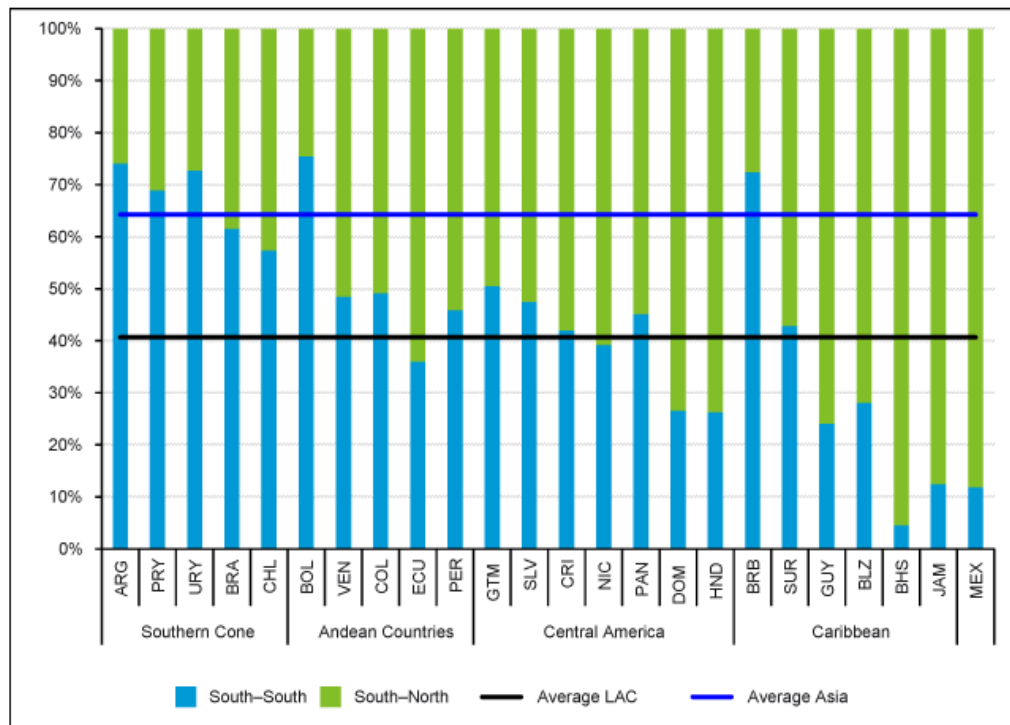


Source: Update of the Trade and Integration Monitor 2013 using UN Comtrade data.

The share of the South as a destination market for total exports varies significantly among LAC countries (Figure 4). In more than half of LAC countries, the South represents more than 40% of total external sales; in five of these countries, this figure even surpasses the average for Asia. The highest share ratios of the South as a destination market for exports can be seen in the Southern Cone economies; likewise, the share ratios for most of the Andean countries are higher than the regional average. In contrast, in Central America and the Caribbean, exports from which are more strongly oriented towards the United States and Europe, the relative importance of the South as a destination market is below the LAC average. Mexico's rate is the lowest extreme.

Figure 4. Share of South-South Trade in Total Exports

Percentage, selected LAC countries, 2013



Source: Update of the Trade and Integration Monitor 2013 using UN Comtrade data.

### The Strategic Value of South-South Trade

The composition of LAC exports to the South, in comparison with those to the North, also varies from region to region. More than half of foreign sales from Mexico and Central America to the South are manufactures, while sales from South America are mainly made up of products derived from natural resources: 60% of exports from the Southern Cone to the South are agricultural and livestock products and metals, and a third are manufactures. In the Andean countries, fuels, minerals, and metals are the main exports; and in the Caribbean, 75% of exports to the South are agricultural products and fuels. In addition, it should be noted that there was a higher concentration of manufactures among intraregional LAC exports than among those exported to other regions of the South.

In conclusion, although South-South growth presents opportunities, the costs of trade are significantly higher for the countries of the South, both in the case of South-South trade and South-

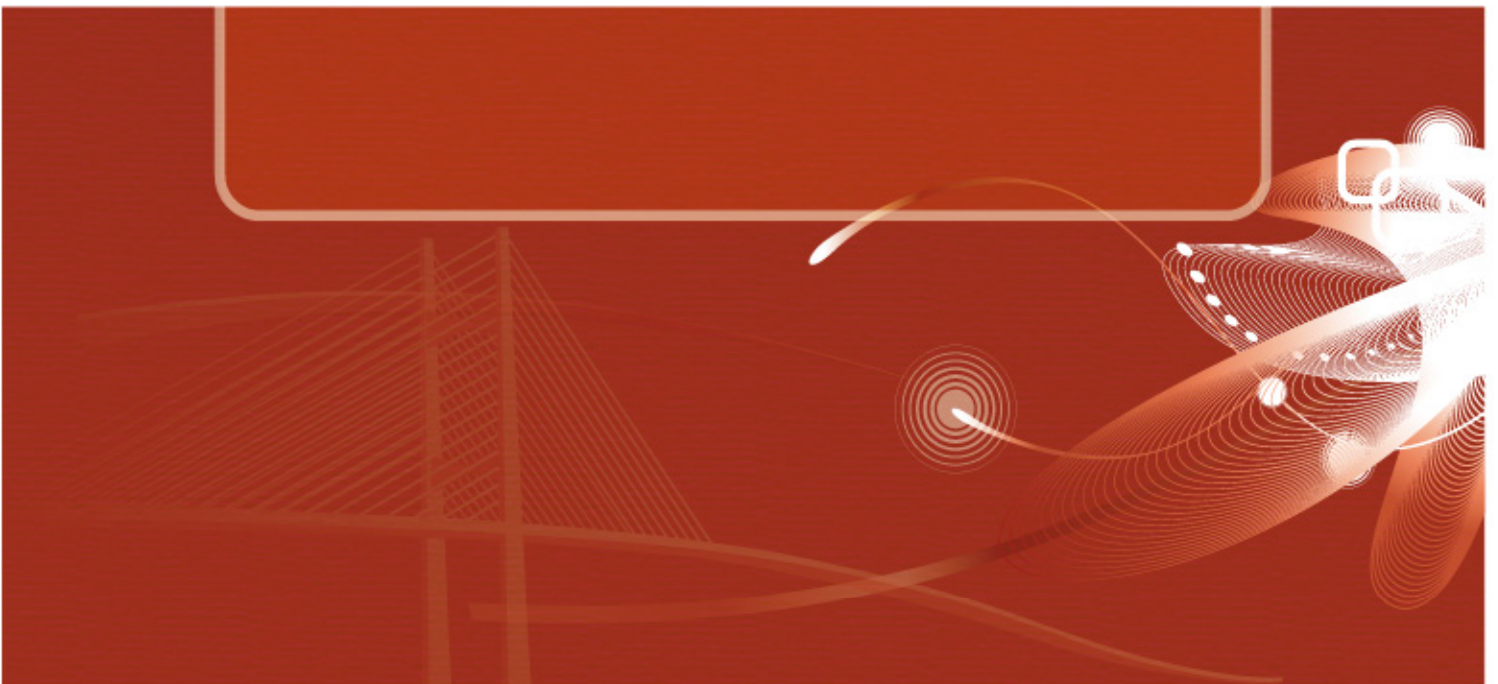


North trade. Tariffs are higher in the South, although they have fallen rapidly since South-South Free Trade Agreements (FTAs) began to be negotiated. However, these lower tariffs have been replaced by other, less transparent, restrictions. These are more difficult to quantify. Many of these restrictions have been implemented by developing countries, including some in LAC. In this sense, the [Trade and Integration Monitor 2014: Facing Headwinds: Policies to Support a Trade Recovery in the Post-Crisis Era](#), attempts to analyze the state of affairs in LAC in terms of trade facilitation. Furthermore, LAC should avoid over-concentrating its exports. This is especially true in the current global economic context, with the risk of cooling-off appearing in emerging countries, particularly in China, which has been the main driver of South-South trade over the last decade. As a strategic option, prioritizing South-South trade certainly has great potential, but it would be opportune if the main objective of the trade and development policies of the countries in the region were the diversification of exports. This topic will be the core theme of the next Trade and Integration Monitor, to be published during the second half of 2015.

[1] The terms “South” and “North” are based on the United Nations’ Standard Country Classification. The North encompasses developed countries, including Japan in Asia, Canada and the United States in North America, Australia and New Zealand in Oceania, and Europe. The South includes developing countries in Asia (including the Middle East), Latin America and the Caribbean, and Africa.



# Integration Blocs









## Pacific Alliance

### 10th Presidential Summit of the Pacific Alliance

Between July 1 and 3, the 10th Presidential Summit of the Pacific Alliance took place in Paracas, Peru. In the [Declaration \(in Spanish\)](#), the heads of state of Chile, Colombia, Mexico, and Peru emphasized their shared aim of making headway in the construction of a highly integrated area that promotes the free movement of people, goods, services, and capital. They also stressed the work they are undertaking in conjunction with Inter-American Development Bank (IDB) in priority areas such as trade facilitation, support for SMEs in order to create productive chains at the regional level, and support for the work of promotion agencies.

The presidents in question took part in a panel discussion entitled “Pacific Alliance: Future Vision” during the Business Summit, which was moderated by the President of the IADB, Luis Alberto Moreno, and attended by 350 businesspeople.

Within this framework, the IDB’s Multilateral Investment Fund (MIF) is supporting the creation of the [Pacific Alliance Venture Capital Fund](#) for amounts of up to US\$ 100 million, with the aim of providing seed capital and investing in new ventures in the countries that are part of the initiative. Furthermore, the IDB approved technical cooperation to finance a program of nearly US\$4 million for the creation of entrepreneurial associations, to improve access to training and business opportunities.



## The Caribbean

### Conference of Heads of Government of the Caribbean Community

Between July 2 and 4, the [36th Ordinary Meeting of the Conference of the Heads of Government of the Caribbean Community](#) took place in Bridgetown, Barbados. The heads of government underlined the progress that had been made on regional integration and emphasized the significant impact this process is having on sustainable development.

They highlighted the [Third International Conference on Financing for Development](#) as an opportunity to obtain resources that would enable them to implement the Post-2015 Development Agenda, the Small Island Developing States Accelerated Modalities of Action (Samoa Pathway), and trade liberalization, as well as improve the subregion's position in the face of global challenges such as security and climate change. Regarding this last point, emphasis was placed on the need to reach a legally binding, consensual outcome at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change, which will take place in Paris, France, at the end of the year.

Those present also stressed the importance of linkages between the academic world and the private sector to develop innovation and science and technology, which contribute to competitiveness and the capacity to adapt. They decided to work with higher education institutions to identify the most appropriate ways to meet the Caribbean's needs. They also requested the cooperation of the CARICOM Science, Technology, and Innovation Committee (CSTIC) to prepare the CARICOM Human Resource Development 2030 Strategy and agreed to work with the private sector and international partners to expand investment in research and development.

The heads of government welcomed the establishment of the Caribbean Centre for Renewable Energy and Energy Efficiency (CCREEE) and endorsed Trinidad and Tobago's proposal for the creation of a Multi-Donor Energy Co-Financing Facility for Caribbean Sustainability to help transform the energy matrix, with a larger role for renewable energy sources and less dependence on fossil fuels.

Furthermore, they expressed concern about the impact that the financial services sector may suffer following the European Union's blacklisting of eight CARICOM members on its list of non-







## Petrocaribe Seeks to Give New Impetus to the Regional Economic Zone

In the framework of the 15th Petrocaribe Ministerial Meeting that took place in Caracas, Venezuela, the energy ministers of the member countries[1] signed a letter of commitment to analyze ways of relaunching the Petrocaribe Economic Zone, the aim of which is to increase and diversify trade within the region so as to contribute to development.

This zone contemplates cooperation in five areas: transport and communications, productive chains, tourism, trade, and social and cultural integration.

[1] Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, the Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, St. Kitts and Nevis, Saint Vincent and the Grenadines, St. Lucia, Suriname, and Venezuela.



## Central America

### Progress Made on the Mesoamerica Project

On June 26, the [15th Summit of Heads of State and Government of the Tuxtla Mechanism for Dialogue and Cooperation](#) took place in Antigua, Guatemala.

The heads of state present underlined the progress that has been made on the mechanism's five pillars: democratic security, integrated disaster and climate change risk management, social integration, economic integration, and the strengthening of regional integration.

The decision to strengthen two institutions is of particular note: on the one hand, the Regional Conference on Migration (RCM), with the aim of comprehensively addressing migration and protecting migrants; and on the other, the [Mesoamerican Integration and Development Project](#) (Mesoamerica Project).

This project was officially launched in 2008 as the successor to the Puebla-Panama Plan and is a key component of the Tuxtla Mechanism. It aims to strengthen regional integration and promote Mesoamerican economic and social development through enhanced connectivity, interdependence between member countries, and the convergence of national efforts to achieve a regional strategic vision. The countries that currently form part of the project are Belize, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama.

