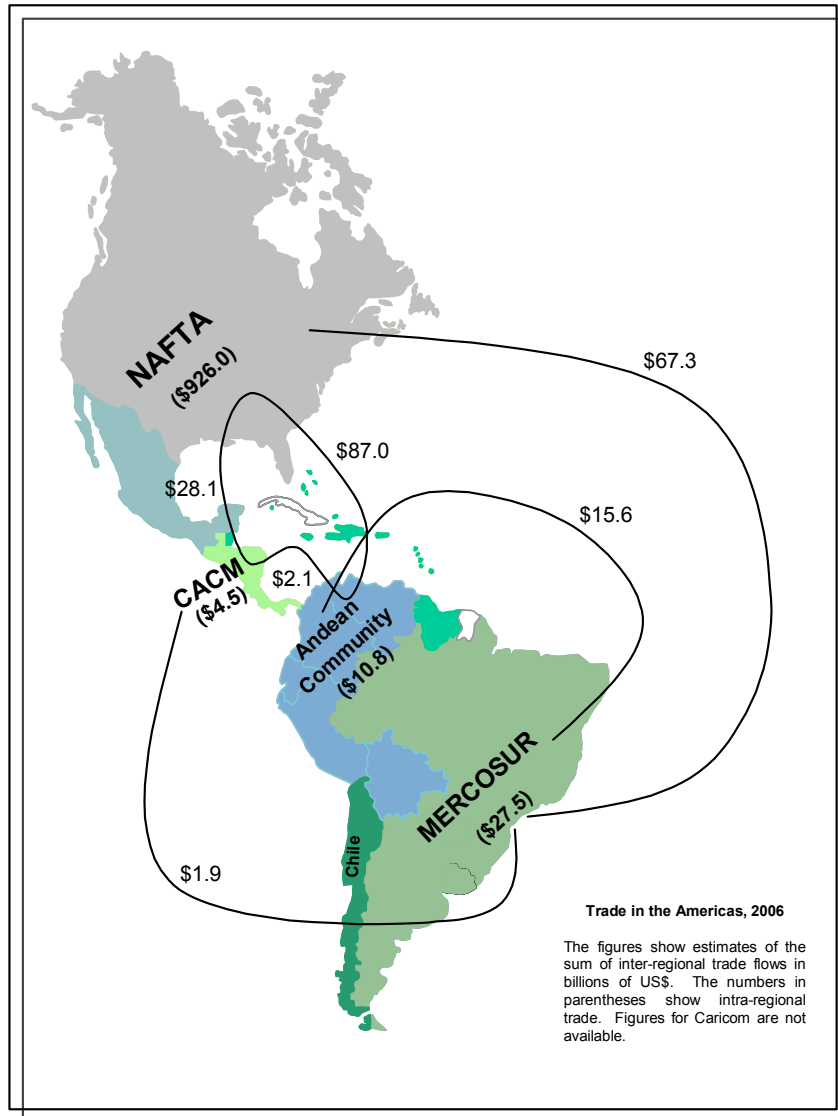




Original: English

# **INTEGRATION AND TRADE IN THE AMERICAS**

## **A Preliminary Estimate of 2006 Trade**



**Periodic Note  
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# PERIODIC NOTE ON INTEGRATION AND TRADE IN THE AMERICAS

## Integration and Regional Programs Department

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The purpose of this document is to inform Bank staff and other interested parties about recent developments in integration and trade among the countries of the Western Hemisphere and between these and other countries and world regions.

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The opinions expressed herein are those of the authors and do not necessarily reflect the official position of the Bank or its member countries.

Note: The map displayed on the cover is included for illustrative purposes only. It does not constitute an official representation of the area covered

## ABBREVIATIONS

ALADI	Latin American Integration Association
APEC	Asia-Pacific Economic Cooperation
CACM	Central American Common Market
CAFTA-DR	Central America-Dominican Republic Free Trade Agreement
CARICOM	Caribbean Community
IDB	Inter-American Development Bank
LAC	Latin America and the Caribbean
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
SIECA	Secretariat for Central American Economic Integration
UN	United Nations

## LATIN AMERICAN EXPORTS IN 2006: SUSTAINED STRONG GROWTH

Latin American exports to the world grew by 21 percent in 2006, according to preliminary estimates by the IDB's Integration, Trade and Hemispheric Issues Division. This is the fourth consecutive year of growth, and builds upon 19 percent growth in 2005 and an exceptional 23 percent increase in 2004. Overall exports to the world are projected to total a record \$656 billion. Intra-regional exports grew 25 percent, while extra-regional exports posted a 21 percent increase. Intra-regional trade as a share of Latin America's total trade with the world has edged up to an estimated 16.4 percent from 16.0 percent in 2005.

