

2019 | TRADE AND INTEGRATION
MONITOR

ROUGH PATCH

LATIN AMERICA AND THE CARIBBEAN
AMID THE GLOBAL TRADE SLOWDOWN



INTAL

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M O N I T O R

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Coordinated by
Paolo Giordano

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Prologue

In late 2018, after two years of growth, global trade in goods contracted as the result of a drop in prices and a downturn in real demand in the main advanced and emerging economies. The adverse juncture deepened in the first half of 2019, as the downturn in trade flows became evident in all the major global trading centers.

The value of goods and services exports from Latin America and the Caribbean followed the overall global trend, but were more volatile, as exports slowed during the course of 2018 and contracted in the first half of 2019. The weakening of the region's external sales was mainly driven by a decline in the prices of oil and other commodities, while the growth in export volumes slowed markedly, particularly in the intraregional market. Nevertheless, since the beginning of the year, the volume of goods exports and the value of services exports performed better than the global average. It is precisely on these foundations that the region needs to rebuild its competitiveness and take on the stagnation that has engulfed the world economy.

The *Trade and Integration Monitor 2019* analyzes the ongoing trade contraction in the region and tracks its competitiveness in regional and global services markets, with a particular focus on the capacity to position itself in the more dynamic market segments. This edition is the latest in a series of reports of the Integration and Trade Sector of the Inter-American Development Bank (IDB) that study the evolution of the position of Latin America and the Caribbean in the global trading system.

The report argues that in order to move beyond the current environment, marked by increasing external risks, Latin American countries should resolutely aim to increase their exports and better position themselves in global markets. In this regard, the existing limitations of the regional integration process and the need to gain a larger share of the global services market become evident. A decisive step forward in both directions would help the region stand its ground in the face of headwinds, such as the end of the commodity price boom and growing trade protectionism, both of which are affecting the dynamism of multilateral trade flows.

In the current adverse economic environment and given the uncertainty whether circumstances will change, we hope that this edition of the *Trade and Integration*

Monitor will provide countries in the region with usefull information for identifying, designing, and implementing policies to position themselves competitively in the most dynamic segments of international trade.

Fabrizio Opertti
Manager, Integration and Trade Sector



List of Abbreviations

| | |
|----------|--|
| AC | Andean Community |
| CADR | Central America and the Dominican Republic |
| CARICOM | Caribbean Community |
| EU | European Union |
| GDP | Gross Domestic Product |
| KIS | Knowledge-Intensive Services |
| LA | Latin America |
| LAC | Latin America and the Caribbean |
| MERCOSUR | Southern Common Market |
| OECD | Organisation for Economic Co-operation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| p.p. | Percentage points |
| PA | Pacific Alliance |
| PMI | Purchasing Managers' Index |
| RoW | Rest of the World |
| U.S. | United States |
| WTO | World Trade Organization |



Executive Summary

Growth in the value of exports from Latin America and the Caribbean slowed to 8.8% in 2018 and turned negative in the first half of 2019, contracting by 1.3%, bringing an end to the expansionary cycle that began in 2016. Although the intensity varied from one country to another, the contraction was largely driven by the drop in prices and the slowdown of export volumes. Looking ahead, there are growing risks associated with a synchronized cooling of external demand, volatility in commodity markets, and the ongoing direct and indirect effects of global trade tensions. The lack of export diversification makes the region particularly vulnerable to these external risks. From a more structural perspective, the slump in intraregional trade points to the importance of regional integration in holding up trade in goods with higher value-added. Likewise, in global services markets, the challenge for the region is to boost its competitiveness to gain market share and position itself in the most dynamic sectors of global trade.

This edition of the *Trade and Integration Monitor* identifies the factors that have determined the recent performance of LAC exports, examines the risks associated with the current situation, and concludes that the contraction phase will continue.

Given the current economic climate, the decline in the value of exports from the region was determined by a sharp deterioration in prices and a sudden slowdown in real flows, while services exports stagnated. Although LAC's performance was slightly better than the global average, projections for the second half of 2019 point to downside risks.

The synchronized expansion of the global economy and the boom in commodity prices—particularly oil—that have buoyed the region through the trade recovery initiated in 2016, reversed course abruptly. The value of LAC goods exports grew by an average 8.8% in 2018, then slowed down rapidly in the last quarter before contracting 1.3% year-on-year in the first half of 2019. In real terms, LAC's external sales decreased less than those of the rest of the world, although this was mainly driven by Mexico's performance. However, on aggregate, persistent downward pressure on prices depressed the value of the region's exports. The growth of services exports slowed

from 2.4% in 2018 to 0.4% year-on-year during January–June 2019. The latest trend indicators suggest that headwinds continue to affect export performance. Looking ahead, there are growing risks associated with the slowdown in external demand, the volatility of commodity markets, and the effects of global trade tensions, which add to the uncertainty regarding the possibility of reversing the current negative trend in intraregional trade in the short run.

The fall in intraregional trade had a marked impact on the trade performance of LAC countries. Almost all integration schemes recorded a decrease in internal trade flows, and this trend was replicated in most countries. The collapse of intrazone exports from Brazil, particularly to Argentina, accounted for more than half of the total contraction in intraregional trade.

The export performance of almost every integration scheme worsened in the first half of 2019, which exacerbated the effects of the downturn in global trade. Only the Pacific Alliance recorded a slight increase in external sales, driven exclusively by Mexico's extraregional trade flows. In the remaining integration blocs, the contraction of total exports resulted from the drop in intraregional sales, as well as in exports to the rest of the world. In MERCOSUR, the collapse of intrazone sales was a determining factor in the decline in total exports. Within the remaining integration schemes, the contribution of intraregional trade was nil on balance, and thus, in comparison with the previous year, a major source of growth in trade was deactivated. In this context, the share of intraregional flows in total LAC trade continued to shrink.

Despite some notable achievements in terms of services exports, LAC's profile is still not well diversified and lacks competitiveness. In addition, there exist some notable shortcomings in how trade in services is measured. This points to the need for the region to better position itself in the most dynamic segments in global demand, and to improve the empirical base for public policies.

The contribution of LAC's services exports to total exports is below the global average and they remain concentrated in traditional sectors, such as travel. However, knowledge-intensive service exports are rapidly gaining ground, especially in business and computer services. A medium-term analysis of the competitive profile of LAC's services exports reveals that 24% of the exported value is in declining market segments, which grew at a lower rate than the global average and where LAC's share fell between 2012 and 2017. Consolidated segments amounted to 51% of the value of services exports—the region's share in these increased, but in markets that lack dynamism. In contrast, in only 5% of the value of LAC's external sales the region was able to gain market share in strategic segments with above-average growth in global

demand. An additional 20% corresponds to untapped segments in which LAC has not increased its share, despite expanding exports.

Chapter 1 of the report examines the main features of the downturn in global and regional trade since early 2018, tracks how this trend was reinforced in 2019, and assesses the balance of global economic risks. Chapter 2 provides an overview of the region's recent trade performance, breaking down the variations in prices and export volumes and assessing the likelihood of the current phase reversing direction in the coming months. Chapter 3 examines the specific features of export and import flows of goods and services in different countries and subregions of LAC. Chapter 4 analyzes the downturn in intraregional trade and examines the export performance of the members of the main integration blocs. Chapter 5 contains a more structural analysis and argues the need to improve LAC's position in global trade in services. It examines the competitiveness of LAC's exports of services by focusing on knowledge-intensive services and measuring the evolution of market shares in the most dynamic segments of global trade.

The Global Trade Relapse

1

At the end of 2018, global trade entered a recessionary phase characterized by stagnant trade volumes and the re-emergence of incipient deflationary pressures. This shift took place in the context of a synchronized downturn in economic activity in the major global economies and escalating global trade tensions, which were compounded by specific factors that depressed international trade prices. Exports of goods from Latin America and the Caribbean were impacted negatively by price dynamics and by a slowdown in real demand. Global trade in services also contracted. In the medium-term, the uncertainty that currently enshrouds world trade poses risks to economies in the region.

The Turnaround in Trade Flows

In the first half of 2019, the value of global trade in goods contracted by 2.6% in comparison with the same period in 2018. The figure points to a marked shift in relation to 2018 when global trade grew by 9.6%. The notable decline in the economic outlook began in the fourth quarter of 2018, when approximately two years of expansion came to an end (Figure 1). However, for much of 2018, global trade had already shown signs of weakness and had begun to flatline as a result

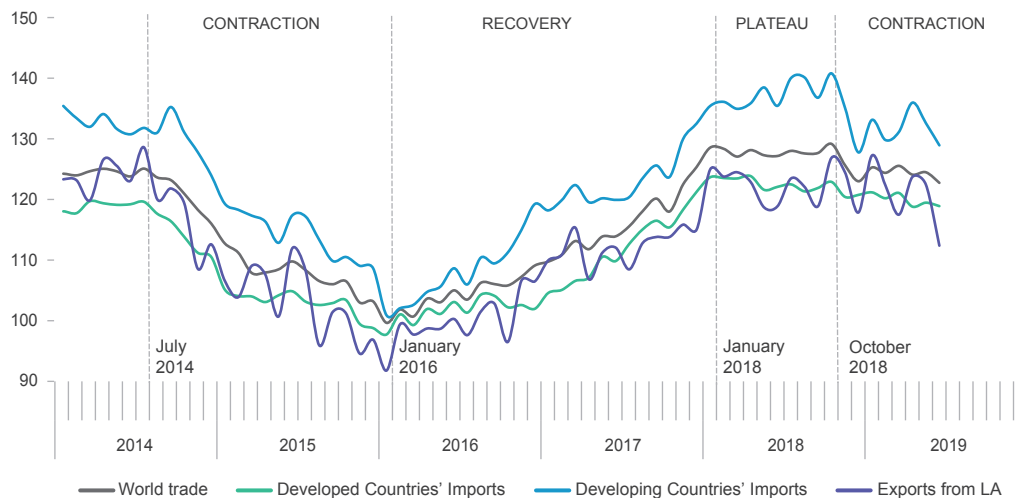
The value of global trade entered a contraction phase.

of diverging trends in demand from developed and developing countries. While there was a slight but persistent decline in imports from developed countries, those from developing countries sustained the overall performance of global trade, which retained certain robustness until October 2018.

The trade recession was triggered by emerging economies.

The abrupt change in trend was initially caused by a sharp downturn in flows from developing countries. Between October and December 2018, the value of the latter's imports fell by 9.1%, while demand from developed countries contracted by a moderate 1.7%, in line with the gradual shrinking recorded since the start of the year. The trade recession deepened in

FIGURE 1 • VALUE OF WORLD TRADE IN GOODS
(Index, 2010=100, 2014-2019)



Source: IDB Integration and Trade Sector with data from the Netherlands Bureau of Economic Policy Analysis (CPB) and own estimates.

Note: The value of global trade is the average of the seasonally adjusted series of global imports and exports. The value of exports from Latin America is based on own estimates and does not include the Caribbean (see Methodological Annex 1).

the first half of 2019, affecting both flows to developing countries, which contracted 3.0% year-on-year, and to developed countries, which fell by 2.5%. In this period, the total value exported by Latin America (LA) fell by 1.2%, much less than the global average, although the pattern by which it did so was more volatile.