Within the framework of the Mesoamerica Project, significant progress has been made towards regional integration, as is shown in this [video](#).

Notable achievements include the development of the International Network of Mesoamerican Highways (RICAM), the Mesoamerican Coordinated Border Management Program for trade facilitation, electrical integration through the Central American Electrical Interconnection System (SIEPAC) and the creation of a Regional Electricity Market, the Mesoamerican Information Highway, the Mesoamerican Public Health System, and the Mesoamerican Strategy for Environmental Sustainability (EMSA), among others.

The summit also passed a Special Resolution to continue working with the Inter-American Development Bank (IDB) on a renewed agenda for cooperation and development that will

contribute to bringing peace, integration, and prosperity to Mesoamerica. The IDB plays a fundamental role in the integration process promoted by the Mesoamerica Project: it is part of the Inter-Institutional Technical Group, together with the Economic Commission for Latin America and the Caribbean (ECLAC), the General Secretariat of the Central American Integration System (SICA), the Central American Economic Integration Subsystem (SIECA), the Pan American Health Organization (PAHO), the Central American Bank for Economic Integration (CABEI), and the Andean Development Corporation (CAF). The IDB provides financial assistance through the financing of grants for technical cooperation and projects, in conjunction with the CABEI and the CAF.

#### Related Articles:

- IDB/INTAL. 2008a. [“The Road to Hemispheric Energy Integration: Challenges and Opportunities”](#) (book review), in: *INTAL Monthly Newsletter No. 144*, Buenos Aires, July.
- IDB/INTAL. 2008b. [“IDB Supports Creation of Energy Information System for Latin America and the Caribbean,”](#) in: *INTAL Monthly Newsletter No. 149*, Buenos Aires, December.
- IDB/INTAL. 2009a. [“IDB Supports Customs and Border Crossing Facilitation for Mesoamerica Project,”](#) in: *INTAL Monthly Newsletter No.155*, Buenos Aires, June.
- IDB/INTAL. 2009b. [“The Guanacaste Declaration: the 11th Tuxtla Mechanism Summit and the Progress of the Mesoamerica Project,”](#) in: *INTAL Monthly Newsletter No. 156*, Buenos Aires, July.
- IDB/INTAL. 2010a. [“2015 Mesoamerica Health Program Launched,”](#) in: *INTAL Monthly Newsletter No.167*, Buenos Aires, July.
- IDB/INTAL. 2010b. [“Central America Makes Progress in Physical Integration,”](#) in: *INTAL Monthly Newsletter No. 168*, Buenos Aires, August.
- IDB/INTAL. 2010c. [“12th Ordinary Summit of the Tuxtla Mechanism for Dialogue and Agreement,”](#) in: *INTAL Monthly Newsletter No. 171*, Buenos Aires, November.
- IDB/INTAL. 2011a. [“Mesoamerica Project: Electrical Interconnections,”](#) in: *INTAL Monthly Newsletter No.178*, Buenos Aires, June.
- IDB/INTAL. 2011b. [“Tuxtla 20 Years on,”](#) in: *INTAL Monthly Newsletter No.184*, Buenos Aires, December.
- IDB/INTAL. 2012. [“IDB Support to Mesoamerican Project Targets Biofuels, Health, and Infrastructure,”](#) in: *INTAL Monthly Newsletter No. 190*, Buenos Aires, June.
- IDB/INTAL. 2013a. [“Integración eléctrica en América Latina: antecedentes, realidades y caminos por recorrer”](#) (review, in Spanish), in: *INTAL Monthly Newsletter No. 201*, May.
- IDB/INTAL. 2013b. [“Electrical Interconnection and Diversification of the Central American Energy Matrix,”](#) in: *INTAL Monthly Newsletter No. 203*, July.

# Advances in Central American Integration

On June 26, the [45th Ordinary Meeting of Heads of State and Government of the Member States of the Central American Integration System](#) (SICA) (in Spanish) took place in Antigua, Guatemala. At the meeting, Guatemala handed over the *pro-tempore* presidency (PTP) of the bloc to El Salvador. Guatemala's administration rested on five pillars: the Central American Customs Union (UAC) and economic integration, regional commitments (the incorporation of Panama into the SICA and the implementation of the agreement with the European Union), the coordination of cooperation with the region, training, and the communication of the achievements of the Council of Ministers for Central American Economic Integration (COMIECO).

The main areas of progress for the first half of the year include the development of a road map for the UAC over the next decade, the consensus on the "Central American Trade Facilitation Strategy, with an emphasis on coordinated border management," the development of the Single Central American Customs Form (DUCA), and the completion of the Central American Technical Regulations (CATR) and modifications to these. Furthermore, the event saw the approval of the Mechanism for Reimbursement of Customs Duties on Imports, which will prevent tariffs from being charged twice by making them payable at the final destination and reimbursing this tax to the country of entry of the merchandise. A consensus was also reached on the verification of origin scheme.

El Salvador and Honduras have also recently [agreed \(in Spanish\)](#) to adopt trade facilitation measures, particularly to accelerate the movement of goods and people through the border crossings at El Amatillo and El Poy. The most noteworthy of the projects that may be implemented include the establishment of an advance procedure before vehicles reach the border; recording cross-border traffic through radio frequency devices; the issuing of electronic phytosanitary certificates; and a modernization plan for the customs post at El Amatillo.

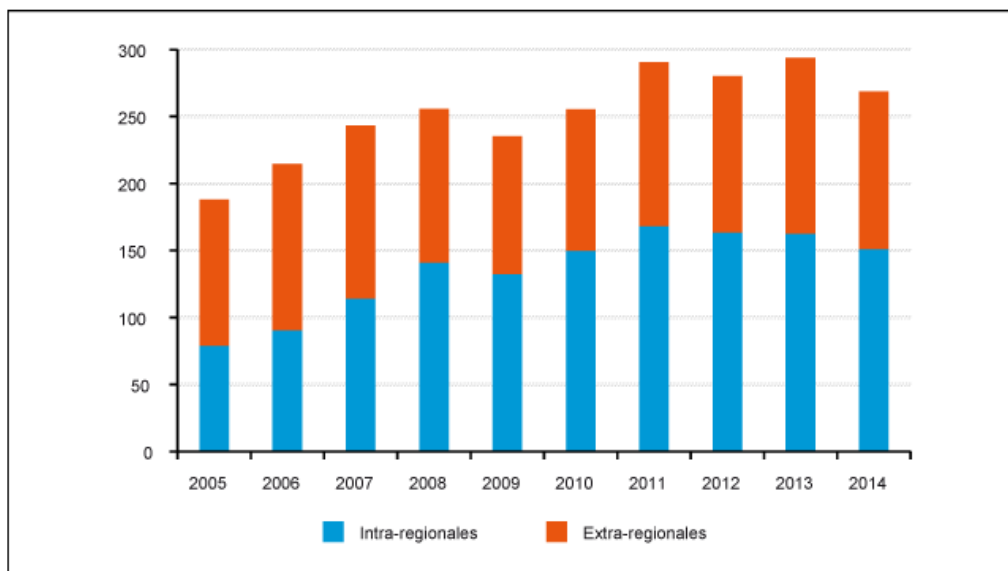
The [COMIECO meeting \(in Spanish\)](#) emphasized the progress made towards Panama's full incorporation into the Central American Economic Integration Subsystem (SIECA) as a result of its joining the regional Treaty on Investment and Trade in Services.

As part of the announcements regarding the COMIECO's achievements, attention was drawn to the [First Forum for Central American Economic Integration](#). This initiative seeks to improve the visibility of regional integration in the area by promoting new drivers for development. On this occasion, the event focused on the "[orange economy](#)," that is, the creative and cultural industries, the value of which lies in intellectual property. According to SIECA, Central American exports of goods from the creative industries (artistic manufacturing, audiovisual and print media, design, the performing arts, and visual arts) totaled US\$268.7 million in 2014, 56.7% of which was for the regional market, followed by the United States and Mexico. External sales in this category performed well up to 2011, except during the 2009 financial crisis. Since then, however, they have been at a relative standstill (Figure 1). Within the creative industries, the most significant export category is design (47.9% of the total).



Figure 1. Exports of goods from the creative industries in Central America

In millions of US\$



Source: Prepared in-house using data from SIECA.

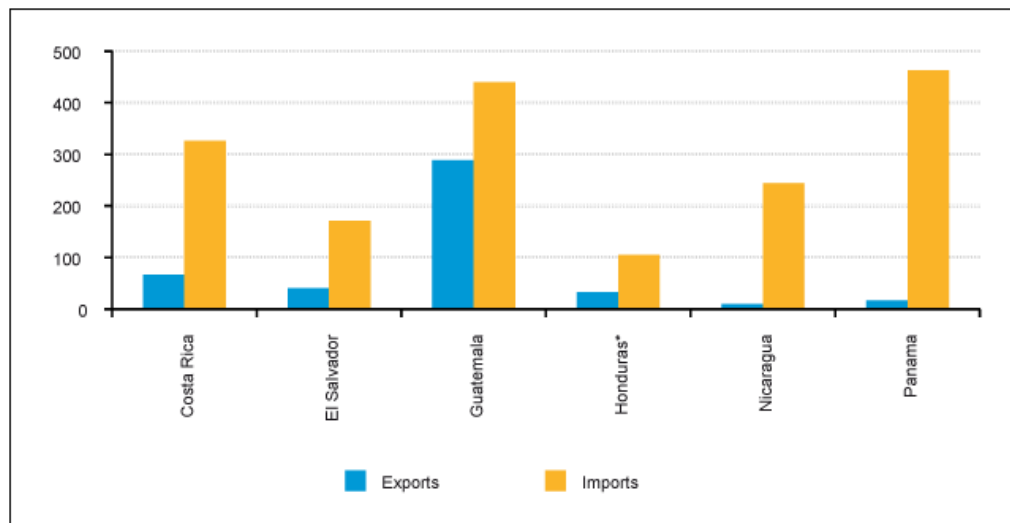
# Central America's Foreign Agenda

Firstly, Central America and the Republic of Korea [have publicly announced \(in Spanish\)](#) their shared interest and developed a work agenda so as to begin negotiating a trade and cooperation agreement.

With 50 million inhabitants and an annual GDP *per capita* of approximately US\$25,000, Korea is an attractive potential target market for Central America. Korea has a trade surplus with Central America: in 2014 Central American exports to Korea totaled US\$456.3 million and imports represented US\$1,749.8 million. As can be seen in Figure 1, Guatemala is the main source of Central American sales to the Korean market, while the destination markets for most imports from Korea to the region are Panama, Guatemala, and Costa Rica.

Figure 1. Trade between Central America and the Republic of Korea

In Millions of US\$, 2014



Note: \* The data from Honduras does not include special trade regimes. Source: Dataintal.

The main Central American exports to Korea are natural resources and derivatives of these, notably sugar, which accounts for nearly US\$2 of every US\$5 exported. Next in order of importance are lead and lead concentrates, coffee, and iron, steel, and aluminum waste and scrap. Central America's imports are more diversified: manufactures predominate, notably cars, structures and parts of

**Table 1. Breakdown of Trade between Central America and the Republic of Korea, 2014**

Exports		Imports	
Sugar	39.1%	Cars	26.5%
Lead and lead concentrates	18.8%	Petroleum oils	6.5%
Coffee	9.5%	Structures and parts of structures	5.7%
Iron and steel waste and scrap	8.5%	Knitted fabrics	4.7%
Aluminum waste and scrap	4.2%	Telephones	4.3%
Other	19.9%	Other	52.2%

Source: Prepared in-house using Dataintal data.

Secondly, Guatemala and the European Free Trade Association (EFTA) [signed \(in Spanish\)](#) an agreement whereby the former joins the Free Trade Agreement between EFTA and Central America, which Costa Rica and Panama already belong to. EFTA will allow the duty-free entry of all Guatemalan manufactures, and will eliminate tariffs on 77% of primary and processed agricultural products and give some sort of preference to a further 10% of these. The remaining 13% will be excluded. Guatemala, in turn, will eliminate tariffs on almost all imports of industrial products originating in EFTA, and after 10 years will allow the duty-free entry of three-quarters of all agricultural imports.

Made up of Switzerland, Norway, Liechtenstein, and Iceland, the EFTA market represents 13.5 million consumers with an annual GDP per capita of approximately US\$90,000.

Guatemala's exports to EFTA countries during 2014 totaled US\$59.6 million, and were made up mainly of agricultural and livestock products, notably coffee and bananas, which together represent three-quarters of the total. Imports from EFTA totaled US\$316.9 million, with medicaments and chemicals and pharmaceuticals being particularly significant (Table 2).