As has been the case since 2004, LAC's export performance in 2006 appears to be driven by a combination of favorable factors led by the U.S. economy's robust performance and by the exceptional growth of natural resource-scarce China and India, which has been fuelling record prices and sales for the region's commodities. The strong performance also reflects the continuing recovery of intra-regional trade in the Andean Community and Mercosur and the implementation of new trade agreements such as the Chile-U.S. FTA and the Mercosur-Andean Community agreement.

On a sub-regional level, the Andean Community, which for this report included Bolivia, Colombia, Ecuador, Peru, and Venezuela<sup>1</sup>, exhibited the most impressive growth in total exports, growing 26 percent to an estimated \$134 billion. Exports by Bolivia grew 45.9 percent, Peru 36.6 percent, Ecuador 26.7 percent, Venezuela 25.6 percent, and Colombia 15.0 percent. Intra-bloc trade, despite the political and institutional tribulations, grew 18% led by 30 percent or higher growth of exports from Bolivia (34.9), Ecuador (30.5) and Peru (31.7). Venezuela and Colombia's intra-bloc exports grew by 19 and 7 percent, respectively.

Mercosur's exports to the world grew 16 percent, while intra-Mercosur trade rose 21 percent. Overall exports by Mercosur now stand at a record \$188 billion. Uruguay led the regional grouping with 19.5 percent growth in total exports, while Argentina, Brazil, and Paraguay saw their exports grow by 13.5, 16.1, and 13.0 percent, respectively.

The robust growth of intra-bloc trade in Mercosur and the Andean Community was complemented by a strengthening of the trade ties between the two blocs, probably reflecting, on the one hand, the recent signing of the Mercosur-Andean Community agreement, and on the other, Venezuela's individual efforts to deepen its integration with Mercosur, which has culminated with its recent accession to the southern cone bloc. Mercosur's exports to the Andean Community grew 41 percent in 2006, whereas the growth of its imports reached 72 percent, led by the imports of oil.<sup>2</sup> Trade between Mercosur and Venezuela was particularly dynamic. The former's exports to Venezuela grew 61 percent, and its imports from the Andean country more than doubled in the first

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<sup>1</sup> Although during 2006 Venezuela left the Andean Community to join Mercosur, the report includes Venezuela as a part of the Andean Community to maintain consistency between 2005 and 2006 data.

<sup>2</sup> Estimates of Venezuela's exports use partner country import data.

9 months of the year for which there is data available.

Chile once again experienced a strong export growth driven, *inter alia*, by record prices of copper and by the government's aggressive signing of trade agreements. Chile's exports to the world are projected to rise 47.5 percent, and exports to the US, whose trade agreement with Chile began to be implemented in 2004, are expected to jump by 63 percent. Exports to other countries and blocs in the region also showed a remarkable dynamism. Exports to Mexico grew 53 percent, to Mercosur, 50 percent and to the Andean Community, 30 percent.

Mexico, still apparently benefiting from a strong US economy, saw its exports grow 19.9 percent. Its exports to Latin America, although still a small fraction of total exports, were particularly dynamic reaching 35 percent growth. Central American exports once again lagged behind the rest of the region, but still grew 10.4 percent to an expected \$20.4 billion. Nicaragua and Costa Rica posted the strongest results, at 19.7 and 17.6 percent respective growth, and El Salvador (4 percent) and Honduras (-4 percent), the weakest. Although disappointing, these results should be taken with a pinch of salt since data for *maquila* exports is not yet available for all countries and the estimates do not take into account the last quarter of the year, a period where the coming into effect of the CAFTA-DR agreement (except for Costa Rica) might have given a extra boost to Central America's exports.

Looking forward, the region's prospects of sustaining such an impressive performance seems to hang on the complex interplay between the challenges and opportunities that are looming in the horizon. On the challenging side, there are at least four factors to reckon with. First, the region will probably have to deal with less favorable commodities prices, a trend being widely forecast and whose signs are already visible in key products such as soy and even copper. Second, the U.S. economy, a key driver in the current export boom, is expected to slow down, an outcome that will make export growth particularly harder for Mexico and Central America. Third, Asian competition in non-commodity markets worldwide are likely to intensify given their rising competitive advantages and the removal of quotas and other restrictions in key sectors and markets such as textile and apparel. Finally, the steep appreciation experienced by most currencies in the region, when combined with the scenarios described above of intense Asian competition and slower growth in the US market, is likely to exact a high toll on export diversification and performance.