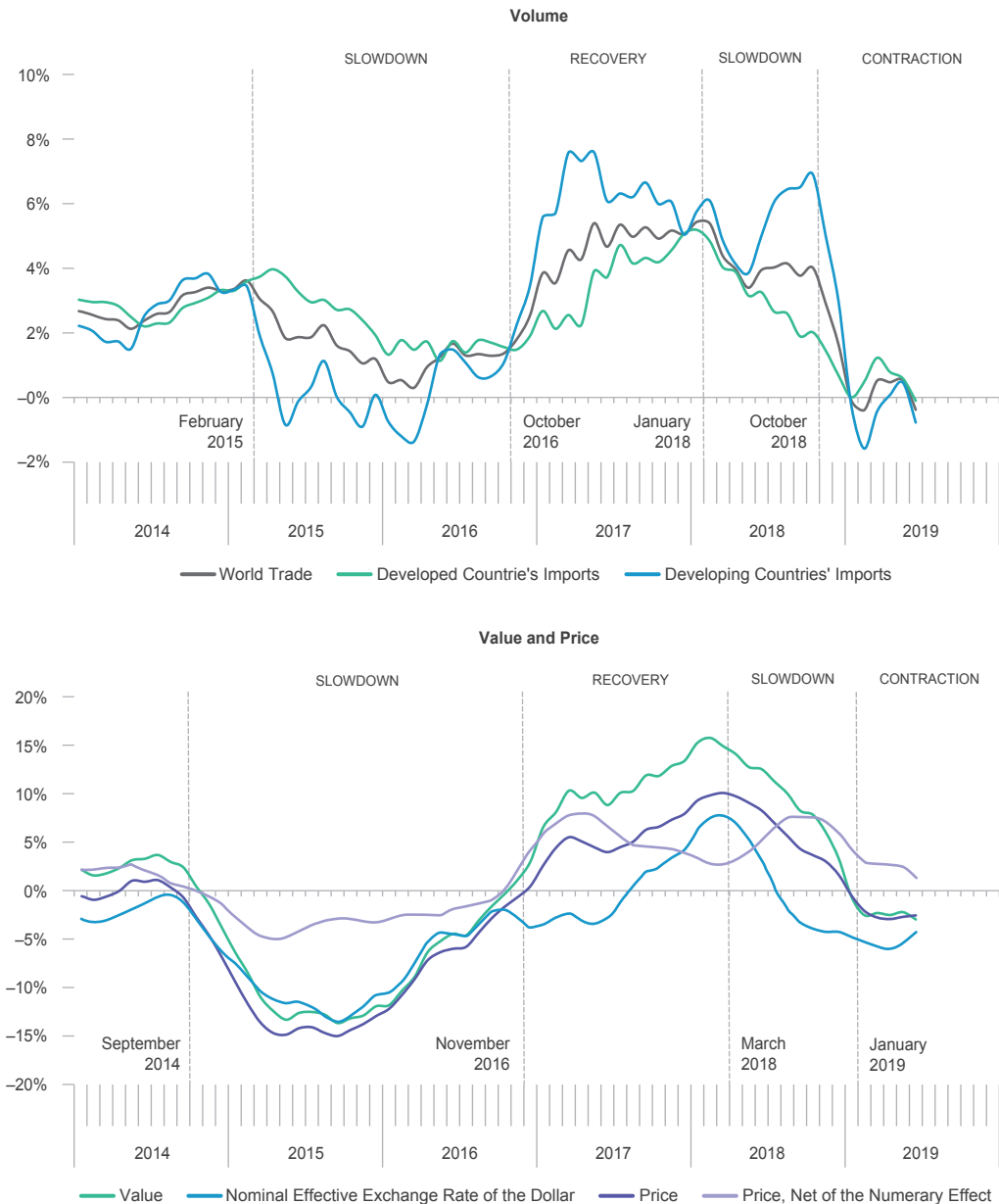
The trend reversal was determined by the dynamics of real flows and the evolution of the nominal variables of global trade (Figure 2). The stagnation of volumes is related to the cooling of demand in several economies and to the uncertainty generated by the escalation of tariff restrictions between the United States (U.S.) and China. Given how important these economies are, the trade conflict between them has had an impact on global trade due to the reduction and diversion of trade flows, secondary effects on global value chains, and indirect consequences on investment decisions.¹ The downturn in global trade prices that began in early 2018 was amplified by the weakening of real demand

The real and nominal determinants of the contraction reinforced each other.

¹ See Bown (2019) for a detailed discussion of the coverage of restrictions and their impact on the level of protection. In its most recent estimates, the IMF (2019a) gauges the cost of the trade conflict to be 0.8 p.p. of global GDP growth in 2020. Constantinescu *et al.* (2019) simulate a long-term reduction of 0.5 p.p. in the global ratio of investment over GDP, due to lower investor confidence as a result of tariff escalation, which would imply a 3.0% drop in global exports and a 1.7% decline in global GDP.

FIGURE 2 • TRENDS IN WORLD TRADE IN GOODS

(Quarterly moving average of the year-on-year growth rate, percentage, 2014-2019)



Source: IDB Integration and Trade Sector with data from the CPB and the U.S. Federal Reserve.

Note: The value and volume figures correspond to the average of global imports and exports. The nominal effective exchange rate of the dollar is constructed using the average value of a broad basket of currencies. A negative/positive rate indicates an appreciation/depreciation of the dollar. The net prices of the numeraire effect are estimated using a constant dollar exchange rate (2010=100).

and specific dynamics that affected some key markets, particularly the oil market. Several critical stock and exchange market events contributed to the appreciation of the dollar, which had knock-on effects on global trade prices.²

The
appreciation
of the dollar
intensified
deflationary
trends.

In the first half of 2019, the average level of international trade prices, measured in current dollars, declined by 2.6% in comparison with the first half of 2018. This contraction was primarily associated with the strengthening of the dollar, the numeraire in which international trade flows are measured.³ Using a broad basket of currencies as a reference, the dollar increased by 6.7% between March 2018—the point at which the appreciation process began—and June 2019. The consequences of this increase can be revealed by measuring trade in constant dollars. In this scenario, instead of the 2.6% drop in the first half of 2019 described above, the average year-on-year variation is 2.0%, which, although positive, is much lower than the average 5.5% increase in this indicator observed between 2017 and 2018.

If the exchange rate effect is excluded, since late 2018, global trade prices have been influenced by the downward trends in some markets, notably commodities and, in particular, energy goods.⁴ In the first half of 2019, average commodity prices decreased by 7.7% in comparison with the same period the previous year.⁵ While the price of non-energy commodities dropped by 3.0%, the variation in the energy component was -12.7%. Within this sector, the price of crude oil dropped by 7.7%, reflecting the downward trend in the market induced by the weakening of world demand and the volatility of supply policies throughout 2018.⁶ The contraction

Downward
pressures on
commodity
markets have
resurfaced.

² These episodes have accentuated the dollar's role as a reserve currency, which has been favored by the relatively positive performance of the U.S. and the increase in the Federal Reserve's benchmark interest rate in 2018. Although in 2019 the Federal Reserve adopted a more accommodating policy, which led to reductions in the interest rate in July and September, the dollar remained at historically high levels throughout the first half of the year.

³ As the U.S. dollar is the reference currency for global trade, when all else is constant, the appreciation/depreciation of the dollar have deflationary/inflationary effects on nominal flows. Giordano (2015) describes the methodology for isolating this effect.

⁴ The contribution of variations in energy prices to the nominal dynamics of global and LAC trade is discussed more extensively in Giordano (2018).

⁵ According to the index estimated by the IMF (2019b). See Chapter 2 for a detailed analysis of the evolution of the prices that impact LAC trade flows.

⁶ This indicator is the average of Brent Blend, WTI, and Dubai crude. The average prices of natural gas and coal, which are relatively less important for global trade but are relevant for LAC, also plummeted by 13.9% and 17.8%, respectively, in the first half of 2019 (World Bank, 2019). See Chapter 2 for a more detailed analysis of the performances of the oil and other commodities markets and their impact on LAC.

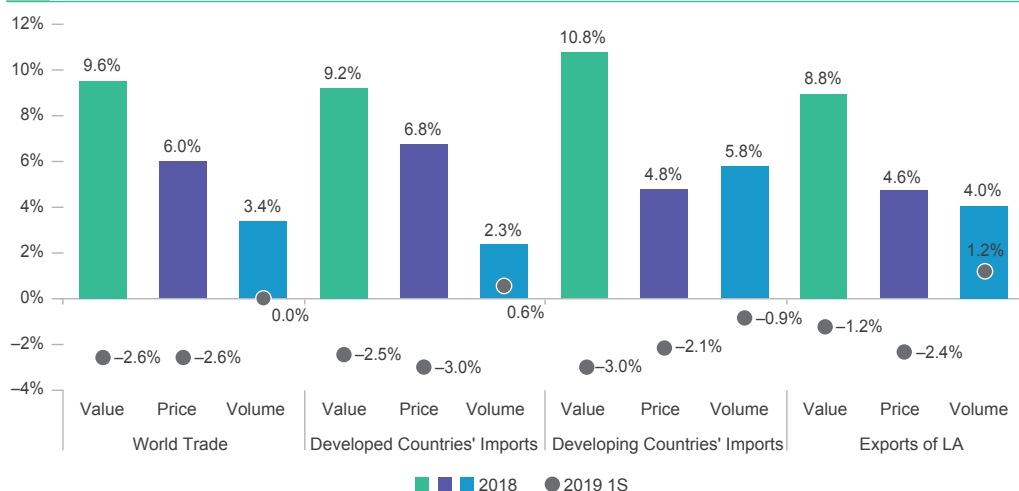
in commodity prices had a decisive influence on the incipient resurfacing of deflationary pressures in global trade, particularly on LAC export flows.

Global trade volumes have stagnated.

In real terms, the distinctive factor impacting current trends is the paralysis in global trade volumes. Between October and December 2018, there was a sudden 2.8% drop in trade flows, which had not occurred since the Great Recession of 2008-2009, although on that occasion the collapse was much more intense. Nevertheless, since the beginning of the post-crisis period in 2010, real global trade flows had not entered such a long period of stagnation as the one that started in the first half of 2019. This is noteworthy even in the context of the lackluster “new normal” of global trade, characterized by real annual average increases of around 4% between 2010 and 2018.⁷

In the first half of 2019, the changing dynamics of the components of the value of global trade reflect this shift in trend in comparison with the expansion observed in 2018 (Figure 3). The breakdown reveals that the sign of practically every indicator changed in comparison with the previous year. The prices of global trade dropped at

FIGURE 3 • VOLUMES AND PRICES OF WORLD TRADE IN GOODS
(Year-on-year growth rate, percentage, 2018 and January-June 2019)



Source: IDB Integration and Trade Sector with data from the CPB and own estimations.

Note: The histograms correspond to the growth rate for 2018, which is indicated in the upper part, while the circles correspond to the year-on-year rate for January-June 2019. The value of global trade is calculated as the average of global imports and exports. LA exports are own estimations and do not include the Caribbean (see Methodological Annexes 1 and 2).

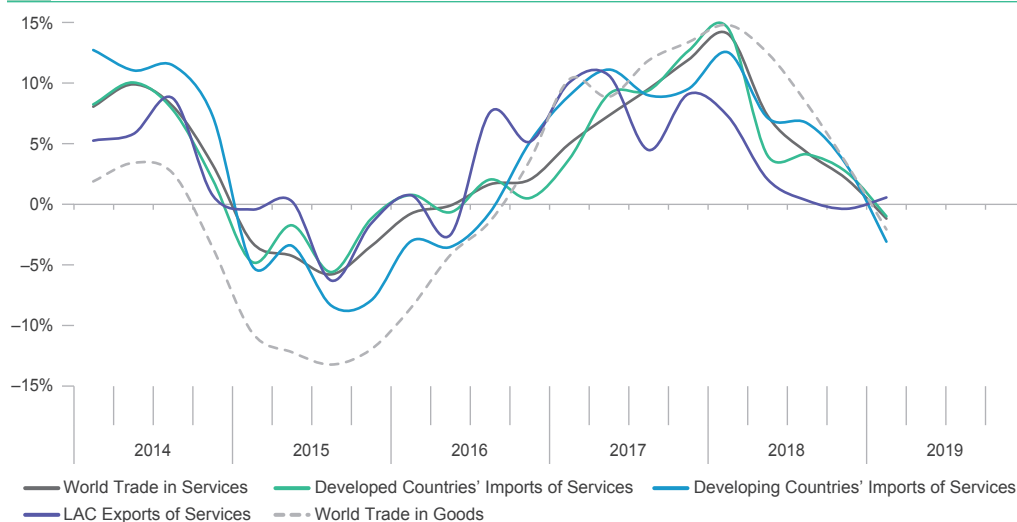
⁷ To contrast this with the new normal, see Giordano (2016). In this regard, it should be noted that during the expansion of globalization that preceded the Great Recession (2000-2008), the annual average growth in global trade volumes was close to 8%.

The trend toward contraction intensified during 2019.

a rate of 2.6%, in stark contrast with the 6.0% growth recorded in 2018. There was also a deterioration in real indicators, which brought the estimated growth rate for global trade volume to 0.0%.⁸ The difference between the growth in the volume imported by developing countries in 2018 (5.8%) and the decline in the first half of 2019 (-0.9%) was particularly significant and was compounded by the stagnation in developed countries (0.6%). Given these circumstances, LAC's performance stands out as relatively positive. Volumes of trade continued to grow, although they did so at a lower rate than in 2018 (4.0%), and the 1.2% drop in the value of exports was mainly driven by the contraction in prices (-2.4%).

The value of global trade in services grew by 6.9% in 2018, in comparison with 8.4% the previous year (Figure 4). For both services and goods, the year-on-year growth rate reached its highest point in the first quarter of 2018 (14.1% and 14.9%, respectively),

FIGURE 4 • TRENDS IN THE VALUE OF WORLD TRADE IN SERVICES
(Year-on-year growth rate, percentage, 2014-2019)



Source: IDB Integration and Trade Sector with data from the IMF, WTO, and national sources.