Table 2. Composition of Trade between Guatemala and EFTA, 2014

Exports		Imports	
Coffee	44.0%	Medicaments	23.6%
Bananas	30.9%	Blood and antisera	8.1%
Molasses	6.4%	Mineral or chemical fertilizers	7.9%
Dates, figs, pineapples, avocados, etc.	4.1%	Looms	4.2%
Cigars	3.5%	Clocks and watches	3.7%
Other	11.0%	Other	52.5%

Source: Prepared in-house using Dataintal data.

Thirdly, two issues regarding integration with the Caribbean are worth noting. On the one hand, Costa Rica and the Caribbean Community (CARICOM) [made progress](#) on the implementation of a commercial agreement through measures that seek to settle disputes and grant electronic certificates of origin. Costa Rica's exports to these countries totaled US\$163.5 million in 2014, the most noteworthy of which were food, glass containers, antisera, fruits and plants, etc. Purchases from CARICOM reached US\$70.3 million, of which iron and steel products and liquefied natural gas are the most significant. Furthermore, a [meeting \(in Spanish\)](#) took place between authorities of the Secretariat for Central American Economic Integration (SIECA) and the Association of Caribbean States (ACS), at which an action plan for the next twelve months was agreed on. The plan includes the priorities for the bi-regional agenda, such as the exchange of financial information, foreign trade, and incentives for small and medium-sized enterprises, among others. Finally, the [approval \(in Spanish\)](#) on the part of the Organization for Economic Co-operation and Development (OECD) of the road map for Costa Rica's incorporation into the organization is also noteworthy. If the process goes through, Costa Rica would become the third Latin American member of the OECD, to which Chile and Mexico already belong.





## Andean Community

### Physical and Energy Integration Agreements between Bolivia and Peru

The presidents of Bolivia and Peru met on June 23 on the island of Esteves, Puno, Peru, and sealed a strategic alliance which included more than 90 agreements, including issues of energy cooperation and physical integration.

In the [Esteves Declaration \(in Spanish\)](#), the two presidents agreed to carry out technical and economic feasibility studies for the importation of Bolivian gas to southern Peru. Furthermore, they stressed their interest in the Central Bioceanic Railway Corridor project, which is part of UNASUR's South American Infrastructure and Planning Council (COSIPLAN) Project Portfolio and the Integration Priority Project Agenda (API) (see project [sheet](#)). In this context, they agreed to play an active role in the COSIPLAN working subgroup.



## Export Promotion in Ecuador and Colombia

Ecuador's Ministry of Foreign Trade and the National Financial Corporation (CFN) have launched an [\*International Factoring\*](#) program, with the support of PROECUADOR, in order to boost the export sector through a financing mechanism. The tool consists of exporters being able to increase their liquidity by assigning their receivables to the CFN.

For its part, PROCOLOMBIA is promoting a short-term [action plan to increase exports \(in Spanish\)](#) of products other than mining- and petroleum-related products. It is directed at more than 900 companies and focuses on products such as flowers, candy, furniture, plastics, rubber, textiles, clothing, cosmetics, toiletries, specialty coffees, iron and steel manufactures, packaging and packing, and beef. The target destination markets are mainly Asia, Brazil, Mexico, the United States, and Ecuador.

## MERCOSUR Summit

On July 17, the 48th Summit of Heads of State of MERCOSUR and Associated States took place in Brasilia; at the event, Brazil handed over the *pro-tempore* presidency (PPT) to Paraguay. The presidents signed the [new protocols of accession \(in Portuguese\)](#) to the bloc for Bolivia, as a full member, and Guyana and Suriname, as associated states. The [previous protocols of accession](#) for these countries were signed in December 2012, when Paraguay was suspended from the bloc. The most noteworthy aspects of the negotiations with Bolivia include the signing of an [Agreement on Customs Cooperation, Information Exchange, Data Queries, and Mutual Administrative Assistance \(in Spanish\)](#) in order to contribute to trade facilitation and combat customs offenses. Furthermore, other significant events took place before the summit itself:

- The approval by the Brazilian Parliament of the [agreement \(in Spanish\)](#) that grants Bolivia a bonded warehouse in which to store goods at the port of Paranaguá.
- The meeting between the presidents of [Bolivia and Paraguay \(in Spanish\)](#), at which they reviewed the main topics of the bilateral agenda. Of note are the energy agreements signed at the meeting, and the presidents' commitment to develop connectivity between their two countries in the framework of the Integration Priority Project Agenda (API) of the Union of South American Nations (UNASUR) South American Infrastructure and Planning Council (COSIPLAN). Likewise, they signed an agreement to carry out feasibility studies for the construction of an electrical interconnection line.

In addition, the communiqués from MERCOSUR [member countries \(in Portuguese\)](#) and between these and the [Associated States \(in Portuguese\)](#) highlighted the following points:

- The recent ten-year extension of the MERCOSUR Structural Convergence Fund (FOCEM).
- Efforts to promote productive integration and the development of regional suppliers for the oil and gas, agricultural machinery, mining, and autoparts industries.
- The intention to promote a closer relationship between MERCOSUR and the Pacific Alliance, to exchange offers with the European Union, and to deepen ties with other countries and blocs with which the region already has different types of agreement and/or with which it is willing to initiate trade negotiations.
- Progress on customs-related matters, as well as regarding sanitary regulations.
- Integration-related infrastructure projects, particularly the bioceanic corridors.

The following meetings also took place prior to the summit:

- the 48th Ordinary Meeting of the Common Market Council (CMC)
- the 81st Political Consultation and Coordination Forum (FCCP) of the MERCOSUR and Associated States,
- the [5th MERCOSUR Business Forum \(in Spanish\)](#),
- the [MERCOSUR Social Summit \(CSM\) \(in Portuguese\)](#)
- the 12th MERCOSUR Specialized Meeting on Social and Natural Disaster Risk Reduction, Civil Defense, Civil Protection, and Humanitarian Assistance (REHU),
- the 59th Plenary Meeting of the MERCOSUR Economic and Social Consultative Forum (FCES)
- the 42nd Ordinary Meeting of the Consultative Forum of MERCOSUR Municipalities, States, Provinces, and Departments (FCCR).

The next summit of MERCOSUR heads of state is scheduled for December and will take place in Paraguay.

## Automotive Agreement between Argentina and Brazil Extended

Argentina and Brazil signed the 41st Additional Protocol to the Economic Complementation Agreement (ECA) No. 14, through which the conditions which have regulated bilateral trade in the automotive sector since July 2014 [were extended by one year \(in Spanish\)](#). As a result, the duty-exempt trade coefficient (known as “flex”) will remain at 1.5: for each US dollar each trade partner exports to the other, the deficit country will be able import up to US\$1.5 duty-free.

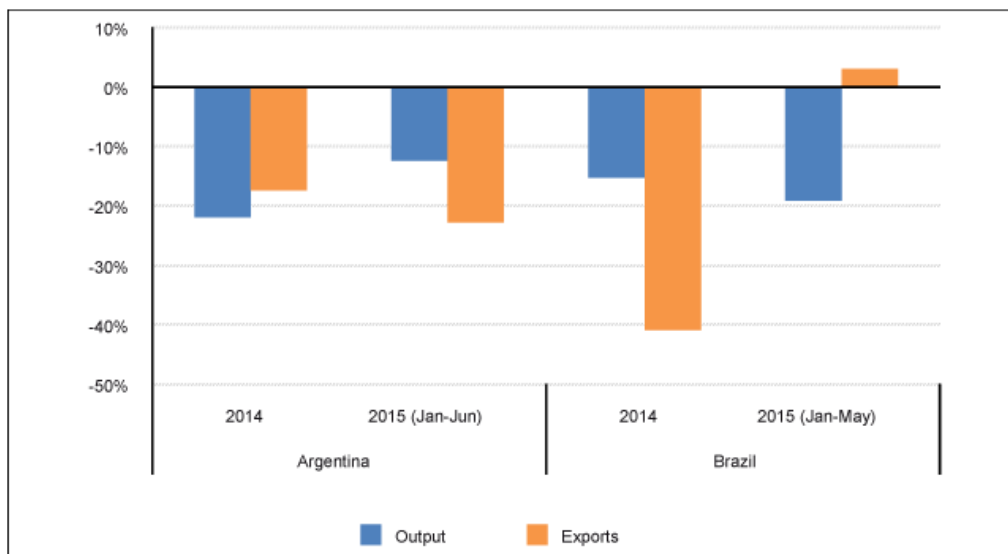
It should be noted that the automotive and sugar industries are the only two industries that are excluded from free trade between MERCOSUR countries; instead, trade in these industries is governed by bilateral agreements between partners. In 2002, a deviation coefficient (flex) of 1.6 was established, retroactive to 2001, which was gradually increased to 2.6 in 2005. Although bilateral flows should have begun to circulate freely in 2006, the flex was reduced to 1.95 and extended on several occasions. In June 2013, the stipulated period expired and was not extended, as a result of which there were no formal restrictions to trade for a year, but the terms of trade were maintained within the previously agreed values. In June 2014, both countries agreed to new terms of trade and reduced the coefficient to 1.5, the lowest ever level. In addition to extending the last agreement, Brazil and Argentina recently pledged to negotiate the conditions that will govern trade in the sector from July 2016 onwards before April of the same year.

Trade in automotive industry products between the two countries has always shown very high output elasticity (i.e., trade grows rapidly when the economy expands and drops sharply during downward phases of the cycle). As has been the case since 2014, the automotive industry has been experiencing a downturn in both countries, which is reflected by a decline in employment, output, and exports in the sector (with the exception of a slight rise in Brazil’s external sales during the first five months of 2015), as is shown in Figure 1.



Figure 1. The Automotive Industry in Argentina and Brazil

Year-on-year variation in output volume and exports of finished vehicles\*



\*Variation in the quantity of finished vehicles produced and exported. This does not include autoparts, which are covered by the agreement between the two countries. Source: Prepared in-house using data from the Argentine and Brazilian Associations of Automotive Makers (ADEFA and ANFAVEA)

#### Related Article

- IDB/INTAL. 2014. [“Argentina-Brazil automotive agreement extended,”](#) in: *INTAL Monthly Newsletter No. 214*, Buenos Aires, June.



## Free Trade in Services between Chile and Argentina

On June 19, the “Protocol on Trade in Services between MERCOSUR and Chile” (the fiftieth additional protocol to the Economic Complementation Agreement [ECA] No. 35) entered into force for Argentina and Chile. This document was signed in 2009 and was already in force bilaterally between Chile and Brazil and Uruguay, since 2011 and 2012, respectively.

Among other aspects, the protocol between Chile and the three MERCOSUR countries establishes horizontal and sectoral commitments with regard to national treatment and market access.

The more noteworthy activities covered by the agreement include professional services (legal, accounting and auditing, architecture, engineering, medical, dental, veterinary, etc.), information technology and related services, research and development in various disciplines, leasing, other business services (advertising, marketing, consulting, mining-related services, manufacturing, forestry, security, etc.), communications, distribution, tourism, and transport.

In general terms, both Argentina and Chile included few restrictions on trade in services provided using the first three modes of supply (cross-border supply, consumption abroad, and commercial presence), while the commitments they took on in terms of the movement of natural persons are more limited.

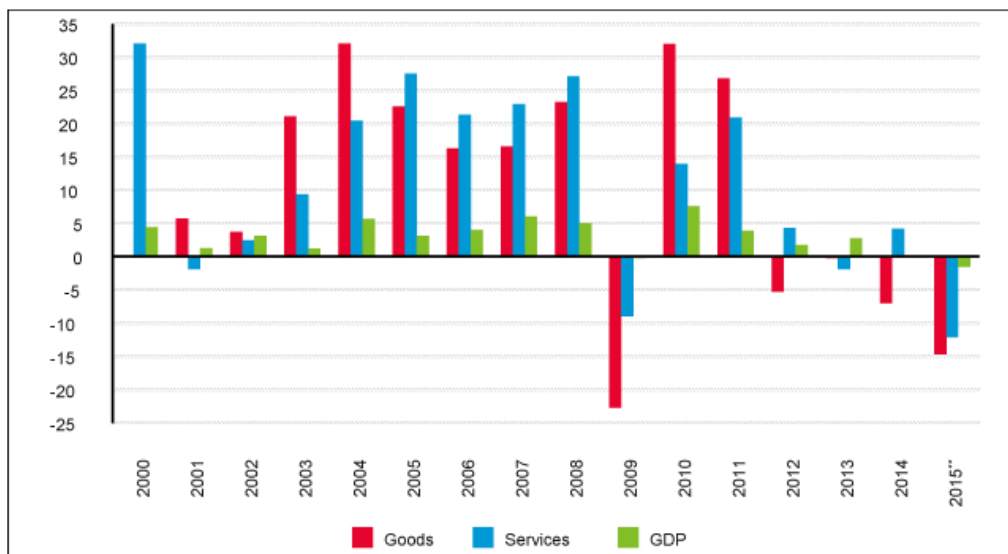


## Brazil: Infrastructure and Export Stimulus Plans

After remaining stagnant during 2014, the Brazilian economy contracted during the first half of 2015 and is expected to end the year with a fall in gross domestic product (GDP) of nearly 1.5%. This performance is explained by the weakness of both domestic and external demand. During the first half of 2015, Brazil's exports fell by 14.7% year-on-year (y-o-y), accentuating the downward trend that has been observed since 2012. Likewise, external sales of services shrunk by 12.1% y-o-y in the first five months of 2015 (Figure 1).