On the opportunity side, most analysts seem to agree that both China and India are likely to continue to grow strongly in the foreseeable future, an expectation that, if confirmed, is likely to ensure a fast-growing demand for the region's commodities. Likewise, the region also tends to benefit from greater market access to the US and the dynamic Asian market. In the US, it can count on trade agreements such as CAFTA-DR and the bilaterals between the US and the countries of the Andean Community. In Asia, the hopes lay on the agreements being signed by Chile, Mexico and Peru within the APEC framework. The prospect of regional wide agreement, such as the one being considered among the Latin American countries of the Pacific basin, may also prove a boost to intraregional trade.

**TABLE 1. EXPORTS BY INTEGRATION GROUP, 2006 Preliminary Estimates**  
(% change from 2005 to 2006)

Exporting Region	DESTINATION								
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	ALADI <sup>1</sup>	CACM	Latin America <sup>2</sup>	NAFTA	Hemisphere	Total World
Mercosur	21	18	41	22	20	22	9	17	16
Andean Community	72	51	18	27	2	23	17	18	26
ALADI <sup>1</sup>	28	24	31	26	16	25	18	20	22
CACM	69	28	19	24	13	16	6	9	10
Latin America <sup>2</sup>	28	24	31	26	15	25	18	19	21
NAFTA	21	21	30	17	20	18	12	13	14
Total Hemisphere	25	23	29	19	18	19	13	14	16

**EXPORTS BY INTEGRATION GROUP, 2006 Preliminary Estimates**  
(millions of US\$)

Exporting Region	DESTINATION								
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	ALADI <sup>1</sup>	CACM	Latin America <sup>2</sup>	NAFTA	Hemisphere	Total World
Mercosur	27,505	37,615	11,348	53,923	1,826	56,819	38,939	92,767	187,973
Andean Community	4,236	6,899	10,773	19,054	1,909	23,172	59,473	81,820	134,296
ALADI <sup>1</sup>	37,591	51,630	29,728	89,767	7,098	101,558	335,186	430,920	634,901
CACM	38	71	198	899	4,520	6,189	10,316	16,137	20,433
Latin America <sup>2</sup>	37,630	51,703	29,959	90,709	11,758	107,953	345,928	447,691	656,338
NAFTA	28,322	36,411	27,539	203,997	17,779	232,235	925,954	1,026,423	1,693,195
Total Hemisphere	63,755	84,938	52,371	286,439	26,657	327,799	1,048,901	1,238,417	2,092,606

**STRUCTURE OF EXPORTS BY INTEGRATION GROUP, 2006 Preliminary Estimates**  
(% Distribution)

Exporting Region	DESTINATION								
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	ALADI <sup>1</sup>	CACM	Latin America <sup>2</sup>	NAFTA	Hemisphere	Total World
Mercosur	15	20	6	29	1	30	21	49	100
Andean Community	3	5	8	14	1	17	44	61	100
ALADI <sup>1</sup>	6	8	5	14	1	16	53	68	100
CACM	0	0	1	4	22	30	50	79	100
Latin America <sup>2</sup>	6	8	5	14	2	16	53	68	100
NAFTA	2	2	2	12	1	14	55	61	100
Total Hemisphere	3	4	3	14	1	16	50	59	100

Source: IDB, Integration and Regional Programs Department, based on official data from each country, ALADI, SIECA, and Andean Community.

Estimates of Venezuela's exports use partner country import data.

1 Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. Cuba is not included.

2 Includes Panama and the countries of ALADI and the CACM.

TABLE 2

**EXPORT GROWTH BY WESTERN HEMISPHERE TRADE  
GROUPS, 2006 Preliminary Estimates**

<b>Exporting Group/Member</b>	<b>Export Growth to Group</b>	<b>Export Growth to World</b>
<b>Mercosur</b>	<b>20.9</b>	<b>15.5</b>
Argentina	26.8	13.5
Brazil	19.4	16.1
Paraguay	-1.9	13.0
Uruguay	16.3	19.5
Chile (Mercosur)	50.2	47.5
<b>Andean Community</b>	<b>17.7</b>	<b>25.9</b>
Bolivia	34.9	45.9
Colombia	6.7	15.0
Ecuador	30.5	26.7
Peru	31.7	36.6
Venezuela	19.2	25.6
<b>NAFTA</b>	<b>12.2</b>	<b>14.4</b>
Mexico	18.5	19.9
Canada	9.5	11.0
United States	11.2	14.5
<b>CACM</b>	<b>13.1</b>	<b>10.4</b>
Costa Rica	14.4	17.6
El Salvador	11.6	3.9
Guatemala	12.4	8.7
Honduras	12.3	-4.0
Nicaragua	17.3	19.7

Source: IDB, Integration and Regional Programs Department, based on ALADI, SIECA, Andean Community, and official country data.

Note: Estimates are based on January - August data for Colombia, Honduras, Nicaragua, Uruguay; January - October for Bolivia; January - June for Panama; January - September for the remaining countries. Venezuela estimates use partner country imports.