Note: The value of global trade is the average of global imports and exports. It includes the services account components of the balance of payments, except construction services, government services, and manufacturing, maintenance, and goods repair services. The data for the first quarter of 2019 are preliminary estimations based on a sample of countries.

⁸ Although its calculations differ slightly to those of the CPB, the World Trade Organization (WTO, 2019a) estimated growth of 0.6% in the seasonally adjusted quarterly series for global trade volume in comparison with the same period in 2018. However, the CPB data for the first seven months of the year already point to a 0.2% contraction in global trade volumes year-on-year.

Services
exports
weakened
in step with
goods exports.

after which it decelerated rapidly. In the fourth quarter of 2018, global trade in services grew just 2.0% year-on-year. During that year, imports from developed and developing countries weakened following a similar pattern. Against this backdrop, LAC service exports grew by just 2.4% in 2018, slowing from 7.2% the previous year and remaining well below the global total. However, the preliminary estimates for the first quarter of 2019 point to a slight expansion in regional exports (0.4%), which contrasts with the drop in global trade in services (-1.4%). This global contraction differs from that of 2015, when sales of services were more resilient than those of goods.

The Downturn in Demand

The global trading relapse has coincided with a gradual cooling of the pace of activity in the major economies. In the first part of 2019, the average GDP growth rate in the three largest developed economies (the U.S., the Eurozone, and Japan)⁹ was just 1.8%, which extends the poor performance of 2018, when GDP grew by just 1.7%, one percentage point (p.p.) less than the previous year. Within the aggregate result there are diverging performances of the Eurozone and Japan, on the one hand, and the U.S., on the other, although the latter experienced a significant slowdown in the second quarter. The weak, downward growth pattern in these three economies was compounded with a relative loss of momentum in the formerly dynamic developing countries. According to IMF figures, in 2018, the GDP of emerging economies grew by 4.5%, almost one p.p. below the 5.3% average achieved between 2010 and 2017.¹⁰ In this context, in the second quarter of 2019, China's GDP increased by 6.3%, 0.6 p.p. less than in 2018, representing the weakest expansion in 30 years. The aggregate LA-6 grew by just 0.5% in the first half of 2019. This figure is below the average 0.8% increase in GDP for 2018, which itself pointed to a marked downturn in comparison with the 2.2% of the previous year.

The pace
of global
economic
activity slowed,
particularly
in emerging
countries.

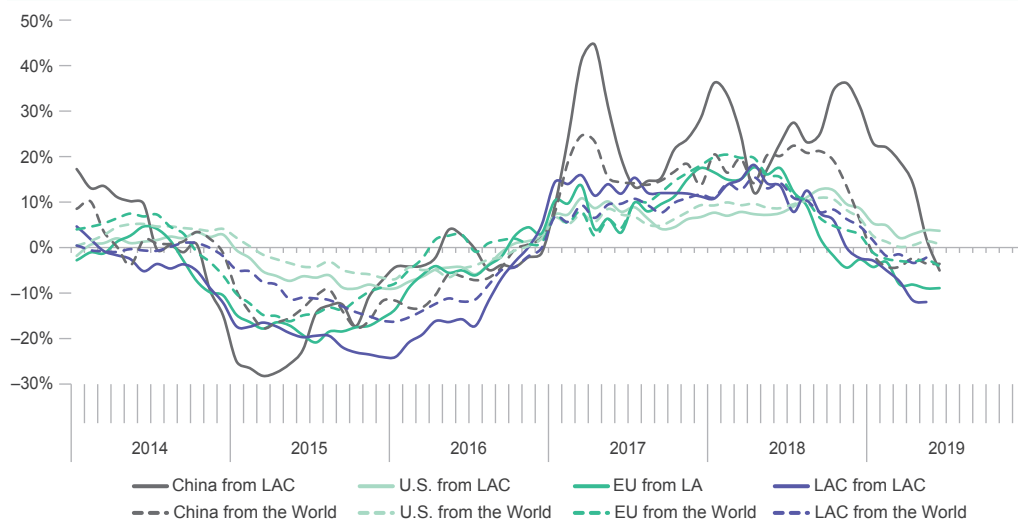
The change in the phase of the global growth cycle was reflected in the deterioration of imports from LAC (Figure 5). U.S. imports from the region, which grew

⁹ These three economies account for around 31% of global GDP.

¹⁰ See IMF (2019a and 2019c). In October, the IMF lowered its growth rate projections for emerging countries for 2019 and 2020, mainly due to the effects of trade tensions and episodes of financial instability in some countries. In the case of China, the economic slowdown is also part of a structural shift toward a growth model that centers less on investments and exports.

FIGURE 5 • TRENDS IN THE VALUE OF IMPORTS OF SELECTED ECONOMIES

(Quarterly moving average of the year-on-year growth rate, percentage, 2014-2019)



Source: IDB Integration and Trade Sector with data from the IMF, U.S. International Trade Commission (USITC), EuroStat, China Customs, and national sources.

Note: In the cases of China, the U.S., and LAC, the imports reported correspond to the aggregate for Latin America and the Caribbean, while for the EU they correspond only to Latin America.

Demand from the U.S. boosted LAC exports, while demand from China entered negative ground.

a solid 9.0% in 2018, slowed down sharply in the first half of 2019 (2.7% year-on-year), while total U.S. imports stagnated. In the case of China, in 2018, imports from LAC rose 25.0%, well above the total growth in total imports (15.8%). However, its longstanding role as the driving force behind regional trade faded in the first half of 2019, when the average growth rate fell to 5.1% year-on-year. Although this performance is better than that of China's total imports, which contracted by 4.1%, this trend is worrying, as after June LAC sales to China have been on negative ground, evidencing a drop that outstrips even the typical seasonal pattern.¹¹ EU imports from LAC and

LAC imports from within the region itself fell at a faster rate than imports from the rest of the world in the first half of 2019 (-8.8% and -8.4% versus -3.7% and -2.5%, respectively). This raises doubts about the region's trade prospects, given that LAC

¹¹ It is worth noting that if the exports recorded by LA national sources, as reported in Chapter 3, are considered instead of the imports from China, as reported in Figure 5, this deceleration is sharper and the cumulative year-on-year growth rate for the first half of 2019 is 0.1%. The discrepancy comes not only from the use of different sources, but also from the time lag between the recording of exporter and imports, which in the particular case of China can be as long as two months.

demand was mainly driven by the U.S., but at a slower pace, and was concentrated in just a few countries in the region, as is discussed below.

Looking ahead, the ongoing sources of tension that affected global trade since 2018 are having a significant impact on global growth expectations. Specifically, the current shifts in the global trade architecture are reflected in a sharp increase in uncertainty and a weakening of investment, which have led to drops in trade in capital goods, productive inputs and services, and to reductions in commodity prices. At the current juncture, this downturn in international trade is both the cause and consequence of low global growth.¹² The recovery of global and LAC trade flows is thus conditional on the diffusion of the sources of uncertainty. By mid-2019, indicators of trade operators' sentiments suggested lackluster prospects for the future, and more recent records still show no signs of an imminent change in trends (Box 1).

The future
outlook
remains
uncertain.

In sum, late 2018 brought a reversal in the expansive trade conditions that had been in place since 2016. The consequences of this reversal became fully evident over the course of 2019. The slower pace of activity in developed and emerging economies and the escalation of trade disputes led to a stagnation in trade volumes. This was compounded by downward pressure on some commodity prices, which reinforced the deterioration of the real determinants of international trade. Against this backdrop of unprecedented uncertainty, recessionary pressures on global trade have reciprocally fed into each other and pose risks to LAC's export performance. A detailed examination of the region's trade flows is presented in the following chapters.

¹² For a recent overview of the risks to global trade and growth, see IMF (2019a). For an empirical analysis of the relationship between the economic cycle, trade, and investment during the previous trade relapse that began in 2012, see IMF (2016).

BOX 1: HAS THE SLUMP IN GLOBAL TRADE BOTTOMED OUT?

Certain indicators of foreign trade transactions and of the perceptions of trade operators can provide insight regarding the future of the current slowdown in global trade volumes that began in late 2018.

The WTO Goods Trade Barometer,^a which combines several component indices of trade-related data into a single composite index, remained at 95.7 in June 2019, below the base value of 100, suggesting that the current downturn will continue. The WTO has recently published a similar indicator for trade in services, which stood at 98.4 in June, likewise pointing to a weakening in the coming months.^b

The Purchasing Managers' Index (PMI), an indicator of operators' perceptions and expectations, has been below the neutral value of 50 since May 2019, which also points to a downturn. However, in August, the index rallied slightly (49.5) in comparison with the previous month (49.3), when it reached its lowest point since October 2012.^c The downward trend has been particularly notable in the Eurozone since February 2019, and future prospects remain uncertain. In Germany, where the indicator for August (43.5) approached an all-time low point, the drop slowed down, while in France it grew in comparison with the previous month and entered positive ground (51.1). Although the indices for the U.S. and China are positive (50.3 and 50.4, respectively), they are approaching their lowest points, and alternative indicators already point to a deterioration in the outlook.^d

The subindex for new export contracts is particularly significant for international trade. The value of the indicator at the global level has been below 50 since September 2018 and shrank to 47.5 in August 2019, accelerating the downturn in comparison with previous months. In July 2019, new export contracts fell in all key countries simultaneously for the first time since February 2009.

According to the PMI, the automotive and metals and mining sectors are the most affected, with indices just over 46 in August. Expectations of recession in the automotive sector are particularly notable in Germany, where operators fear a downturn in global demand for cars and machinery. Low expectations of trade growth in these sectors could have deflationary consequences for commodities, which play a significant part in LAC's export basket.

All these data show that business perception surveys are at their lowest level since July 2012, when the last trade relapse began. Moreover, in a context of economic slowdown, rising global trade tensions, and a lack of clarity over the United Kingdom's exit from the European Union (Brexit), geopolitical and economic uncertainty are being increasingly seen as major obstacles to international business. According to the World Trade Uncertainty Index^e (WTUI),

^a The WTO Goods Trade Barometer has replaced the World Trade Outlook Indicator (WTOI) since June 2019. See WTO (2019b).

^b The WTO Services Trade Barometer comprises the following subindices: global services PMI (IHS Markit); financial transactions (SWIFT); information, computing, and telecommunication (ICT) services production data from China, the EU, and the U.S.; revenue passenger kilometers (IATA); container throughput in major ports (RWI/ISL); and construction activity in the five largest world economies. See WTO (2019c).

^c Index compiled by JP Morgan and IHS Markit in partnership with the Institute for Supply Management (ISM) and the International Federation of Purchasing and Supply Management (IFPSM).

^d The indices for the U.S. and the Eurozone were compiled by IHS Markit; the index for China is the Caixin China General Manufacturing Index. The IHS Markit manufacturing PMI for the U.S. reached its lowest level since September 2009. Other indicators also entered negative ground, such as the ISM's U.S. index (49.1 in August in comparison with 51.2 the previous month), as did the National Bureau of Statistics of China's manufacturing PMI, which dropped in August to 49.5 from 49.7 in July.

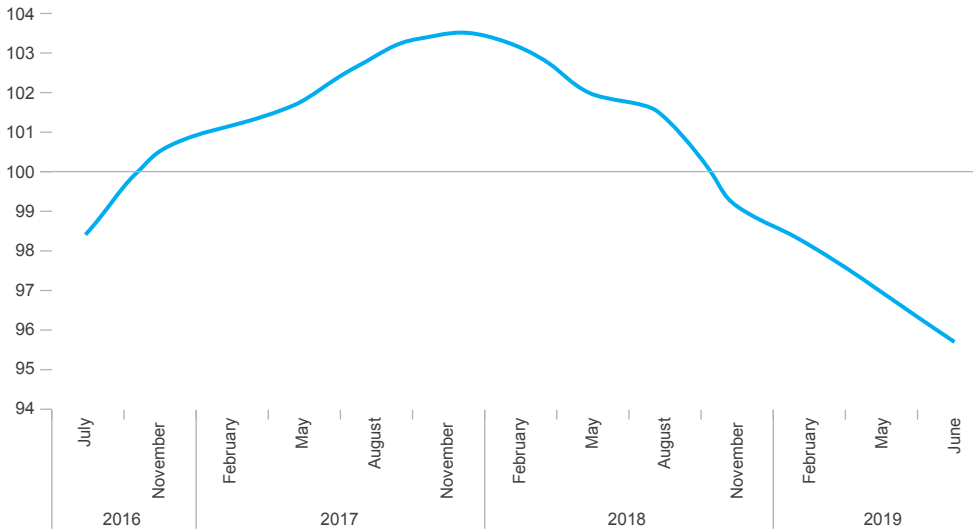
^e This indicator is based on Ahir *et al.* (2018) global uncertainty index and covers 143 countries, measuring the number of mentions of the word "uncertainty" associated with international trade in the Economist Intelligence Unit's country reports.