Figure 1. Brazil: GDP and Exports of Goods and Services


Year-on-year variation in percentages\*



Notes: \* Real change in the case of GDP and nominal in the case of exports. \*\* The data for 2015 corresponds to the first semester for exports of goods, January–May for services, and to the annual forecast of the market consensus in the case of GDP. In the case of service exports, it should be mentioned that from 2015 onwards, Brazil is only publishing data on the balance of payments using the methodology contained in the Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) using data available from 2014, so the y-o-y variation for 2015 is not strictly comparable with that of previous years, when the data was recorded following the methodology used in the fifth edition (BPM5).

Source: Prepared in-house using data from Brazil's Ministry of Development, Industry, and Foreign Trade (MDIC) and the Central Bank of Brazil (BCB).

Given these circumstances, the Brazilian government has decided to implement a series of measures to reactivate economic activity, the most noteworthy of which is the second stage of the [Logistics Investment Program \(in Portuguese\)](#) (LIP) and the [National Export Plan \(in Portuguese\)](#). The Logistics Investment Program, which began in 2012, seeks to develop high-quality transport and logistics at competitive prices in order to boost domestic economic activity and exports. Investment forecasts stand at approximately US\$62 billion, between 70% and 90% of which will be financed by the Brazilian Development Bank (BNDES). Railways will take 43.6% of these resources, while roads represent a third of investments, followed by ports and airports. The National Export Plan aims to stimulate competitiveness and development by increasing the number of companies with foreign sales, with an emphasis on smaller firms. It also seeks to



diversify the export basket in terms of destination markets, the goods and services that the basket is made up of, and the regional origin of these within Brazil. It will remain in force until 2018, and will be implemented in coordination with policy for industry, agriculture, logistics and infrastructure, and innovation.

Brazil is seeking to increase the importance of its position in international trade. Although it is the seventh largest global economy and the largest in Latin America and the Caribbean (LAC) in terms of its GDP, it ranks 25th on the list of global exporters and second in LAC, behind Mexico. The emphasis on trade is to do with the way this can contribute to innovation and increasing productivity, as well as the quantitative and qualitative contributions of exporting firms. Estimates from the Ministry of Development, Industry, and Foreign Trade (MIDC) indicate that for every US\$1 billion of goods exported, approximately 50,000 jobs are created.

It is worth mentioning that the National Export Plan is of a horizontal nature, that is, it encompasses all economic activities and promotes a holistic vision of the external sector. On the one hand, the plan stresses the importance of imports as a source of access to strategic inputs for the production of competitive goods and services in Brazil. On the other, it underlines the importance of Brazilian investments in the rest of the world as a driver for the country's exports. The plan was designed in conjunction with the private sector and will remain in force until 2018. It encompasses five key areas (Diagram 1): market access, trade promotion, trade facilitation, financing and guaranteeing of exports, and improving tax mechanisms and regimes.

First, Brazil will seek to improve markets access for its exports through the reduction of tariff and non-tariff barriers. To achieve this, negotiations on three levels will play a vital role:

- Multilateral negotiations: An attempt to give new impetus to the Doha Round, support to the implementation of the Bali Package, and participation in dispute settlement and trade policy review mechanisms.
- Regional negotiations: Increased integration within the MERCOSUR and the promotion of an agenda for more active negotiations outside the region.
- Bilateral negotiations: Strengthening links with strategic partners, including the European Union, the United States, China, Russia, India, South Africa, and LAC, among others.

Also, Brazil will attempt to extend the negotiation of Cooperation and Investment Facilitation Agreements (CIFAs), the objectives of which are to improve corporate governance, establish thematic agendas for cooperation and investment facilitation, and risk mitigation and dispute prevention mechanisms. So far, Brazil has signed this type of agreement with Mexico and three African countries. CIFAs are different from Reciprocal Promotion and Protection of Investment Agreements (APPRIIs) because they do not include clauses such as investor/state dispute resolution and indirect expropriation, which were some of the factors that prevented the Brazilian parliament from ratifying APPRIIs signed with several other countries.

The main goals for 2015 within the market access pillar include the negotiation of regulatory convergence and trade facilitation agreements with the United States, the broadening of the scope of agreements with Mexico, Cuba, and the Southern African Customs Union (SACU), the negotiation of service and public procurement agreements with the rest of LAC, the acceleration of tariff reduction schedules with Colombia and Peru, the exchange of offers between the MERCOSUR and the EU, the negotiation of agreements between the MERCOSUR and Lebanon and Tunisia, the quest for dialogue between the MERCOSUR and Canada, the Central American Integration System (SICA),



the European Free Trade Association (EFTA), the renewal of preferential access to the US market through the Generalized System of Preferences (GSP), and the development of regional mechanisms for productive integration and value chains in the MERCOSUR, among other issues.







































Diagram 1. Pillars of National Export Plan




Source: Prepared in-house using MDIC data.

Second, **trade promotion** activities will be carried out, including missions in 32 strategic markets to promote specific sectors (Table 1), the construction of a country brand, and the development of business intelligence tools.

Table 1. Priority markets and sectors

Country	 Machinery and equipment	 Housing and construction	 Fashion	 Food	 Services
 Algeria			✗	✗	✗
 Angola	✗			✗	✗
 Argentina			✗	✗	
 Australia	✗			✗	
 Bolivia	✗	✗	✗		✗
 Brazil			✗		✗
 Canada	✗	✗	✗		✗
 Chile	✗	✗	✗		✗
 China		✗	✗	✗	✗
 Colombia	✗	✗	✗		✗
 Cuba					
 Egypt	✗	✗	✗		✗
 France	✗	✗		✗	
 Germany	✗			✗	
 India			✗	✗	✗
 Iran		✗	✗	✗	✗
 Japan			✗	✗	✗
 Mexico	✗			✗	✗
 Mozambique	✗			✗	
 Nigeria					
 Paraguay					
 Peru	✗			✗	
 Poland	✗			✗	
 Republic of Korea	✗	✗	✗		✗
 Russia	✗	✗	✗		✗
 Saudi Arabia			✗	✗	
 South Africa			✗	✗	✗
 Turkey			✗	✗	✗
 United Arab Emirates			✗	✗	
 United Kingdom	✗			✗	✗
 United States			✗	✗	
 Uruguay	✗	✗	✗		✗
 Venezuela	✗	✗	✗	✗	✗

Source: Prepared in-house using MDIC data.



Third, Brazil will try to reduce export costs through trade facilitation measures, including the implementation of the WTO agreement on this topic, a single window (one-stop shop) for foreign trade, and an emphasis on transparency.

Fourth, it will seek to improve existing **export financing and guarantee** programs by increasing available resources, expanding the scope of these programs, simplifying procedures for accessing financing.

Fifth, the plan promotes improvements to **tax mechanisms and regimes** through the simplification of the trade-related tax system.

The indicators selected for monitoring the effectiveness of the National Export Plan include: the evolution of the quantity and value of exports, the value added of external sales, the number of new exporting firms by region, and an index of geographical concentration and of concentration of exported goods and services.

## Results of the Updating of the COSIPLAN and API Project Portfolios

COSIPLAN[1] updated its [Project Portfolio \(in Spanish\)](#)[2] and that of the [Integration Priority Project Agenda \(API\)](#)[3] by [Integration and Development Hub](#) during May and June.[4] These activities took place through online meetings, which enabled the technical teams from the different areas of government that are involved in the various stages of project development to take part.

By July 17, 2015, 318 projects (68%) of the 464 that make up the active portfolio had been updated (including projects at the profile, preimplementation, and implementation stages). At this point, the COSIPLAN portfolio was made up of 573 projects representing an estimated investment of US\$182,599.70 million.

Some preliminary results from this exercise are shown in Table 1.

Table 1. Total Portfolio Projects\*

Integration and Development Hub	High	Low	Balance	No. of projects	Amount invested (in millions of US \$)
Amazon Hub	1	9	-8	74	22,415
Andean Hub	7	3	4	68	29,124
Capricorn Hub	3	4	-1	82	16,122
Guianese Shield Hub	0	0	0	20	4,581
Paraguay-Paraná Waterway Hub	0	3	-3	92	7,328
Central Interoceanic Hub	3	1	2	63	11,563
MERCOSUR-Chile Hub	2	1	1	124	73,887
Southern Hub	0	0	0	28	2,745
Peru-Brazil-Bolivia Hub	0	1	-1	24	31,432
<b>Total</b>	<b>16</b>	<b>22</b>	<b>-6</b>	<b>573</b>	<b>182,600</b>

Note: \* This table does not reflect the results of the pending update to the Southern Hub.

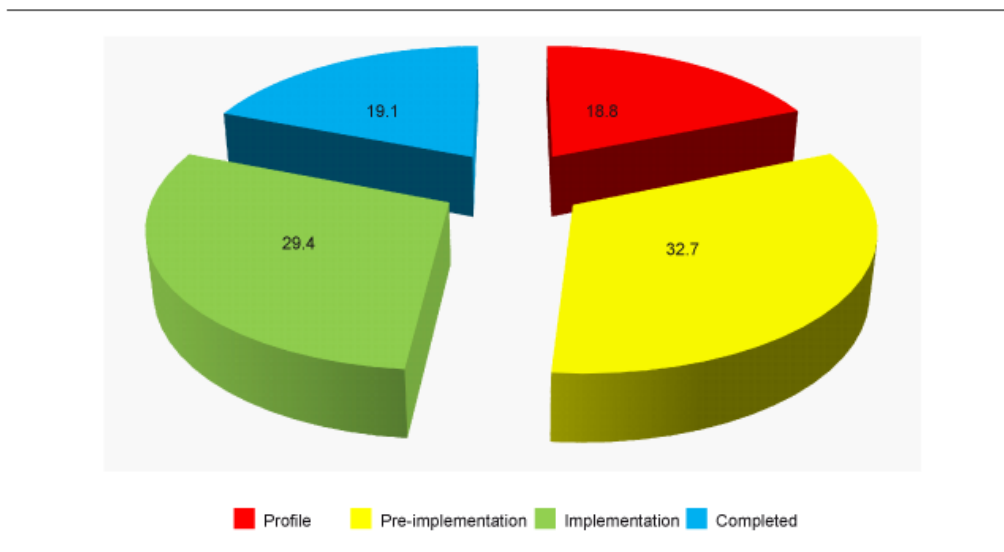
Source: COSIPLAN Project Information System 17-07-2015.

As part of the updating process carried out by the countries involved, the number of projects dropped from 579 in 2014 to 573 in 2015. The estimated investment varied by 11.8%, going from US\$163,324 to US\$182,600 million.



Figure 1. Portfolio Projects by Lifecycle \*

In project numbers



Note: \* The project lifecycle stages agreed upon by the COSIPLAN countries are as follows: 1) Profile: the context and background are studied to enable the technical and economic desirability and feasibility of the project to be assessed; 2) Pre-implementation: this includes projects at the following phases: pre-feasibility, feasibility, and investment; 3) Implementation: the group of activities needed for the physical construction of the project itself, which may include the signing of the contract, purchase and installation of machinery and equipment, and the installation of various facilities; 4) Completed: the completion of construction of the entire physical project in question.

Figure 2. Portfolio Projects by Lifecycle

In millions of US\$ and percentages

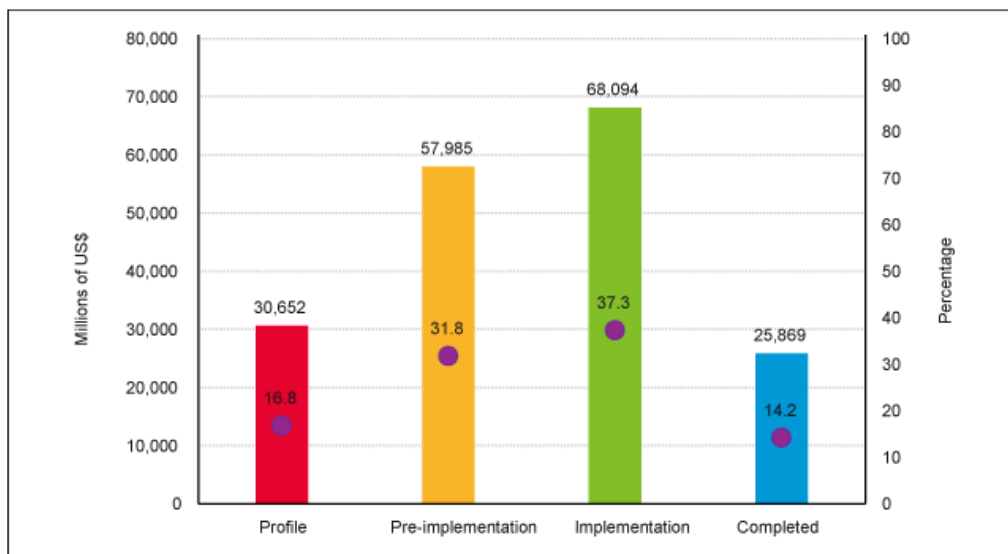


Table 2. Portfolio Projects at the Profile Stage: Variations 2014–2015

No. of projects according to 2014 Report* (October)	No. of projects included in GTE	No. of projects excluded from GTE	Transition to other stages	Variation 2014–2015	No. of projects July 2015
137	+5	-15	-14	-24	113

Note: \* COSIPLAN Project Portfolio Report 2014 (<http://www.iirsa.org/Document/Detail?Id=3993>). Source: COSIPLAN Project Information System 17-07-2015.

The review process made it possible to reduce the number of projects at the profile stage by 24. As the total number of projects in the portfolio did not vary significantly, this implied a reduction from 23.7% in 2014 to 19.7% in 2015.

Table 3. Completed Projects: Variation 2014–2015

No. of projects according to 2014 Report (October)	Amount 2014 (in millions of US\$)	Projects completed Oct. 14–Jul. 15	Transition to other stages	No. of projects excluded from GTE	No. of projects July 2015	Amount July 2015 (in millions of US\$)	
106	20,360	11	-2	-5	110	25,868	

Source: COSIPLAN Project Information System 17-07-2015.

The number of completed projects increased from 106 in 2014 to 110 in 2015. Five completed projects in Brazil were removed from the portfolio; these were multimodal rail yards. The increased investment in projects completed from 2014 to 2015 is due to the review carried out as part of the updating process and also to the completion of 11 projects, which are presented in the following table.

Table 4. Projects completed between October 2014 and July 2015

Code	Project Name	Group	Amount invested (in millions of US \$)	Country / Countries
AMA105	North–South Railway Phase III (Palmas–Campinorte)	G05	600	Brazil
AMA55	Rio Branco–Cruzeiro do Sul Road Connection (Br-364/AC)	G04	573	Brazil
AND31	Binational Border Service Center (CEBAF) at San Miguel	G06	0	Colombia, Ecuador

CAP46	Concession of Antofagasta Expressway	G01	370	Chile
CAP88	Antofagasta Airport	G01	28	Chile
HPP56	Santa Fe City Beltway	G03	200	Argentina
IOC25	Puerto Suárez–Corumbá Integrated Control Area	G03	2	Bolivia, Brazil
IOC74	Improvement of the Concepción–Pedro Juan Caballero Road Section	G01	13	Paraguay
MCC84	Encarnación Airport	G01	12	Paraguay
MCC101	Atucha II Nuclear Power Plant	G05	740	Argentina
PBB18	Electricity Transmission Line between the two Hydroelectric Power Stations on the Madeira River and the Central System	G03	3,823	Brazil
		Total	6,361	

Source: COSIPLAN Project Information System 17-07-2015.

The Integration Priority Project Agenda (API) added a new individual project as part of the API No. 3, Northeastern Access to the Amazon River. The Improvement of Navigation Conditions on the Napo River project was divided into two sections, one corresponding to Ecuador and the other to Peru. The API currently has 31 structured projects and 101 individual projects for an estimated investment of US\$21,525.9 million.

Figure 3. Individual API Projects by Lifecycle

In project numbers

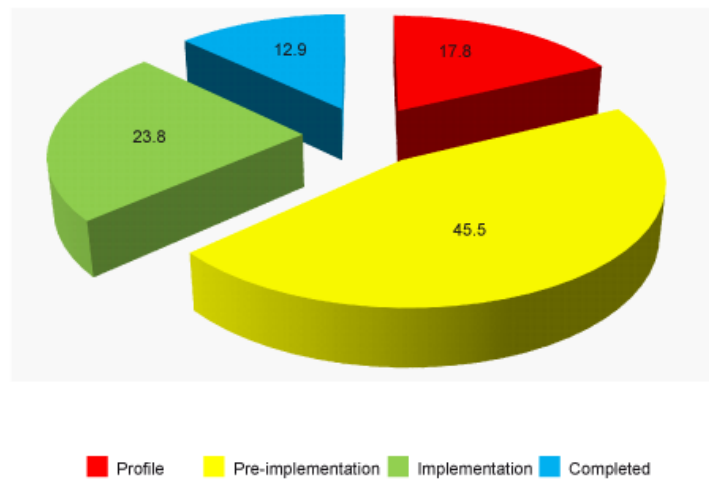
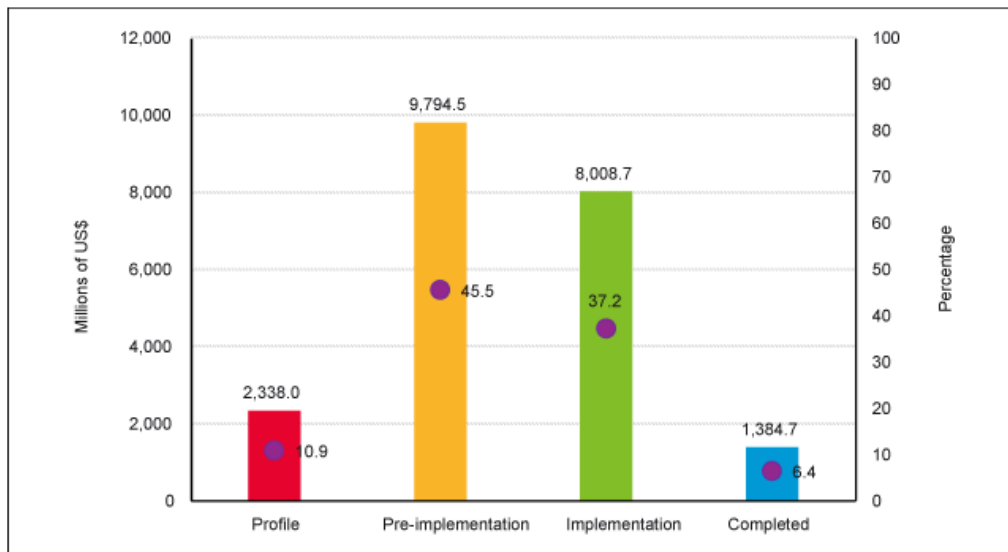




Figure 4. Individual API Projects by Lifecycle

In millions of US\$



The results of these studies are reflected in the [COSIPLAN Project Information System \(SIP\) \(in Spanish\)](#) and will be compiled in the annual reports for the Project Portfolio and the API, which will be presented during the 6th Ordinary Meeting of COSIPLAN Ministers which will take place on December 3 in Montevideo, Uruguay.



[1] The [South American Infrastructure and Planning Council \(COSIPLAN\)](#) is the stage of political and strategic dialogue at which the integration of regional infrastructure in member countries of the Union of South American Nations (UNASUR) is implemented. COSIPLAN's annual working agenda is based on the [Strategic Action Plan 2012–2022 \(PAE\)](#), which was designed and approved in 2011 and which structures COSIPLAN'S strategic lines of work for ten years. The [Initiative for the Integration of the Regional Infrastructure in South America \(IIRSA\) \(in Spanish\)](#) is the Technical Forum for planning COSIPLAN'S regional physical integration of South America.

[2] The development and application of the [Indicative Territorial Planning Methodology](#) enabled the creation of the Project Portfolio. The starting point for this methodology is the identification of the Integration and Development Hubs, which are used to subdivide South America geographically and to organize the Project Portfolio. The methodology was applied through Executive Technical Group (GTE) meetings, using a participatory work scheme involving the twelve countries.

[3] The API consists of a subset of projects from the Project Portfolio grouped into 31 structured projects of a strategic nature that have a great impact on the region's physical integration and socio-economic development. The API's objective is to promote regional connectivity through the construction and efficient running of infrastructure, based on the criteria of sustainable social and economic development, while protecting the environment and ecosystem balance.

[4] Online Meetings of the Executive Technical Groups to Update the Integration and Development Hub Project Portfolio and API (May–June 2015) ([link](#))



## Upcoming COSIPLAN Activities

COSIPLAN continues to make progress on the activities scheduled in line with the 2015 Work Plan. The following activities will take place in August:

### **Meeting of COSIPLAN National Coordinators and Coordinating Committee**

This will take place on August 19 and 20 in Montevideo, Uruguay. The objective is to review ongoing and future activities in order to comply with the 2015 Work Plan.

### **Final Workshop on the Agua Negra Binational Tunnel Integration Territorial Program (PTI)**

This will take place on August 26 and 27 in San Juan, Argentina. The purpose of the workshop is to present and carry out final adjustments to the PTI and implementation plan. It will be attended by the teams from Argentina and Chile that drew up the PTI in question.

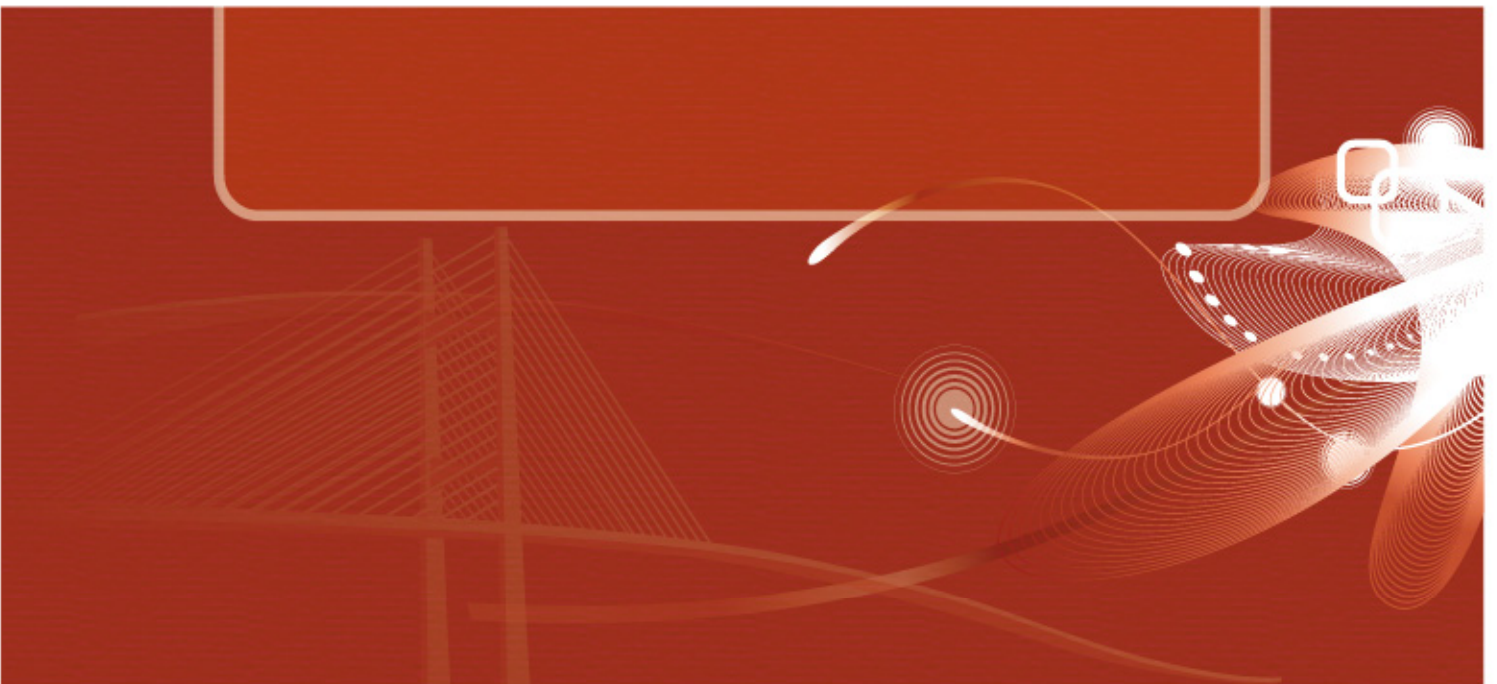
PTIs, which were developed within the framework of the work carried out by COSIPLAN/IIRSA, are an innovative holistic tool for analyzing, proposing, and implementing activities that complement infrastructure works and boost their impact on the region.