(continued on next page)

BOX 1: HAS THE SLUMP IN GLOBAL TRADE BOTTOMED OUT? *(continued)*

WTO GOODS TRADE BAROMETER

(Index, July 2016–June 2019)

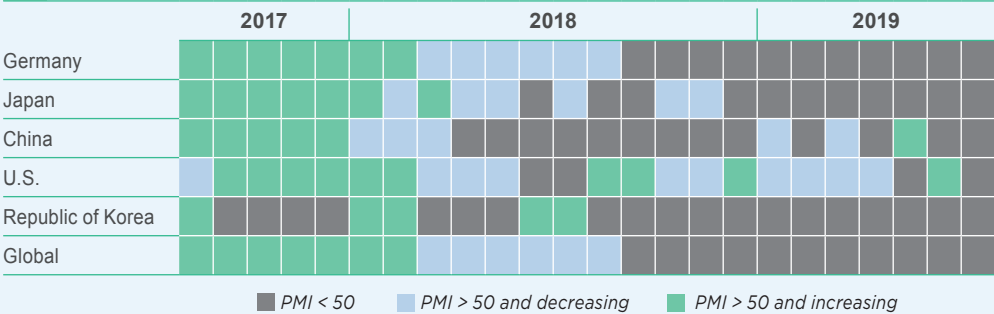


Source: IDB Integration and Trade Sector with data from the WTO.

Note: The index and its components measure the deviation in the medium-term trend, which is standardized at 100.

NEW EXPORT CONTRACTS

(PMI manufacturing subindex, global and selected countries, August 2017–July 2019)



Source: IATA, Markit, and Thomson Reuters Datastream.

trade-related concerns have risen dramatically since the third quarter of 2018, and the value of the index increased tenfold in the first quarter of 2019. This tendency has shifted with the various announcements relating to trade between the U.S. and China and the introduction of tariffs, and the index dropped significantly after progress in negotiations was announced. On balance, it reveals how much trade conflict influences operators' expectations.

Trend Reversal in the Region

2

The export recovery that Latin America and the Caribbean achieved in 2017–2018 was reversed in the first half of 2019. The contraction was largely caused by prices, which had driven the expansion during the previous period. Specifically, the change in the trend was largely determined by oil prices, in the broader context of weak overall performance in commodity markets. The region's export quantities continued to grow at the beginning of 2019 as global trade volumes stagnated, albeit at a significantly slower pace than in the previous year. It is unlikely that the trend will reverse in the coming months, and the current year is expected to end with a nominal contraction in exports for the first time since 2016.

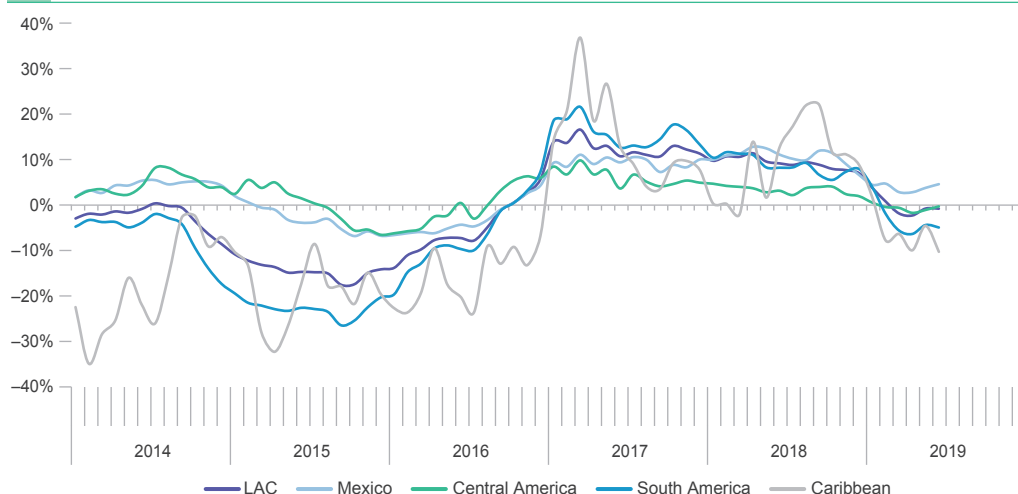
In the first half of 2019, the value of goods exports from Latin America and the Caribbean (LAC) fell by 1.3% in comparison with the same period in 2018, a reversal of the performance during 2017 and 2018, when they grew by 12.2% and 8.8%, respectively. The change in the trend was mainly due to a reduction in export prices (–2.4%) and a slowdown in quantities (1.2%), which contrasted with the previous year's performance, when the contribution of both variables was positive (4.6% and 4.0%, respectively).¹³ The widespread dynamism that characterized LAC exports in 2018 cooled over the course of the year before ultimately coming to a halt (Figure 6). The deterioration continued in the first half of 2019. Exports from the Caribbean and South America fell by 9.0% and 5.2% year-on-year, respectively, while exports from Mesoamerica slowed rapidly, growing by just 3.3%. Annual LAC exports stood at US\$ 1.07 trillion in 2018, which was still below the peak of 2012.

The region's
export
performance
deteriorated.

¹³ The breakdown into prices and volumes is based on export volume indices published by the official sources listed in Methodological Annex 2.

FIGURE 6 • TRENDS IN THE VALUE OF GOODS EXPORTS OF LATIN AMERICA AND THE CARIBBEAN

(Quarterly moving average of the year-on-year growth rate, percentage, 2014–2019)



Source: IDB Integration and Trade Sector with data from INTrade and official sources.

The Contraction in Prices

The prices of main export products dropped.

After the boost to the region's exports that followed the successive increases in commodity prices of 2017 (13.6%) and 2018 (13.1%), the overall commodity price index fell by 7.7% year-on-year in the first half of 2019 (Figure 7). The indicator excluding energy increased just 1.6% on average in 2018, which shows that the main price factor driving the region's external sales that year was oil. However, in the first half of 2019, the deterioration of these markets was widespread and average commodity prices, excluding energy, fell 3.0% year-on-year.¹⁴ At the same time, the dynamics of the oil market had a strong impact on the average prices of LAC exports.

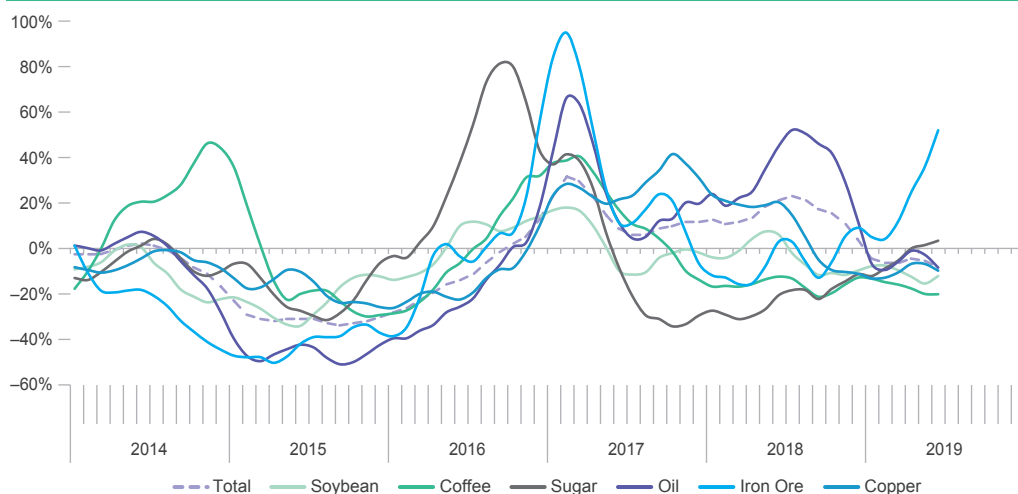
The 13.1% growth in commodity prices in 2018 was driven by oil, the price of which rose 29.2% on average during the year, while non-energy goods rose by only 1.6%. Up to the third quarter of 2018, the price of oil was held up by overimplementation of the supply restriction goals instigated by the Organization of Petroleum Exporting Countries (OPEC) and other producers, the announcement of U.S. sanctions on exports from Iran, and the

There was a marked correction in the price of oil.

¹⁴ The systemic factors that explain the weakening of prices are analyzed in detail in Chapter 1.

FIGURE 7 • PRICES OF MAIN EXPORT PRODUCTS OF LATIN AMERICA AND THE CARIBBEAN

(Quarterly moving average of the year-on-year growth rate, percentage, 2014-2019)



Source: IDB Integration and Trade Sector with data from Bloomberg, the IMF, and the World Bank.

Note: Product prices are from Bloomberg and the overall index is from the IMF.

ongoing fall in Venezuela's supply. However, following the significant rise in the supply of U.S. shale oil, increased production in an effort to secure global supply, and the implementation of exemptions to sanctions on Iran, a marked weakening of global demand revealed that the market was saturated, which caused prices to plummet by about 30% between October and December.¹⁵ Although in June 2019 the price of crude oil was 10.7% above the low point it reached in December, in the first half of the year it accumulated a year-on-year drop of 7.7%.¹⁶

The price trends for metals and minerals diverged and proved highly volatile due to specific factors that affected the two markets. The price of copper rose 4.4% on average in 2018, slowing down notably over the course of the year. Although the price of copper was initially driven by fiscal stimuli to demand in China (the main global importer of copper) and shortfalls in supply, it was later affected by the application of tariffs in China in the context of the trade dispute with the U.S. and weak global demand. As a result, in the first half of 2019, copper contracted by 10.6% in comparison with the same period

Metal and mineral markets were highly volatile.

¹⁵ Corresponds to the average of Brent Blend, WTI, and Dubai crude.

¹⁶ On September 14, 2019, attacks on oil-processing facilities in Saudi Arabia led to growing tensions, a reduction in production, and temporary price hikes, generating uncertainty as to the future trajectory of the market.

in 2018. The price of iron ore—which had fallen by 6.0% in 2018 against a backdrop of lower demand—recovered by 29.9% year-on-year in the first half of 2019. This increase was driven by events that prompted severe restrictions on supply from key iron ore producing countries, such as the collapse of the Brumadinho dam in Brazil and a tropical storm in Australia.

Agricultural products continued on a downward trend.

The prices of the main agricultural commodities followed a downward trend between 2018 and the first few months of 2019. The price of soy fell 4.5% in 2018 and 11.5% year-on-year in the first half of 2019, mainly as a result of restrictions on U.S.–China trade. This was compounded by swine fever in China and the consequent decline in the demand for soybean meal used in pig feed. The international price of coffee fell 16.3% on average during 2018 and 18.4% year-on-year in January–June 2019, due to record production levels and the subsequent increase in global stocks. The price of sugar declined for the second consecutive year in 2018, when it fell by 22.6%, but began to stabilize in the first part of 2019 due to lower supply from the main global producers. Brazil used most of its harvest for ethanol production, while India was affected by a drought that reduced production. This was reflected in a modest price decrease of 1.7% in January–June 2019 in comparison with the previous year.

As a result, LA's terms of trade deteriorated slightly in 2018 (–0.2%) due to 4.6% and 4.9% increases in the price of exports and imports, respectively. The contraction intensified in the first half of 2019, which saw a 1.8% fall in comparison with the same period in 2018 (Figure 8).¹⁷ This decline brought an end to the terms of trade improvements that had begun in 2016. From a long-term perspective, the annual index in 2018 was barely 1.9% higher than in 2004. The downward trajectory that began in the first half of 2019 might thus bring the indicator to a level close to the one observed when the commodity price boom cycle began.

Improvements to the terms of trade were reversed.

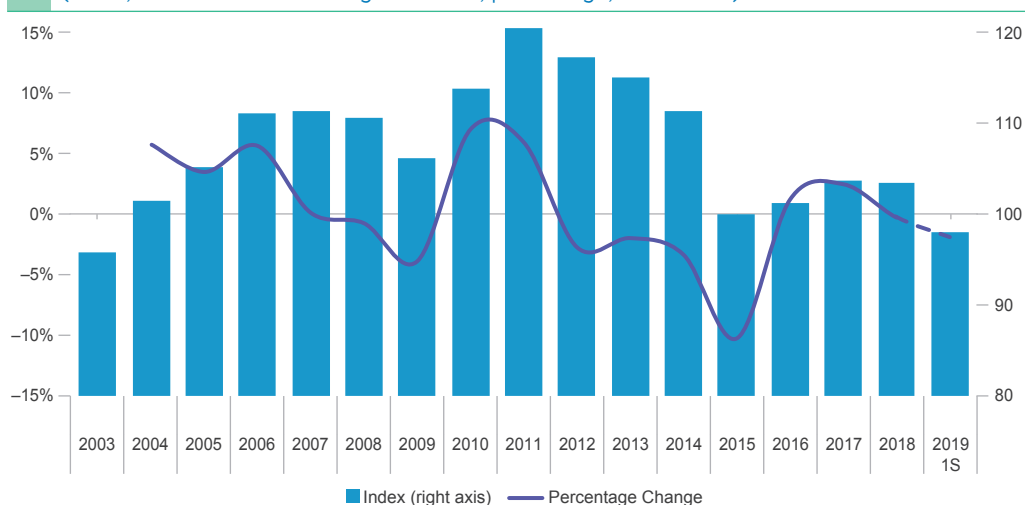
Fuel prices drove the change in trend.

The good performance of fuel- and energy-exporting countries, which recorded an increase in the index of 21.7% in 2018, determined that the net change to the terms of trade for LAC was only slightly negative. An estimate of the index excluding this group reveals a fall of 1.3% in 2018, which underscores the extraordinary impact that the oil price cycle had on LAC that year. Likewise, the record for the first half of 2019 shows how severe and widespread the deterioration in the terms of trade

¹⁷ According to a sample of 10 Latin American countries, which account for 93% of 2018 exports.

FIGURE 8 • TERMS OF TRADE IN LATIN AMERICA

(Index, 2015=100 and annual growth rate, percentage, 2003-2019)



Source: IDB Integration and Trade Sector with data from INTrade, BLS, and national sources.

Note: The countries included are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The figure for the first half of 2019 is an estimate (see Methodological Annex 2).

has been throughout the region and reveals that deflationary pressures continue to affect several markets beyond oil.

The Slowdown in Volumes

The contraction of commodity prices, which were a determining factor in the year-on-year drop in the region's external sales, went hand-in-hand with a marked slowdown in the rate of growth of export volumes, which fell from 4.0% in 2018 to 1.2% year-on-year in the January-June 2019 period (Figure 9).¹⁸ Although the variation in the quantities exported by LAC as a whole was positive and higher than that of world trade, the regional figure conceals very different behavior from one country and subregion to another.

The slight expansion of real exports in the first half of 2019 owed largely to Mexico's performance (4.5%), as estimates for Central America, Brazil, and the rest of South America suggest that volumes stagnated (0.4%, 0.2%, and 0.6%, respectively).

The drop in prices was compounded by the slowdown in volumes.

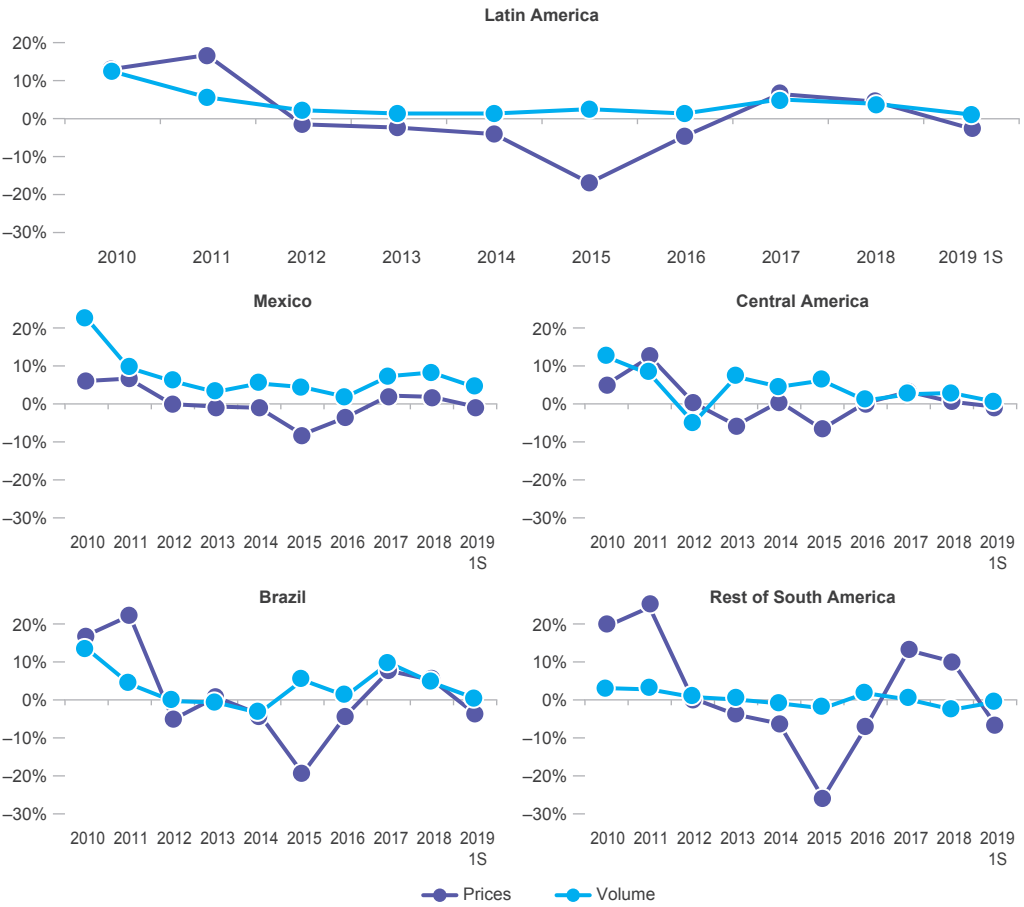
¹⁸ According to a sample of 10 Latin American countries, which account for 93% of 2018 exports, as is explained in detail in Methodological Annex 2.

Mexico explained the increase in the volume of the region's exports.

Also noteworthy is the marked slowdown in the growth rate of the quantities exported by Mexico and Brazil in comparison to the average for 2018, when they had increased by 8.2% and 4.4%, respectively.

In the rest of South America, the variation in real exports remained on negative ground (-0.6%) in the first half of 2019, after a sharp 2.6% contraction in 2018. This is the result of heterogeneous behaviors among different countries. On the one hand, the volumes exported by Argentina, Uruguay, and Colombia recovered after the negative performance of the previous year. The drought that reduced agricultural production and exports in Argentina and Brazil in 2018 ended,

FIGURE 9 • PRICES AND VOLUMES OF LATIN AMERICAN EXPORTS
(Year-on-year growth rate, percentage, 2010-2019)



Source: IDB Integration and Trade Sector with data from INTrade, BLS, and OPEC.
Note: The base year for the corresponding indices is 2015. Methodological Annex 2 details the estimation procedures for the series at constant prices.

The rest of South America remained on negative ground.

while oil production and exports increased in Colombia. Exports from Paraguay and Venezuela contracted notably as a consequence of decreases in energy and fuel exports, respectively. Export quantities also fell in Chile and Peru, although at a slower pace, due to lower sales of iron and copper in the former and of gold, zinc, and oil and oil derivatives in the latter.

On balance, the slowing of the rate of growth of LAC's real exports from 4.0% to 1.2% between 2018 and the first half of 2019 owed mainly to Mexico's and Brazil's contributions, which went from 3.6 p.p. and 1.0 p.p. to 1.5 p.p. and 0 p.p., respectively. The contribution of the rest of the region remained largely unchanged and was on negative ground in both periods (-0.6 p.p. and -0.4 p.p.).

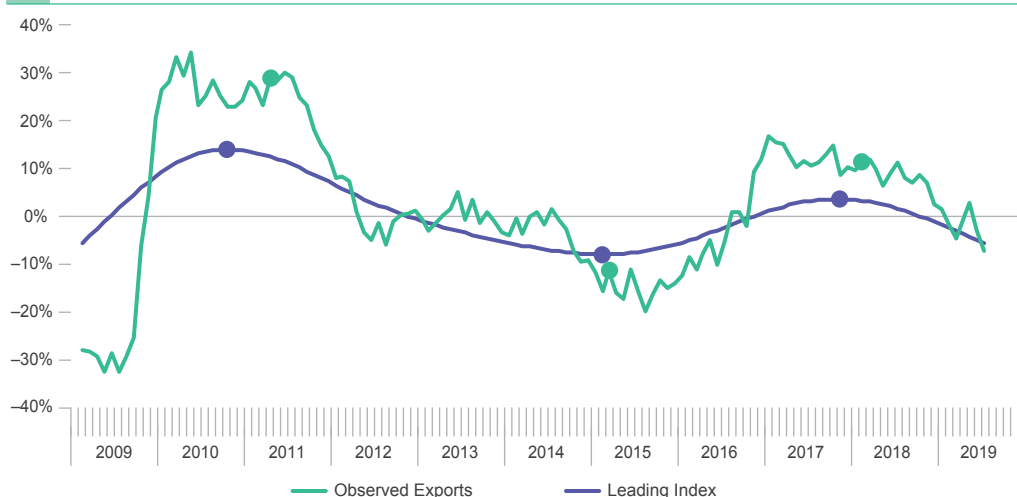
On balance, the momentum of Mexico and Brazil weakened.

Persisting Downside Risks

The fall in the value of exports that was observed in the first half of 2019 is part of a medium-term trend toward contraction. The turning points in this trend can

FIGURE 10 • CHANGES IN THE TREND IN THE VALUE OF GOODS EXPORTS OF LATIN AMERICA AND THE CARIBBEAN

(Year-on-year growth rate, 2009–2019)



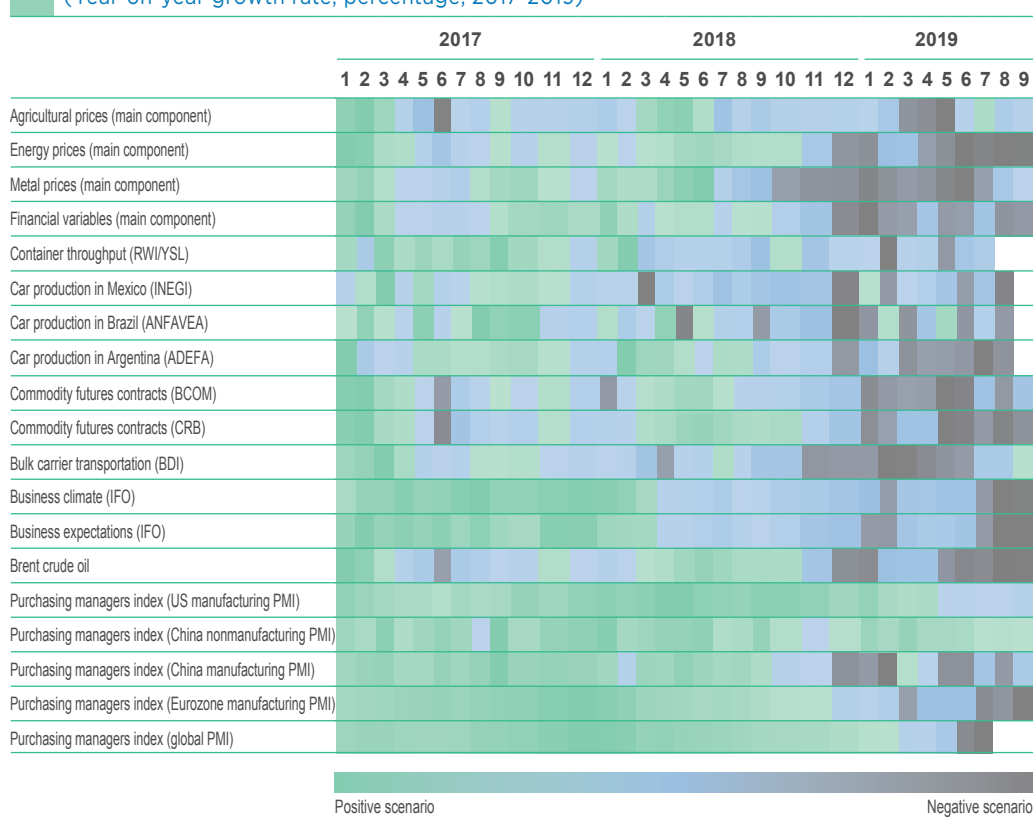
Source: IDB Integration and Trade Sector and own estimations.

Note: The leading index series only reports the trend after applying the Hodrick-Prescott filter. The circles indicate the turning points in the trend for the index series and the observed value of LAC exports.

There are no signs of a change in trend for the rest of 2019.

be identified using a leading index (Figure 10).¹⁹ Based on high-frequency information from variables that are correlated with export flows, the indicator allows analysts to anticipate a transition from a peak to a contraction trend or from a low point to an expansion path. According to the latest estimate, since April 2018 the indicator is predicting that the downward trend in goods exports will continue, and it does not point to a turning point coming in the three months after the last observation, that is, up to October 2019.²⁰

FIGURE 11 • EVOLUTION OF THE COMPONENTS OF THE LEADING INDEX OF EXPORTS OF LATIN AMERICA AND THE CARIBBEAN
(Year-on-year growth rate, percentage, 2017–2019)



Source: IDB Integration and Trade Sector and own estimations.