In this regional context, in August 2014 Argentina and Chile began to draw up a PTI for the Agua Negra Binational Tunnel. The work included carrying out an integrated diagnostic study and strategic analysis of the territory, participatory activities with local actors, and the joint drawing up of the PTI. [1]

[1] See [\*INTAL Monthly Newsletter No. 223, July\*](#).



# Regional And Global Overview







# Mega-agreement Negotiations

Some headway has recently been made on mega-agreement negotiations.

On the one hand, one event that is particularly relevant to negotiations around the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) is the adoption of the [Trade Promotion Authority](#) (TPA) law by the United States Congress. The TPA defines the terms on which the executive can negotiate trade agreements. Under these conditions, and consulting with the legislature during the negotiation process, Congress reserves the right to approve or reject agreements but not to modify them, which simplifies the process. The TPA and its predecessor, the fast track negotiating authority, have been granted to US presidents on several occasions since 1974.

Furthermore, the eighth round of the Regional Comprehensive Economic Partnership (RCEP) negotiations took place in Kyoto, Japan, from June 8 to 13. These included discussions on trade in goods and services, technical and economic cooperation, intellectual property, investment, competition, e-commerce, and legal and institutional matters, among other things. Likewise, progress was made on bilateral talks between some of the countries that are part of the RCEP. Of particular note is the signing of free trade agreements (FTA) between [China and Australia](#) and between [the Republic of Korea and China](#). These latter two countries also participated in the eighth round of negotiations on an FTA with Japan which took place in Beijing, China between July 20 and 24. The main topics addressed included trade in goods and services, investment, competition, and intellectual property.

## Related Articles:

- IDB/INTAL. "[Integration Scenarios in the Pacific](#)," in: *INTAL Monthly Newsletter No. 200*, April 2013.
- 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.
- IDB/INTAL. "[2nd Round of TTIP Negotiations](#)," in: *INTAL Monthly Newsletter No. 208*, December 2013.
- IDB/INTAL. "[Transatlantic Negotiations and the Outlook for LAC](#)," in: *INTAL Monthly Newsletter No. 209*, January 2014.
- IDB/INTAL. "[Third Negotiating Round of the RCEP](#)," in: *INTAL Monthly Newsletter No. 210*, February 2014.
- IDB/INTAL. "[EU-US: Fourth Round of Talks](#)," in: *INTAL Monthly Newsletter No. 211*, March 2014.
- IDB/INTAL. "[Fifth US-EU Negotiations](#)," in: *INTAL Monthly Newsletter No. 214*, June 2014.





## 7th BRICS Summit

The presidents of Brazil, Russia, India, China, and South Africa met on July 9 in Ufa, Russia, as part of the 7th BRICS Summit and the Business Council Meeting, currently presided over by Russia. In this context, the countries also participated in the Shanghai Cooperation Organization (SCO) Summit, made up of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

In the [Ufa Declaration](#), the heads of state recognized as achievements the entry into force of the New Development Bank and the Contingent Reserve Arrangement, both of which were established at the 6th Summit in Brasilia and Fortaleza. It is hoped that the bank's first project will be approved in early 2016, the goal of which is to finance investment in infrastructure and sustainable development. On the one hand, the heads of state emphasized the dialogue between the export credit agencies of member countries in order to promote external sales within the BRICS group and to other countries. Furthermore, they underlined the role of the World Trade Organization (WTO) as the institution that sets multilateral trade rules.



## The United States Renews Its Generalized System of Preferences until 2017

The United States has renewed the Generalized System of Preferences (GSP), which benefits the exports of 3,500 products from 122 countries through preferential tariff treatment. It is now valid up to December 31, 2017. The measure was authorized on June 29 with retroactive effect as of July 31, 2013, which implies that tariffs paid on eligible goods during this period be reimbursed. The beneficiary countries in Latin America and the Caribbean are the Andean Group (Bolivia, Ecuador, and Venezuela); CARICOM (Belize, Dominica, Jamaica, Saint Lucia, and Saint Vincent and the Grenadines) and Brazil, Guyana, Haiti, Paraguay, and Suriname.



## FTAs between Andean and Central American countries

Some recent progress has been made on the negotiations for the signing of free trade agreements (FTAs) between Andean and Central American countries.

In the first place, an FTA was signed between [Honduras and Peru \(in Spanish\)](#). On May 29 the presidents of the two countries signed the agreement, along with a joint declaration to strengthen bilateral cooperation. The agreement includes topics such as market access, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, trade facilitation, public procurement, trade defense, trade in services, the temporary entry of businesspeople, investments, intellectual property, competition, and cooperation. It is expected that 80% of Peruvian exports will enter Honduras duty-free immediately, and that the remainder will receive preferential tariff treatment until tariffs are eliminated within a ten-year period. In 2014, Peru exported US\$38.8 million to Honduras and imported US\$ 7.8 million from the country. The main products traded between the two countries are listed in Table 1.

**Table 1. Peru's Exports to and Imports from Honduras**

In millions of US\$

	Exports		Imports	
1	Prepared animal fodder	10.9	Structures and parts of structures of cast iron or steel	4.2
2	Polypropylene polymer plates	8.9	Paper or paperboard waste and scrap	0.7
3	Flour	2.8	Apparel	0.7
4	Preform carboys	2.5	Crown caps	0.4
5	Front-end shovel loaders	1.1	Brooms and brushes	0.3
	Other	12.7	Other	1.5
	Total	38.8	Total	7.8

Source: DataINTAL.

Furthermore, on June 16, [Colombia's congress approved the FTA with Costa Rica \(in Spanish\)](#) signed in 2013. Only one legislative step remains for ratification to be complete. Once the agreement enters into force, 74% of the industrial goods that Colombia exports will enter Costa Rica duty-free immediately, and the remainder will do so in a time frame of 5–15 years. In 2014, Colombia exported US\$264.4 million to Costa Rica and imported US\$75.1 million from the country. The main products traded are listed in Table 2.

Table 2. Colombia's Exports to and Imports from Costa Rica

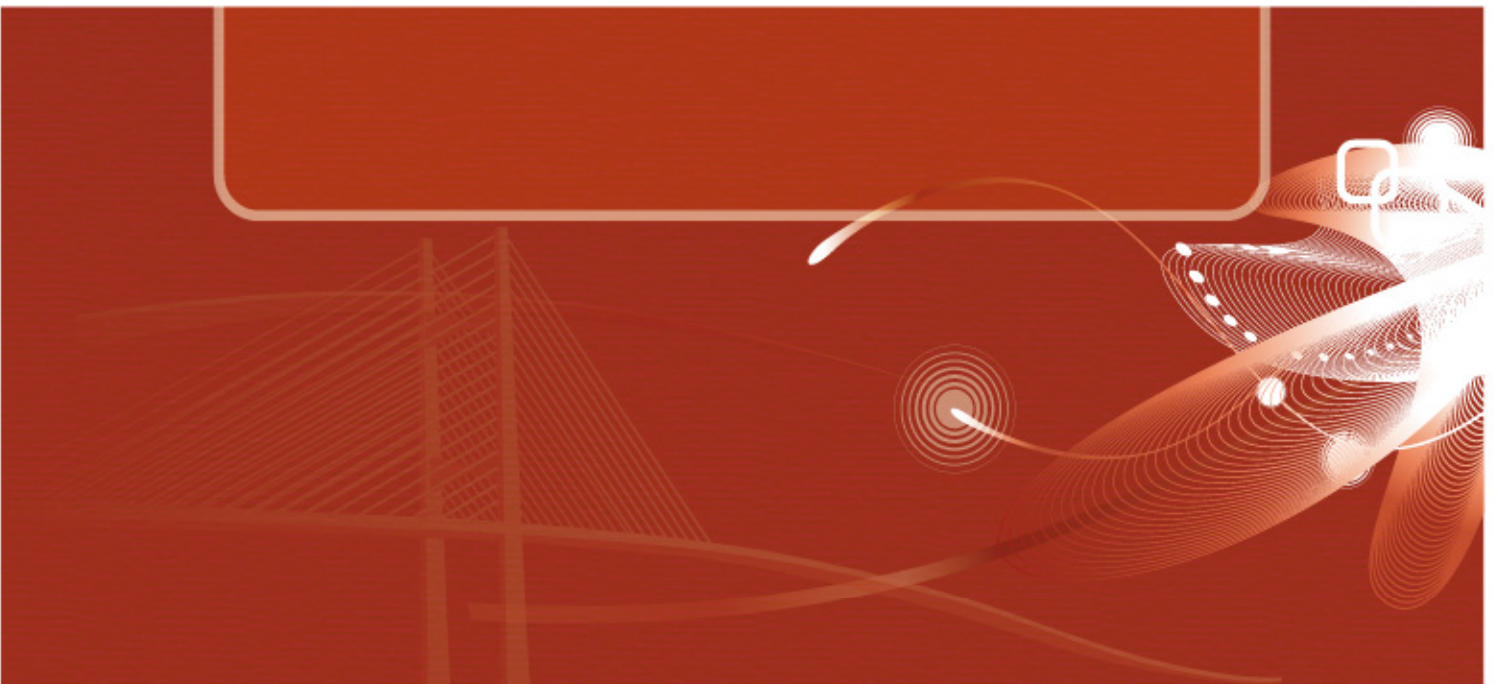
In millions of US\$

	Exports		Imports	
1	Polypropylene	11.0	Antimonial lead	12.4
2	Mineral or chemical fertilizers	10.9	Medicaments intended for human use	4.1
3	Fungicides	7.4	New pneumatic tires, of rubber	3.6
4	Carbons	5.2	Compound preparations of an alcoholic strength by volume of less than 0.5 %	3.6
5	Sacks and bags of polymers of ethylene	5.0	Bread, pastry, cakes, biscuits and other baker's wares	2.5
	Other	224.8	Other	49.0
	Total	264.4	Total	75.1

Source: DataINTAL.



# Impact assessment







# The Impact of Free Trade Agreements on Firms in Peru

The aim of this article is to disseminate and discuss the study by Céspedes *et al.* (2014) on the relationship between productivity and trade liberalization in Peru. The study estimates the effects of Free Trade Agreements (FTAs) on the productivity of formal enterprises through a quasi-experimental difference-in-differences method.

Using public data from financial statements, a panel of nearly 9,000 companies was built for the period 2002–2011 and two indicators were calculated: Total Factor Productivity (TFP) and Labor Productivity. The analysis considers the period 2002–2004, before six FTAs came into force (the United States, Chile, China, MERCOSUR, Canada, and Singapore) and 2005–2011, when these agreements were already in force. It goes on to examine the firms that take part in international trade (through exports and/or imports) as the treatment group and those that do not as the control group, taking only tradable sectors into account.

The descriptive statistics show that firms that take part in international trade have higher levels of productivity than those that only take part in the domestic market. The results show that FTAs have a positive and significant effect on productivity indicators.

The authors found that following the establishment of FTAs, there was an average increase in the labor productivity indicator of 3% for exporters, 8% for importers, and 12% for firms that buy and sell abroad. In addition, when considering the individual effect of each FTA, the authors found that those firms with greater proportions of exports to the United States were the ones with the greatest productivity gains arising from the agreement, followed by those that trade with Chile.

Through empirical evidence, the study contributes to the evaluation of the impact of FTAs on private sector performance in Peru, although it only takes formal enterprises into account.