Note: The colors correspond to the year-on-year growth rate for each index used as a component of the leading index, except in the case of the PMIs, which reflects how levels compare to the critical threshold of 50. White areas correspond to values that are not available. See Methodological Annex 3 for a description of the variables.

¹⁹ For a detailed description of the indicator, data, and estimation methodology, see Methodological Annex 3.

²⁰ The timeframe for the validity of the prediction is the average lead of the index with respect to the variation observed in export data since 2009.

The prediction is driven by the simultaneous deterioration of all indicators.

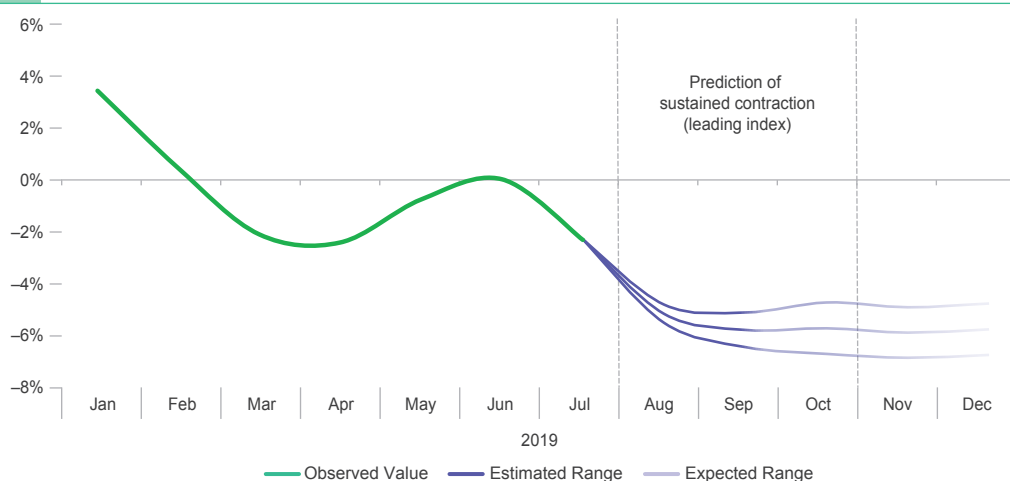
The downward trend in the growth rate of exports is in line with the deterioration of all subindices that are highly correlated with LAC goods exports over the course of 2019 and which are used as components of the indicator (Figure 11). The most notable drops are those related to vehicle production, commodity prices, business climate, and purchasing managers' expectations.

On this basis, using an instant prediction methodology known as “nowcasting”, a probable range for the export growth rate can be estimated under different scenarios (Figure 12). In the central scenario, the estimated growth rate for September 2019 would be -4.8%, and it would range from -5.8% to -3.9% in the more pessimistic and optimistic scenarios, respectively. Although the model predicts an inflection in the growth rate of exports as of September—that is, it predicts that the contraction will abate—the leading index allows to anticipate that an improvement large enough to change the trend is unlikely. In other words, the index does not anticipate a sustained transition toward positive growth rates, at least until early November. Exports from the region are therefore expected to contract by the end of the year for the first time since 2016.

The year is expected to come to a close with a nominal contraction in exports for the first time since 2016.

FIGURE 12 • ESTIMATION OF THE VARIATION IN THE VALUE OF EXPORTS OF LATIN AMERICA AND THE CARIBBEAN

(Quarterly moving average of the year-on-year growth rate, percentage, 2019)



Source: IDB Integration and Trade Sector and own estimations.

Note: The prediction that the contraction will continue is based on the leading index. The estimated range of the growth rate is based on the nowcasting model. The expected range is based on the assumption that there will be no extraordinary boosts to export growth.

In sum, 2019 brought an end to the two-year expansion phase of LAC exports. This change was largely determined by a drop in prices, as well as by a slowdown in volumes. The outlook points to a continuation of this trend and to a contraction in export values over the remainder of the year. While the aggregate figure for LAC is in line with the worsening of the global outlook, there are significant differences by country, which are analyzed in Chapter 3.

Trade Performance by Country

3

The decline in the region's export performance in the first half of 2019 took place in all subregions. However, the contraction in the prices of commodities and the decoupling of growth patterns in major trade partners had varied effects on countries in the region. The exports most heavily affected were those of the Caribbean and South America, which shrank significantly, while Central American exports were stable and those of Mexico slowed markedly. Imports also began to contract, and the change was more dramatic than in the case of exports. Services exports also recorded a general decline, which actually preceded the fall in trade in goods.

The Contraction of Goods Exports

The deterioration in LAC's export performance in the first half of 2019 was experienced in all subregions. The largest fall was recorded in the Caribbean and South America, due to the importance of commodities in their export baskets and given the fact that the greatest impact came from prices. The value of these subregions' exports contracted by a cumulative 9.0% and 5.2% year-on-year between January and June 2019 (Table 1), compared with growth of 8.0% and 8.3% in 2018, respectively. In Central America, there was a sharp slowdown, reflecting the stagnation of exports in the region (-0.4%) in the first half of 2019, after a rise of 3.3% in 2018, while in Mexico they rose by 3.7%, at a significantly slower rate than the previous year (10.1%). With respect to individual countries, except in the cases of Barbados, Belize, Guyana, Haiti, Suriname, and Uruguay, export performance worsened in all countries in the first half of 2019 compared to the average for 2018.

The decline in exports was widespread.

The export performance in the first half of 2019 when compared to 2018 primarily reflects a sharp slowdown in exports to the U.S. (from 8.4% to 3.1%) and to

TABLE 1 • GOODS EXPORTS OF LATIN AMERICA AND THE CARIBBEAN

(Annual growth rate and billions of US\$, selected periods)

| | US\$ Billions | | | Growth Rates (%) | | | Cum. June 2019 |
|--|---------------|--------------|---------------|------------------|-------------|------------|----------------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | |
| LATIN AMERICA AND THE CARIBBEAN | 873.9 | 980.4 | 1066.7 | -3.3 | 12.2 | 8.8 | -1.3 |
| LATIN AMERICA | 859.6 | 964.1 | 1049.0 | -3.1 | 12.2 | 8.8 | -1.2 |
| MESOAMERICA | 421.9 | 460.0 | 503.0 | -1.5 | 9.1 | 9.3 | 3.2 |
| Mexico | 373.9 | 409.4 | 450.7 | -1.7 | 9.5 | 10.1 | 3.7 |
| Central America | 47.9 | 50.6 | 52.3 | 0.8 | 5.7 | 3.3 | -0.4 |
| Costa Rica | 9.9 | 10.6 | 11.3 | 7.8 | 7.0 | 6.1 | 0.9 |
| Dominican Republic | 8.7 | 8.8 | 9.5 | 5.0 | 1.0 | 7.3 | 3.4 |
| El Salvador | 5.4 | 5.8 | 5.9 | -1.2 | 6.3 | 2.5 | -0.4 |
| Guatemala | 10.4 | 11.0 | 11.0 | -2.1 | 5.1 | -0.1 | -0.3 |
| Honduras | 7.9 | 8.6 | 8.6 | -2.4 | 8.7 | 0.2 | -3.5 |
| Nicaragua | 4.8 | 5.2 | 5.4 | -4.3 | 7.2 | 3.9 | -6.2 |
| Panama | 0.6 | 0.7 | 0.7 | -8.5 | 3.8 | 1.9 | -6.9 |
| SOUTH AMERICA | 437.7 | 504.0 | 546.1 | -4.5 | 15.1 | 8.3 | -5.2 |
| Argentina | 57.9 | 58.6 | 61.6 | 1.9 | 1.3 | 5.1 | 2.4 |
| Bolivia | 7.1 | 8.2 | 9.0 | -18.8 | 15.5 | 9.5 | -8.1 |
| Brazil | 185.2 | 217.7 | 239.3 | -3.1 | 17.5 | 9.9 | -3.5 |
| Chile | 60.7 | 68.9 | 75.5 | -2.3 | 13.4 | 9.6 | -5.9 |
| Colombia | 31.8 | 38.0 | 41.9 | -11.7 | 19.7 | 10.2 | -1.5 |
| Ecuador | 16.8 | 19.1 | 21.6 | -8.4 | 13.8 | 13.0 | 3.7 |
| Paraguay | 8.5 | 8.7 | 9.0 | 2.1 | 2.1 | 4.2 | -16.5 |
| Peru | 36.2 | 45.4 | 49.1 | 7.7 | 25.3 | 8.0 | -8.1 |
| Uruguay | 7.0 | 7.9 | 7.5 | -8.9 | 12.7 | -5.0 | -0.6 |
| Venezuela | 26.5 | 31.5 | 31.6 | -25.9 | 18.9 | 0.5 | -33.5 |
| CARIBBEAN | 14.3 | 16.3 | 17.7 | -16.4 | 14.5 | 8.0 | -9.0 |
| Bahamas | 0.5 | 0.5 | 0.5 | -8.5 | -0.6 | 10.8 | 10.6 |
| Barbados | 0.3 | 0.3 | 0.3 | -48.2 | 1.2 | 0.1 | 6.8 |
| Belize | 0.2 | 0.2 | 0.2 | -24.9 | 10.8 | -10.5 | -8.8 |
| Guyana | 1.4 | 1.4 | 1.4 | 25.3 | 0.5 | -4.4 | 5.5 |
| Haiti | 1.0 | 1.0 | 1.1 | -4.5 | 5.0 | 7.3 | 10.6 |
| Jamaica | 1.2 | 1.3 | 1.8 | -0.5 | 6.9 | 42.8 | 6.3 |
| Suriname | 1.4 | 2.0 | 2.1 | -12.6 | 41.0 | 4.6 | 5.0 |
| Trinidad and Tobago | 8.3 | 9.6 | 10.3 | -22.9 | 15.9 | 6.5 | -19.8 |

Source: IDB Integration and Trade Sector with data from INTrade and national sources.

Note: n.a.: data not available. Methodological Annex 4 details the geographical and temporal coverage of goods exports.

The positive impact of U.S. demand was concentrated primarily in Mexico and Brazil.

China (from 26.3% to 0.1%).²¹ Moreover, in neither of these two cases is there evidence of a significant trade diversion toward the region as a result of the bilateral trade conflict (Box 2). Despite weakening demand, the U.S. became the main driver of the region's trade. However, this effect was concentrated in Mexico and Brazil. At the same time, the stagnation of sales to China primarily affected the exports of South American economies, where the marked contraction in exports from Bolivia, Chile, Paraguay, Peru, and Venezuela was barely offset by other

BOX 2: TRADE RESTRICTIONS AND TRADE DIVERSION TO LATIN AMERICA

In the first half of 2019, U.S. imports from LAC rose by 2.7% compared to the same period in 2018, growing more than total purchases from the rest of the world (0.3%). This increase was driven primarily by imports from Mexico (6.3%), according to USITC data. At the same time, imports from China fell by an average of 12.4%. Analysis of the origin of imports in tariff subheadings affected by reciprocal trade measures between these two economies make it possible to quantify, on a preliminary basis, the presence of trade diversion effects in favor of LAC.

United States Imports

The value of products imported by the U.S. affected by tariff measures fell by US\$3.2 billion in the first half of 2019. While the value of imports of goods originating in China fell by US\$31.7 billion, the value of those from the rest of the world rose by US\$28.5 billion. At the same time, purchases of products from LAC grew by US\$7 billion, with Mexico accounting for an increase of US\$8 billion and Chile for a fall of around US\$0.9 billion.

China lost share in some tariff items affected by the trade conflict, leaving a gap that other trade partners made the most of. LAC, particularly Mexico, increased its share only in some cases. In particular, in U.S. imports of goods in HS chapters 84, 87, and 90 increased, China lost share, and Mexico gained part of this share. The diversion was primarily recorded in subheadings 870322 and 870324 (vehicles for the transport of people), 847150 (digital processing units), and various subheadings of chapter 90 (such as medical instruments, measuring devices, and parts thereof).^a Trade diversion in favor of the rest of the world appears to be greater in chapter 84 than in chapter 87. However, Mexico appears to capture a greater proportion of the market increase in chapter 87 than in chapter 84.

^a It should be noted that other factors may have influenced the dynamics of exports from these sectors in Mexico to the U.S.. In particular, the renegotiation of the North American Free Trade Agreement, which began in May 2017, was concluded in August 2018. The agreement, between the U.S., Mexico, and Canada (USMCA), was approved by the Mexican Senate in June 2019 and is pending ratification in the U.S. and Canada.

(continued on next page)

²¹ See footnote 11, which clarifies the differences between the export statistics of the region's countries and the import statistics of trade partners reported in Chapter 1.

BOX 2: TRADE RESTRICTIONS AND TRADE DIVERSION TO LATIN AMERICA*(continued)***UNITED STATES IMPORTS AFFECTED BY TRADE RESTRICTIONS***(Variation in billions of US\$, first half of 2019 in comparison with first half of 2018)*

| | | Total | China | Rest of the World | LAC | Mexico |
|----------------------|--|-------|-------|-------------------|------|--------|
| Total | | 3.4 | -31.0 | 34.3 | 6.5 | 10.6 |
| Affected by measures | | 3.2 | -31.7 | 28.5 | 7.0 | 8.0 |
| Chapter | Summary | | | | | |
| 85 | Electrical machinery and equipment and parts thereof | 6.8 | -11.0 | 4.2 | 0.0 | 0.0 |
| 84 | Nuclear reactors, boilers, machinery and mechanical appliances, and parts thereof | 2.0 | -10.3 | 12.4 | 1.6 | 1.3 |
| 87 | Land vehicles and parts thereof | 4.7 | -1.1 | 5.8 | 5.5 | 5.5 |
| 42 | Leather manufactures | 0.2 | -0.8 | 0.6 | 0.0 | 0.0 |
| 90 | Optical, measuring, checking, precision, medical or surgical instruments and parts thereof | 1.7 | -0.8 | 2.5 | 0.9 | 0.7 |
| Other | | 4.6 | -7.7 | 3.1 | -0.9 | 0.5 |

Source: IDB Integration and Trade Sector with USITC data.

Note: The table summarizes the main chapters of the Harmonized System with the most significant trade diversion impacts.

In conclusion, with respect to imports from the U.S. affected by trade restrictions, although changes consistent with trade diversion effects can be detected, their impact was not significant for LAC. Although Mexico represents the majority of the share gained by the region, its contribution was not decisive for its overall trade performance, in contrast with the situation observed in some Asian countries, such as Vietnam or Bangladesh, which benefitted from this effect in sectors such as electronics or textiles, respectively.^b

Chinese Imports

In the same way, it is possible to analyze whether the trade measures imposed on the U.S. by China had an impact on LAC. According to data from the Chinese Customs Office, in the first half of 2019, total Chinese imports declined by 4.1% year-on-year. While imports from the U.S. fell by 29.9%, those from LAC rose by 5.1%, primarily driven by Brazil, Argentina, and Mexico. China implemented tariff measures that affected a significant set of subheadings. However, due to the lack of data, the analysis focuses exclusively on the 25% tariff imposed by China on soybean of U.S. origin in July 2018.

The immediate impact was a drop in the international soybean price and an increase in the price differential between South American markets and the Chicago market.^c Following the im-

^b See Asian Development Bank (2019) for an analysis of some Asian cases.

^c Giordano (2018) analyzes the early impact of trade restrictions on the evolution of prices.

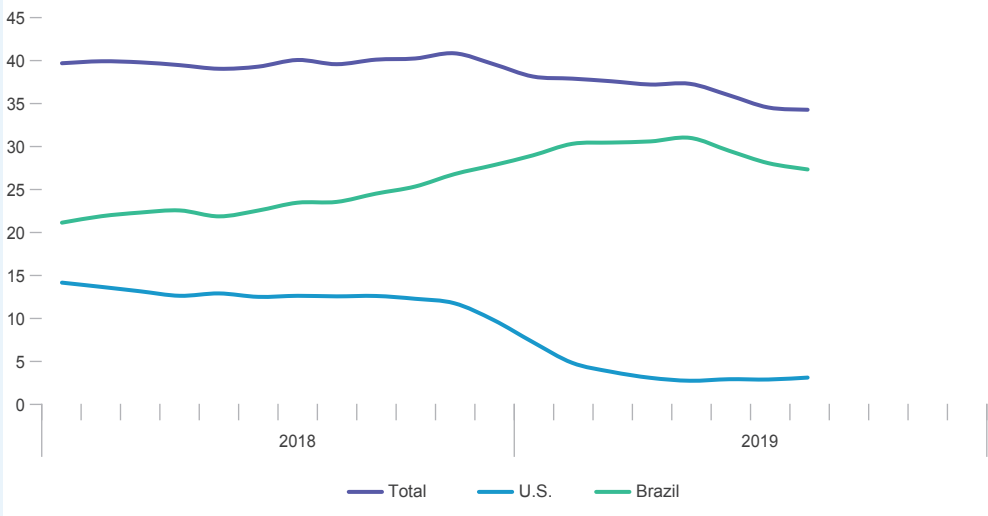
(continued on next page)

BOX 2: TRADE RESTRICTIONS AND TRADE DIVERSION TO LATIN AMERICA

(continued)

SOY IMPORTS OF CHINA FROM THE WORLD, UNITED STATES AND BRAZIL

(Billions of US\$, 12-month moving total)



Source: IDB Integration and Trade Sector with data from the General Customs Administration of the People's Republic of China.

position of the tariff, China reduced its purchases of soybean (subheading 120190) of U.S. origin and increased purchases from Brazil (see Figure). In 2017, China imported US\$39.6 billion of this product, of which the U.S. supplied 35% and Brazil 53%. By the same token, in the first half of 2018, China imported US\$19.3 billion of soybean, of which 35% was of U.S. origin and 62% from Brazil. By contrast, during the first half of 2019, China only imported US\$15.6 billion, due to the fall in price and the outbreak of African swine fever, which reduced the volume of soy required as pig feed. Of this, the U.S. only supplied 15% while Brazil supplied 71%. As a result, in this case there is evidence that Brazil benefited from the trade diversion generated by the tariffs imposed on the U.S.. However, the effect occurred in the context of a major fall in the value of Chinese demand, and this limited its scale.

In summary, the trade conflict between the U.S. and China generated a trade diversion and as a consequence Mexico increased its share in a limited number of products in the U.S. industrial manufacturing market and Brazil increased its share in the Chinese soy market. However, trade diversion effects were limited and did not significantly contribute to the overall variation in the region's exports.

countries. Finally, there were significant falls both in exports to the EU (from 10.3% to -10.0%) and in intraregional flows (from 6.9% to -8.4%), which made a substantial negative contribution to the change in total exports.²²

The Downturn in Goods Imports

The region's imports began to contract.

The trend in LAC imports also changed in 2019. After expanding significantly in 2017 and 2018, overseas purchases fell by 2.5% year-on-year during the first half of 2019. This resulted primarily from the fall in South America (-5.6%). Mexico stagnated (0.2%), while Central America and the Caribbean experienced drops of 0.7% and 1.7% (Table 2). In the case of the South American economies, the decline in import performance is explained primarily by the weakness in domestic activity, while in the case of Mexico there are also signs of the fall in demand for its exports having a secondary effect, influencing imports of capital goods and production inputs.²³ In 2018, external purchases of goods by LAC rose by 10.8%, accelerating with respect to the previous year and performing well across the region. Likewise, the decline in the first half of 2019 was observed in almost all countries.

Stagnating Services Exports

In contrast with the pattern of the preceding contraction in global trade, this time the slowdown in LAC services exports occurred before the slowdown in goods exports. In the second quarter of 2018, external sales of services experienced a severe slowdown and they stagnated in the second half of the year, while goods exports only began to slow at the start of 2019

Services exports slowed down.

(Table 3). As a result, the average growth in services exports in 2018 was only 2.4%, significantly lower than the figure of 8.8% recorded for goods. In the first quarter of 2019, external sales of services from LAC stagnated (0.4% year-on-year). However, it is important to stress that at the start of 2019 services exports from LAC outperformed global figures, which fell by 1.4% year-on-year in the first quarter.

The slowdown in sales of services in 2018 can be explained by trends in both Central and South America, while in the Caribbean sales growth increased. In the first months

²² Chapter 4 presents a more detailed analysis of the evolution of regional exports by destination, emphasizing the divergent dynamics of intra and extraregional flows.

²³ For a more detailed analysis of some early warning signs, see Banco de México (2019a), Banco de México (2019b), and Financial Times (2019).

TABLE 2 • GOODS IMPORTS OF LATIN AMERICA AND THE CARIBBEAN
(Annual growth rate and billions of US\$, selected periods)

| | US\$ Billions | | | Growth Rates (%) | | | Cum. June 2019 |
|--|---------------|--------------|---------------|------------------|------------|-------------|----------------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | |
| LATIN AMERICA AND THE CARIBBEAN | 893.1 | 969.7 | 1074.5 | -9.6 | 8.6 | 10.8 | -2.5 |
| LATIN AMERICA | 867.6 | 941.7 | 1045.2 | -9.7 | 8.5 | 11.0 | -2.5 |
| MESOAMERICA | 479.4 | 516.8 | 566.7 | -2.1 | 7.8 | 9.7 | 0.1 |
| Mexico | 387.1 | 420.4 | 464.3 | -2.1 | 8.6 | 10.4 | 0.2 |
| Central America | 92.4 | 96.4 | 102.4 | -2.5 | 4.3 | 6.2 | -0.7 |
| Dominican Republic | 19.6 | 18.0 | 20.6 | 3.3 | -8.0 | 14.3 | 2.3 |
| Costa Rica | 15.3 | 15.9 | 16.6 | 1.8 | 4.1 | 4.2 | -2.6 |
| El Salvador | 9.8 | 10.6 | 11.8 | -5.6 | 7.6 | 11.9 | 4.0 |
| Guatemala | 17.0 | 18.4 | 19.7 | -3.6 | 8.2 | 7.3 | 0.7 |
| Honduras | 11.5 | 12.4 | 13.4 | -1.8 | 8.1 | 8.2 | -2.0 |
| Nicaragua | 7.5 | 8.4 | 7.0 | -15.6 | 11.5 | -16.2 | -17.0 |
| Panama | 11.7 | 12.7 | 13.2 | -3.6 | 8.8 | 4.0 | 1.8 |
| SOUTH AMERICA | 388.2 | 424.9 | 478.5 | -17.6 | 9.5 | 12.6 | -5.6 |
| Argentina | 55.9 | 66.9 | 65.4 | -6.4 | 19.7 | -2.2 | -27.9 |
| Bolivia | 8.5 | 9.3 | 10.0 | -13.5 | 9.3 | 7.9 | 4.9 |
| Brazil | 137.6 | 150.7 | 181.2 | -19.8 | 9.6 | 20.2 | 0.0 |
| Chile | 59.4 | 65.3 | 75.0 | -4.8 | 9.9 | 14.9 | -3.6 |
| Colombia | 42.8 | 44.0 | 48.9 | -17.0 | 2.6 | 11.3 | 5.7 |
| Ecuador | 16.3 | 20.0 | 23.2 | -24.1 | 22.6 | 15.9 | 4.3 |
| Paraguay | 9.0 | 11.0 | 12.4 | 3.1 | 22.0 | 12.8 | -8.1 |
| Peru | 35.1 | 38.7 | 41.9 | -5.9 | 10.2 | 8.1 | -1.8 |
| Uruguay | 8.1 | 8.5 | 8.9 | -14.3 | 3.9 | 5.1 | -9.8 |
| Venezuela | 15.4 | 10.5 | 11.4 | -60.3 | -31.8 | 9.1 | -45.4 |
| CARIBBEAN | 25.5 | 28.0 | 29.4 | -6.5 | 9.9 | 4.8 | -1.7 |
| Bahamas | 2.9 | 3.5 | 3.5 | -7.3 | 18.6 | 1.3 | -16.7 |
| Barbados | 1.6 | 1.6 | 1.6 | 0.0 | -1.3 | -1.4 | 0.5 |
| Belize | 1.0 | 0.9 | 1.0 | -6.5 | -5.1 | 4.9 | 2.6 |
| Guyana | 1.4 | 1.6 | 1.8 | -2.9 | 13.6 | 11.0 | -7.3 |
| Haiti | 3.2 | 3.9 | 4.5 | -6.4 | 19.5 | 16.8 | -3.2 |
| Jamaica | 4.8 | 5.5 | 6.1 | -5.6 | 16.5 | 10.7 | 10.0 |
| Suriname | 1.2 | 1.4 | 1.6 | -38.5 | 9.3 | 20.5 | 0.6 |
| Trinidad and Tobago | 9.3 | 9.6 | 9.2 | -1.7 | 3.6 | -4.4 | n.a. |

Source: IDB Integration and Trade Sector with data from INTrade and national sources.

Note: n.a.: data not available. See Methodological Annex 4.