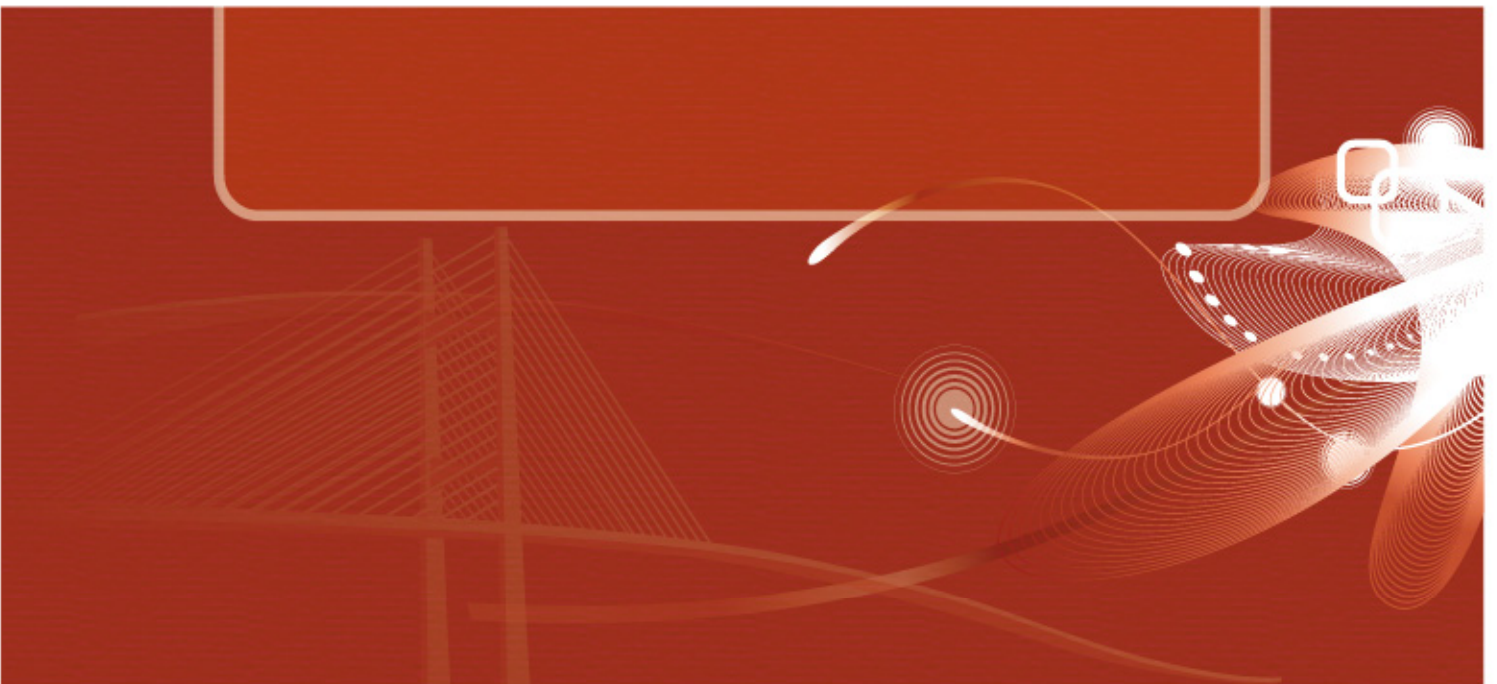
## Bibliography

Céspedes, N.; Aquije, M. E.; Sánchez, A.; and Vera-Tudela, R. 2014. [\*Productividad y tratados de libre comercio a nivel de empresas en Perú \(in Spanish\)\*](#). Working paper, 14. Lima: BCRP.






# Integration and Trade Sector







## INTAL D-TEC

A poster for the INTAL D-TEC contest. The background is dark blue with a geometric pattern of triangles. At the top left, it says 'OPEN CONTEST:'. At the top right, there is a white banner with 'INTAL 50 years'. The main title 'INTAL D-TEC' is in large, bold, light blue letters. Below it, in smaller white text, is 'The Institute for Integration of Latin America and the Caribbean'. Further down, in white text, is 'Contest Technological Entrepreneurs'. In the center, in white text, is 'WE DETECT AND REWARD START-UPS THAT CONTRIBUTE TO TRADE AND INTEGRATION OF LATIN AMERICA AND THE CARIBBEAN'. Below this, in a pink banner, is 'REGISTER HERE'. At the bottom, it says 'ORGANIZED BY' followed by three logos: Endeavor Argentina, BID (Banco Interamericano de Desarrollo), and connect americas (Toma el mundo con las manos).



# INTAL 50 years

Instituto para la Integración de América Latina y el Caribe

**INTAL 50 años**

**REIMAGINANDO LA INTEGRACIÓN REGIONAL  
EN LA ERA DE LAS TECNOLOGÍAS DISRUPTIVAS**

**07 octubre 2015**  
Buenos Aires  
Argentina

¿Cómo la biotecnología, la impresión 3D y la nanotecnología cambiarán la vida de latinoamericanos y caribeños?

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# Legal Instruments of Integration (IJI)

## Observatory

### This month's trends

From the end of June to the end of July 2015, the regional trade policy outlook was characterized by moderately dynamic activity surrounding agreements in force. The most notable events were regional agreements on the part of Chile, Mexico, and MERCOSUR with partners both within and outside the region. Progress was also made on advanced and concluded negotiations, and the possible start of new negotiations was announced.

### 360° Panorama

This month, the Panama–Mexico FTA was established; new negotiations with extra-regional partners such as the Republic of Korea and China were announced; progress was made on 25 existing agreements and 8 trade negotiations (6 advanced and 2 completed).

#### *New Agreements*

- [Mexico–Panama FTA to Begin in July \(in Spanish\)](#)

#### *Concluded Negotiations*

- [Ecuador's Safeguards are Rejected by Neighboring Countries and Spark Concern in Europe \(in Spanish\)](#)
- [Workshop to Explain Rules of Origin and Origin Procedures within the Framework of the Peru–Honduras FTA \(in Spanish\)](#)

#### *Developments in advanced negotiations*

- [The Pacific Alliance Framework Agreement Takes Effect \(in Spanish\)](#)
- [Trans-Pacific Partnership Agreement at Final Stage \(in Spanish\)](#)
- [Mercosur and EU Close to a Trade Agreement \(in Spanish\)](#)
- [Colombia and Japan Make Progress on Negotiations for an Economic Partnership Agreement \(in Spanish\)](#)
- [Chile–Indonesia: Chile Carries Out Intense Work Agenda in Asia \(in Spanish\)](#)
- [Israel and Panama Begin Third Round of Trade Negotiations \(in Spanish\)](#)

*New negotiations announced*

- [China and Colombia Accelerate FTA Negotiations at High-level Meetings \(in Spanish\)](#)
- [Republic of Korea to Begin FTA Negotiations with Ecuador \(in Spanish\)](#)

*Selected news on trade agreements currently in force*

- [Trans-Pacific Partnership Free Trade Agreement to Confront Key Meeting at the End of the Month \(in Spanish\)](#)
- [Association of Caribbean States \(ACS\): Transport, Logistics, and Competitiveness in Latin America and the Caribbean](#)
- [ALADI Warns that Global Economic Slowdown Impacts Trade within the Region \(in Spanish\)](#)
- [Central America–European Free Trade Association \(EFTA\): Guatemala Signs Trade Agreement with EFTA \(in Spanish\)](#)
- [Chile Seeks to Expand Agreement with European Union \(in Spanish\)](#)
- [CARICOM: Communiqué Issued at the Conclusion of the Thirty-Sixth Regular Meeting of the Conference of Heads of Government of the Caribbean Community, 2–4 July 2015, Bridgetown, Barbados](#)
- [48th Mercosur Summit \(in Spanish\)](#)
- [MERCOSUR–Bolivia: Bolivia Joins MERCOSUR \(in Spanish\)](#)
- [MERCOSUR–Chile: Meeting between Chile and Mercosur in Brazil \(in Spanish\)](#)
- [MERCOSUR–Peru, Partial Scope Agreement on Economic Complementarity \(AAP.CE\) 58: Peru and Brazil to Work on Updated Agenda to Expand Trade Relations \(in Spanish\)](#)
- [Mexico–Panama: Trade Agreement between Mexico and Panama to Help Regional Integration \(in Spanish\)](#)
- [Peru–People’s Republic of China: Bioceanic Train a Central Topic in Agreements between China and Peru \(in Spanish\)](#)
- Central American Integration System (SICA): [SICA Summit Opens in Guatemala amid Protests and Absences \(in Spanish\)](#) and [Progress on Construction of Regional Index of Central American Economic Integration \(in Spanish\)](#)
- [North American Free Trade Agreement \(NAFTA\): TPP Should Learn from NAFTA \(in Spanish\)](#)
- [Dispute between Venezuela and Guyana over Esequibo Reaches MERCOSUR](#)

The IJI is a compilation of regulatory texts, comments, and follow-up on legal commitments and developments of an analytical nature concerning the various processes of integration in Latin America and the Caribbean. For news and to learn more about the progress made on trade agreements and negotiations, visit [IJI](#).





## Other IDB Activities







## IDB supports entrepreneurship and innovation to boost the consolidation of the Pacific Alliance

During the Tenth Presidential Summit of the Pacific Alliance, the Inter-American Development Bank (IDB) reaffirmed its commitment to the organization's efforts toward increased trade and integration, and announced details of two projects to support entrepreneurship and innovation in the region. ([Link](#))



## MIF and NXTP Labs to hold WeXchange forum and Pitch Competition for high-impact women entrepreneurs

The Multilateral Investment Fund (MIF), member of the Inter-American Development Bank (IDB) Group, will hold the third annual WeXchange, the leading Latin American forum dedicated to connecting and supporting the growth of women entrepreneurs in the region. This year, WeXchange will take place on the 19th and the 20th of November in Monterrey, Mexico during the INCmty Festival, one of the biggest entrepreneurial events in Latin America. ([Link](#))





## Events of interest







**This section contains information  
on events related to regional and  
global integration and trade.**

**Second Academic Seminar of the Latin America - Asia Pacific  
Observatory. Santiago de Chile: ECLAC. July 8-9, 2015.**

Second Academic Seminar of the Latin America - Asia Pacific Observatory. Santiago de Chile:  
ECLAC. July 8-9, 2015. ([Link](#))



## Cuarta Escuela Doctoral sobre Regionalismo Latinoamericano, Europeo y Comparado – Beca LATN. Quito: July 6-10, 2015.

Cuarta Escuela Doctoral sobre Regionalismo Latinoamericano, Europeo y Comparado – Beca LATN. Quito: July 6-10, 2015. ([Link](#))





# INTAL Documentation Center









## Reviews

### WTO; The World Bank. The Role of Trade in Ending Poverty

The objective of this report by the World Trade Organization (WTO) and the World Bank (WB) is to explore how reductions in trade costs and integration into global markets can contribute to poverty reduction.

The publication's three main messages are:


1. To reduce poverty, trade costs need to be reduced and market integration deepened;
2. Trade policy should be oriented towards lowering tariff and non-tariff barriers, but it also requires a more comprehensive approach that takes into account the specific constraints faced by the poor; and
3. There is much for the WTO, WB, and other international institutions to do in order to support poverty reduction.

First, the publication lists different channels through which trade contributes to poverty reduction according to economic theory, although it warns that this relationship is not direct and that there are negative short-term impacts that need to be addressed.

The document argues that the growing participation of developing countries in international trade (including through global value chains) and the reduction of trade barriers have contributed to these countries' economic growth and had an impact on poverty reduction.

On the one hand, it argues that trade openness can drive economic growth, which in turn can help reduce poverty. Trade can increase the incentives to innovate and improve productivity through access to advanced technological inputs. On the other hand, trade can generate new employment opportunities and income sources for the poor in more productive activities. Likewise, the increased competition that derives from opening up to trade can benefit the poor as consumers and increase the variety of available goods.

However, the study warns that opening up to trade can make economies more vulnerable to external shocks. Furthermore, despite long-term gains, trade openness implies short-term adjustment costs, for example to producers or workers in sectors where foreign competition increases.



Second, the report describes four characteristics of poverty that makes it vulnerable to the risks of opening up to trade: extreme poverty is generally found rural areas that depend on agriculture; in fragile and conflict-afflicted countries; also in the informal economy; and it affects women more. In this context, the poor are more at risk as a result of changes in economic cycles, labor market adjustments, and vulnerability to climate change. In addition, they have fewer instruments to mitigate these risks (such as insurance), less access to infrastructure, public services, and funding, or access to higher quality inputs that would allow them to reap the benefits of trade.

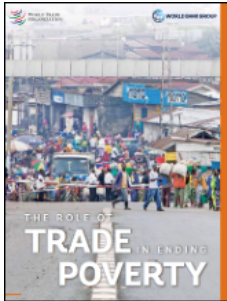
Third, the paper identifies five policy areas to be considered at the national level and by the international community to promote economic growth and to enable the poor to access higher revenues through trade:

1. Reducing trade costs to improve market integration through trade facilitation, infrastructure, and access to technology and financing.
2. Creating an environment that is conducive to maximizing gains from trade and implementing specific policies for the poor. This includes broad issues such as investment in infrastructure, education, health, the functioning of capital markets, macroeconomic stability, and securing property rights and rule of law.
3. Intensifying the impact of integration policies on poverty by facilitating the activities of small and medium-sized enterprises, gender equality, etc.
4. Mitigating the risks that the poor face so that they can take advantage of the opportunities trade brings.
5. Improving data and analysis for policy design and implementation.

On the one hand, the study points out that the WTO plays a fundamental role in supporting an open and inclusive global trading system. It also observes that through multilateral rules, the WTO has made it possible to predict market access conditions, reducing the likelihood of opaque or unpredictable trade policies, which generate higher risks for the poor. Looking to the future, it suggests that the conclusion of the Doha Round will expand opportunities for developing countries. Furthermore, it highlights the WB's work on trade facilitation, for example through its Aid for Trade program, in its role as a donor, and by evaluating the impact of the initiative.

The work concludes by recognizing the need to implement a trade policy agenda with a focus on poverty, in conjunction with other public policies.

The publication's value lies in its description of the visions of WTO and WB researchers on the impacts trade can have on poverty reduction, and its observation of the main channels and policy recommendations. Although this would not be easy to achieve, the study would benefit from more quantitative empirical evidence identifying causal links between poverty, growth, and trade, beyond finding associations between these variables.



[The role of trade in ending poverty.](#) (2015). Geneva: WTO; WB.

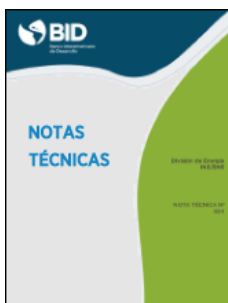


## Bibliographic alert

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


\* Villalobos, R. (2015). El comercio agropecuario en el MERCOSUR : veinte años después del Tratado de Asunción. Washington: BID.



**Autor:** Villalobos, Ruy de  
**Título:** El comercio agropecuario en el MERCOSUR : veinte años después del Tratado de Asunción  
**Edición:** Washington: BID, junio de 2015 [200 p.]  
**Serie:** Technical Notes; 809  
**Temas:** <COMERCIO AGRICOLA><TRATADO DE ASUNCION><MERCADO COMUN DEL SUR, MERCOSUR>  
**JEL:** F1; F13; F14; F15; Q1  
**Geográficos:** <CONO SUR>

**Resumen:** Este trabajo estudia la evolución del comercio de productos agropecuarios entre los países del MERCOSUR. Se indagan los niveles de intercambio y otros indicadores de estos flujos en los veinte años que siguieron a la firma del Tratado de Asunción utilizando una documentada base estadística. El estudio resalta el papel que ha jugado el acuerdo para incentivar actividades competitivas globalmente, así como para avanzar en el desarrollo productivo y generar oferta de alimentos en el mercado regional. La investigación busca contribuir a la discusión de políticas y acciones para optimizar el desempeño del acuerdo en este importante sector económico en los países del MERCOSUR.

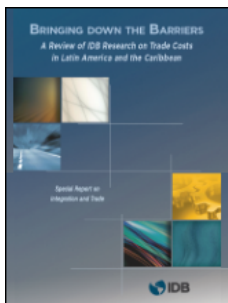
**Accesos al documento:**  
**HM BID-TN 809 [2015]**  
Documento Electrónico



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\* Kahn, T.; Estevadeordal, A. y Mesquita Moreira, M. (2015).  
Bringing down the barriers : a review of IDB research on trade  
costs in Latin America and the Caribbean. Washington: BID.



**Autor:** Kahn, Theodore; Estevadeordal, Antoni; Mesquita Moreira, Mauricio  
**Título:** Bringing down the barriers : a review of IDB research on trade costs  
in Latin America and the Caribbean

**Edición:** Washington: BID, june 2015 [63 p.]

**Temas:** <COMERCIO INTERNACIONAL><POLITICA  
COMERCIAL><FACILITACION DEL COMERCIO><BARRERAS  
COMERCIALES><ARANCELES>

**JEL:** F1; F13; F15; F23

**Geográficos:** <AMERICA LATINA><CARIBE>

**Resumen:** INT's research program over the past several years has sought to fill this gap. Beginning in 2008, the Sector has published a series of analytically rigorous and policy relevant studies of the impact of transportation costs, information constraints, and trade facilitation on LAC's trade performance. Two additional reports considered the effect of regulatory overlap an unintended consequence of the proliferation of trade agreements since the early 1990s' and the region's participation in global value chains, the defining trend in 21st century trade. At the same time, the Sector has continued to monitor and analyze traditional trade costs such as tariffs, which remain considerable barriers to trade for certain countries and lectors despite the region's broad movement towards liberalization over the past two decades.

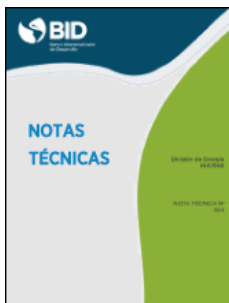
**Accesos al documento:**

339.1 / KAH-BRI / 2015

Documento Electrónico

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

\* Espinasa, R.; Marchán, E. y Sucre, C. (2015). La nueva ruta de la seda : patrones emergentes en el comercio de energía y minerales entre Asia y América Latina. Washington: BID.



**Autor:** Espinasa, Ramón; Marchán, Estefanía; Sucre, Carlos

**Título:** La nueva ruta de la seda : patrones emergentes en el comercio de energía y minerales entre Asia y América Latina = The new silk road : emerging patterns in Asian-Latin American trade for energy and minerals

**Edición:** Washington: BID, junio de 2015 [32 p.]

**Serie:** Technical Notes; 824

**Temas:** <RELACIONES COMERCIALES><COMERCIO INTERREGIONAL><SECTOR ENERGETICO>

**JEL:** F1; Q33; Q4

**Geográficos:** <AMERICA LATINA><CARIBE><ASIA>

**Resumen:** El surgimiento al escenario mundial de las economías asiáticas, de rápido crecimiento y grandes poblaciones, ha incrementado la demanda por materias primas de América Latina a niveles sin precedentes, lo que ha aumentado a la vez la importancia de Asia como socio económico para la región. Entre 2000 y 2013, el comercio entre Asia y ALC de energía y minerales creció a un promedio del 10,9 por ciento al año, llegando a 33.000 millones de dólares en términos reales en 2013. Para los países de América Latina y el Caribe, el mayor peso de Asia en las tendencias comerciales llega en un momento de desaceleración de la demanda por los recursos energéticos y minerales de la región a partir de socios tradicionales como América del Norte y Europa. En vista de la dependencia de muchos países latinoamericanos de la producción y exportación de energía y minerales y las consecuencias que una nueva ola de demanda de Asia podría tener para las perspectivas de desarrollo sustentable de la región, es importante que los gobiernos de ALC entiendan de qué forma evolucionarán las relaciones comerciales de la región con Asia. Este análisis hace un seguimiento de la relación comercial en los sectores de energía y minerales entre ALC y Asia, con especial atención a China e India, en las últimas tres décadas. Posteriormente, presenta una perspectiva del futuro del comercio entre esas dos regiones en los sectores mencionados.

**Accesos al documento:**

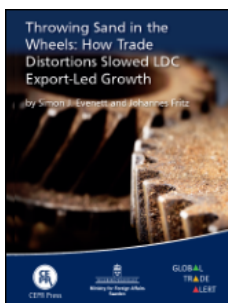
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[English version](#). Si no pudo acceder haga click [aqui](#)

\* Evenett, S. y Fritz, J. (2015). Throwing sand in the wheels: how trade distortions slowed LDC export-led growth. London: CEPR.



**Autor:** Evenett, Simon J.; Fritz, Johannes

**Título:** Throwing sand in the wheels: how trade distortions slowed LDC export-led growth

**Edición:** London: CEPR, 2015 [110 p.]

**Temas:** <CRISIS><EXPORTACIONES><POLITICA COMERCIAL><COMERCIO EXTERIOR><PAISES EN DESARROLLO>

**Resumen:** Employing data collected by Global Trade Alert, an independent trade policy monitoring initiative, on both trade-distorting and trade-liberalising measures implemented since November 2008, the purpose of this study is to summarise, discuss, and estimate the effects of crisis-era trade policy changes on the exports of the Least Developed Countries (LDCs) over the five year period from 2009 to 2013 ...

**Nota de contenido:**

- Preface by the Minister for Enterprise and Innovation, Sweden [p. vii]

**1:** Introduction [p. 3] **2:** LDC export performance since 2000 [p. 9] **3:** Crisis-era trade policy developments affecting LDC commercial interests [p. 17]

**4:** The effect of foreign commercial policy changes on LDC exports during the crisis era [p. 31] **5:** Implications for policymakers [p. 41] **6:** Concluding remarks [p. 43]

- References [p. 45]
- Summary statistics on the foreign state measures affecting each Least Developed Country [p. 47]

**Accesos al documento:**

338.1 / EVE-THR / 2015

Documento Electrónico

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

\* Bernat, G. (2015). Tipo de cambio real y diversificación productiva en América del Sur. Santiago de Chile: CEPAL.



**Autor:** Bernat, Gonzalo

**Título:** Tipo de cambio real y diversificación productiva en América del Sur

**Edición:** Santiago de Chile: CEPAL, junio de 2015 [51 p.]

**Serie:** Estudios y perspectivas de la oficina en Buenos Aires; 43

**Temas:** <TIPO DE CAMBIO><COMERCIO EXTERIOR>

**Geográficos:** <AMERICA DEL SUR>

**Resumen:** El presente trabajo analiza la relación entre la evolución del tipo de cambio real y la dinámica del comercio exterior en las mayores economías de América del Sur (la Argentina, Bolivia, el Brasil, Chile, Colombia, Ecuador, Perú, el Uruguay y la República Bolivariana de Venezuela) en la última década para, de ese modo, ponderar su contribución al crecimiento y la diversificación productiva.

**Accesos al documento:**

**HM CEPAL.AR-EST.PERSPECT. 43 [2015]**

Documento Electrónico

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\* Revista Argentina de Economía Internacional [Revista completa]. (2015). Revista Argentina de Economía Internacional, 4. Buenos Aires: CEI.



Ingrese al siguiente [Link](#).





# Editorial Staff





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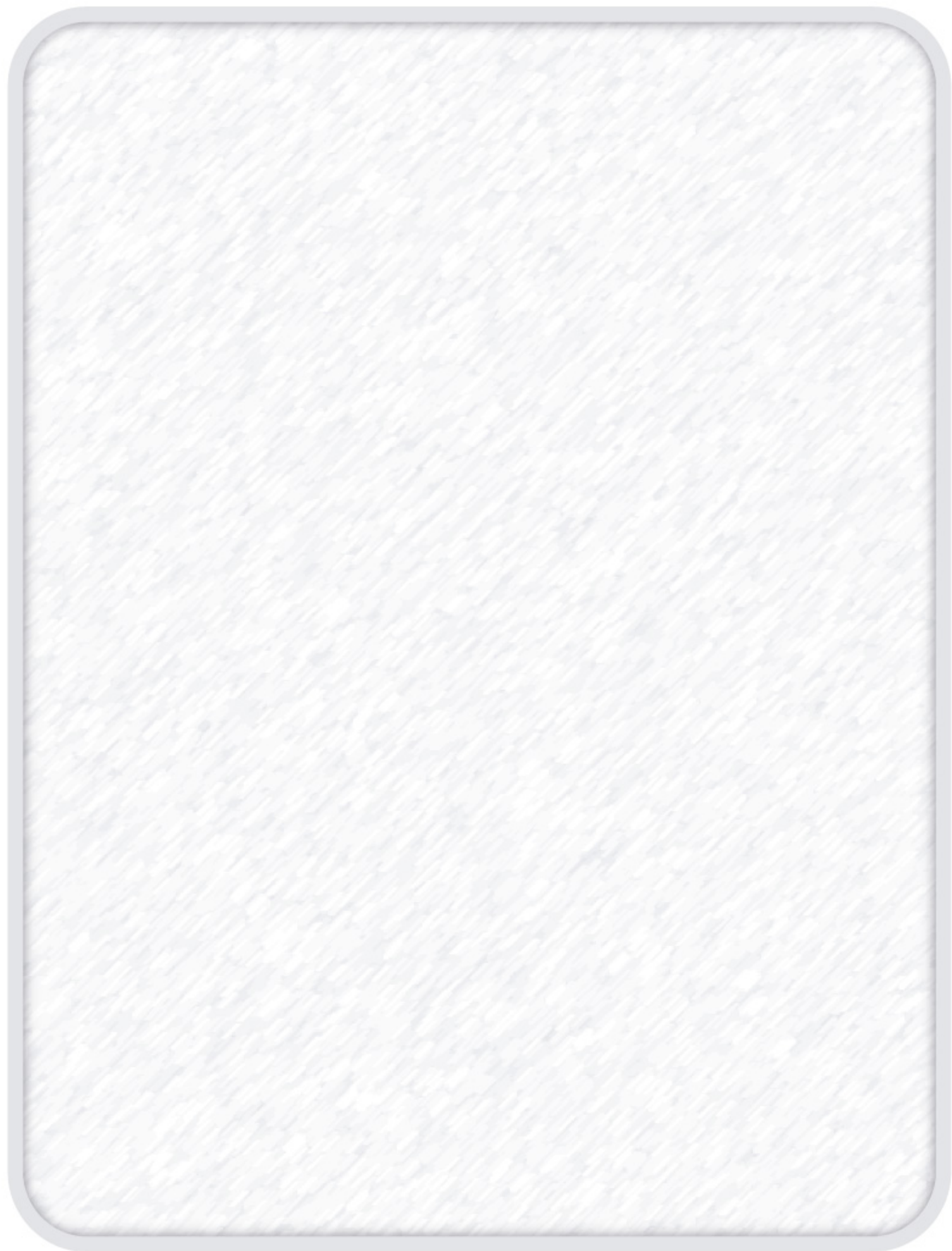
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