TABLE 3 • SERVICES EXPORTS OF LATIN AMERICA AND THE CARIBBEAN

(Annual growth rate and billions of US\$, selected periods)

| | US\$ Billions | | | Growth Rates (%) | | | |
|--|---------------|--------------|--------------|------------------|------------|------------|-------------|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 1Q 2019 |
| LATIN AMERICA AND THE CARIBBEAN | 145.9 | 156.5 | 160.3 | 2.2 | 7.2 | 2.4 | 0.4 |
| LATIN AMERICA | 136.2 | 146.5 | 149.6 | 2.3 | 7.6 | 2.1 | 0.2 |
| MESOAMERICA | 58.9 | 64.5 | 66.6 | 6.5 | 9.6 | 3.3 | 5.3 |
| Mexico | 24.0 | 27.4 | 28.6 | 6.2 | 14.2 | 4.0 | 7.8 |
| Central America | 34.8 | 37.1 | 38.1 | 6.7 | 6.5 | 2.7 | 3.3 |
| Costa Rica | 8.3 | 8.4 | 8.8 | 11.1 | 2.0 | 4.7 | 4.7 |
| Dominican republic | 7.9 | 8.5 | 8.9 | 10.1 | 7.2 | 5.1 | 5.1 |
| El Salvador | 1.7 | 1.8 | 1.9 | 0.8 | 7.1 | 6.9 | 27.4 |
| Guatemala | 2.7 | 2.7 | 2.7 | -0.8 | 2.5 | -1.7 | 0.8 |
| Honduras | 1.2 | 1.3 | 1.3 | 4.0 | 4.5 | -0.1 | 5.3 |
| Nicaragua | 0.9 | 1.1 | 0.8 | 18.8 | 21.9 | -24.5 | n.a. |
| Panama | 12.2 | 13.3 | 13.7 | 3.9 | 8.9 | 2.8 | -1.4 |
| SOUTH AMERICA | 77.3 | 82.0 | 82.9 | -0.7 | 6.0 | 1.1 | -3.8 |
| Argentina | 13.1 | 14.4 | 14.4 | 1.9 | 9.7 | -0.1 | -8.5 |
| Bolivia | 1.1 | 1.3 | 1.4 | 1.2 | 17.3 | 5.4 | 10.4 |
| Brazil | 32.2 | 33.2 | 32.8 | -1.1 | 3.2 | -1.2 | -5.1 |
| Chile | 9.1 | 9.8 | 9.9 | -0.4 | 7.2 | 1.0 | -2.4 |
| Colombia | 7.6 | 8.3 | 9.3 | 4.3 | 8.9 | 11.8 | 0.5 |
| Ecuador | 2.0 | 2.0 | 2.3 | -9.1 | 3.1 | 15.7 | 4.3 |
| Paraguay | 0.7 | 0.8 | 0.8 | 2.7 | 7.1 | 0.6 | 2.4 |
| Peru | 6.2 | 7.2 | 7.2 | 0.4 | 16.8 | -0.5 | 10.7 |
| Uruguay | 4.1 | 4.9 | 4.8 | -7.3 | 21.4 | -1.9 | -14.3 |
| Venezuela | 1.2 | n.a. | n.a. | -19.0 | n.a. | n.a. | n.a. |
| CARIBBEAN | 9.7 | 10.0 | 10.8 | 0.8 | 2.4 | 7.8 | 8.1 |
| Bahamas ^a | 2.9 | 2.8 | 3.2 | 1.5 | -2.9 | 15.2 | n.a. |
| Barbados ^a | 1.2 | 1.3 | 1.3 | 8.4 | 3.8 | 4.0 | n.a. |
| Belize | 0.5 | 0.5 | 0.6 | 8.2 | 7.4 | 7.7 | 12.2 |
| Guyana ^a | 0.2 | 0.1 | n.a. | 14.4 | -19.6 | n.a. | n.a. |
| Haiti ^a | 0.6 | 0.5 | 0.5 | -15.2 | -14.7 | 1.2 | n.a. |
| Jamaica | 3.2 | 3.5 | 3.8 | 5.2 | 9.5 | 8.9 | 7.9 |
| Suriname | 0.2 | 0.2 | 0.2 | -3.5 | -12.3 | 7.3 | -5.1 |
| Trinidad and Tobago ^a | 1.0 | 1.1 | 1.2 | -14.1 | 7.2 | 6.2 | n.a. |

Source: IDB Integration and Trade Sector with data from the IMF, WTO, and national sources.

Note: n.a.: data not available.

^a The data for the Bahamas, Barbados, Guyana, Haiti, and Trinidad and Tobago correspond to WTO statistics for global services exports. See Methodological Annex 4.

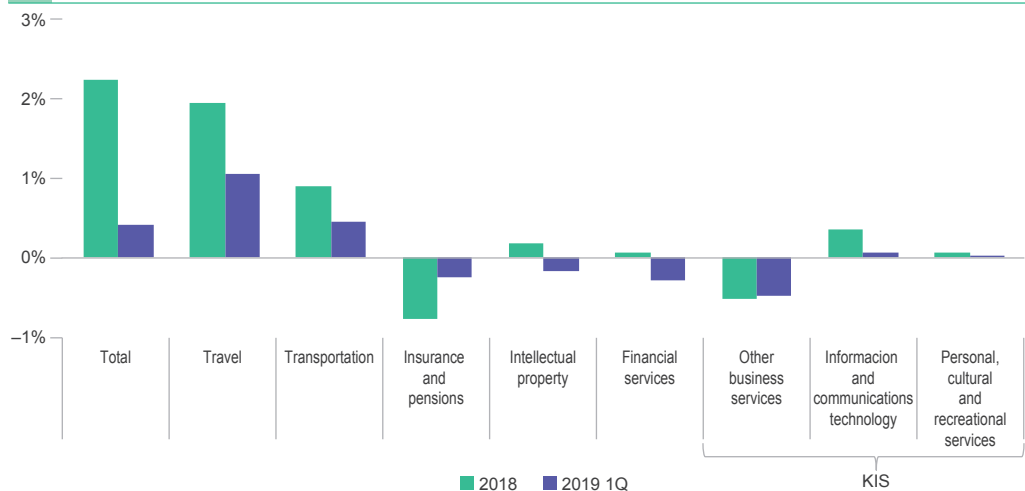
of 2019, the negative performance of services exports was driven entirely by the contraction in sales from South America, as the other subregions recovered slightly. The subsequent fall in exports from South America was due, primarily, to the major fall in sales from Argentina, Brazil, and Uruguay and, to a lesser extent, Chile. Although sales from Colombia and Ecuador rose, they did so at a significantly lower rate than the previous year. In contrast, the relative improvement in Central America's performance took place throughout the subregion, with the exception of Panama. In the Caribbean, the increase reflected the positive performance of exports from Belize and Jamaica.

South America explains the weak performance of LAC services exports in 2019.

The loss of impetus of services exports from LAC between 2018 and early 2019 mirrored the performance of almost all the main export categories. However, the dominance of the travel and transportation sector meant that it accounted for most of the slowdown (Figure 13). Other business services, insurance and pensions, financial services, and intellectual property services recorded falls, while personal, cultural, and recreational services and Information and Communications Technology (ICT) services experienced a slowdown. In addition to services related to trade in goods, which were affected by the weak performance of global trade, higher value-added categories

FIGURE 13 • GROWTH IN SERVICES EXPORTS OF LATIN AMERICA AND THE CARIBBEAN BY CATEGORY

(Year-on-year growth rate, percentage, and percentage points, 2018–2019)



Source: IDB Integration and Trade Sector with data from the IMF.

Note: The total is expressed as a percentage, and the categories are in percentage points. The breakdown is based on a sample of countries that report data disaggregated by category, and the total therefore does not coincide with the values in Table 3. KIS indicates knowledge and information-based services.

The decline
was observed
even in
categories
not related
to trade in
goods.

were also impacted, particularly knowledge-intensive services.²⁴ As many of these nontraditional services are traded intraregionally, the decline reflects, among other things, the slowdown in economic activity in various LAC countries.

In summary, the decline in LAC's trade performance resulted from the fall in exports of the Caribbean and South America, while exports of Central America stagnated and those of Mexico expanded at a significantly lower rate than the previous year.

The demand driven by the United States and China observed in 2018 dissipated in the first half of 2019, most markedly in the case of China. At the same time, imports fell faster than exports. External sales of services also weakened, doing so at a faster rate and earlier than trade in goods, in contrast with previous occasions. In this context of slowing global trade and price deflation of commodities, it is important to analyze the dynamic of intraregional trade and the opportunities in global services markets in more detail, and these issues are examined in the following chapters.

²⁴ This category includes personal, cultural, and recreational services, ICTs, and other business services. In the first quarter of 2019 these subtracted 0.4 p.p. from the total figure, in particular as a result of the performance of other business services (−0.5 p.p.). A slight contraction (−0.1 p.p.) had already been recorded in 2018. Chapter 5 presents a detailed analysis of the trends in the growth of services over the medium term.

The Contraction of Intra-regional Trade

4

The contraction of intraregional trade had a significant impact on the region's weak trade performance during the first part of 2019. None of the trading blocs recorded increased flows within the region, a pattern that was also replicated in the majority of individual countries. The largest declines in intraregional exports were observed in MERCOSUR and the Pacific Alliance. Although the collapse in exports from Brazil to Argentina accounted for more than half of the total decline in intraregional trade, the decline in sales from Mexico was also significant. The fall in intraregional trade reflected both the decline in economic activity and the collapse in export prices. The weak performance in intraregional trade consolidated a medium-term trend marked by a reduction in the level of intraregional and intrazone trade.

This chapter explores trade within the region between 2018 and the first half of 2019 from the perspective of the main integration blocs. The analysis covers the countries of Latin America and the Caribbean (LA, when referring solely to Latin America, or LAC, when also including the Caribbean), which include the countries of the Pacific Alliance (PA), the Andean Community (AC), the Southern Common Market (MERCOSUR), Central America and the Dominican Republic (CADR), and the Caribbean Community (CARICOM).²⁵ The chapter begins by describing export dynamics, distinguishing intraregional flows directed at other countries within the region from flows to the rest of the world. Next, the behavior of each subregional bloc's intrazone trade is analyzed, identifying bilateral flows and the sectors driving recent trends.

Performance of Intra and Extraregional Exports

The interannual decline of total external sales for LA in the first half of 2019 (-1.2%), analyzed in aggregate and by individual country in the preceding chapters, reflects a

²⁵ See Methodological Annex 5 for the composition of groups. The analysis by destination market was only conducted for the subset of Latin American (LA) trading blocs, excluding CARICOM due to a lack of comparable disaggregated data for the majority of member countries for 2019. For this group, a separate analysis is presented for countries with available disaggregated data in 2019: Barbados, Bahamas, Belize, and Jamaica.

The fall in intraregional exports was decisive for trade performance.

fall (-8.4%) in intraregional exports and the stagnation (0.2%) of sales to the rest of the world (Figure 14, panel A). This situation is significantly different from that of 2018, when aggregate exports grew by 8.8%, driven primarily by extraregional sales (9.1%) but also by trade within the region (6.9%). However, the improved performance with respect to the rest of the world in early 2019 is due exclusively to Mexico's rising extraregional exports. If those flows are excluded, external sales from the rest of LA suffered a year-on-year decline of 4.7%, as a result of the fall of exports both within the region (-7.5%) and outside it (-3.9%). It is therefore clear that, in addition to the adverse international context that affected total exports, the contraction of intraregional flows played a decisive part in the deterioration of aggregate trade performance.

The decline in intraregional exports in the first half of 2019 was recorded in all blocs.²⁶ The greatest drops were observed in MERCOSUR and the PA, where total flows to the region fell by 13.0% and 6.6%, respectively. In contrast with the PA, the decrease in MERCOSUR intrazone trade was decisive for the decline in total exports (Figure 14, panel B). In AC and CADR, there was almost no change in intraregional trade, with a negative contribution from intrazone trade in the former and a positive contribution in the latter. As a result of the fall in intraregional trade, LAC lost share as a destination market for its own exports. In the first half of 2019, the region's share was 14.3%, 0.8 p.p. less than the average for 2018.²⁷ The reduction in intraregional trade exacerbated the medium-term trend observed since 2010, which has seen an accumulated loss of 4.2 p.p..

Intraregional trade contracted in all blocs.

Extraregional demand stagnated.

While the fall in intraregional trade had a significant impact on the region's aggregate trade performance, the greatest impact came from flows to the rest of the world. The breakdown by trading bloc reveals some specific features of these trends by extraregional destination in the most recent period (Figure 15). For the PA and CADR, the U.S. confirmed its role as a key trade partner, with exports to this destination rising by 4.3% and 1.9%, respectively. MERCOSUR

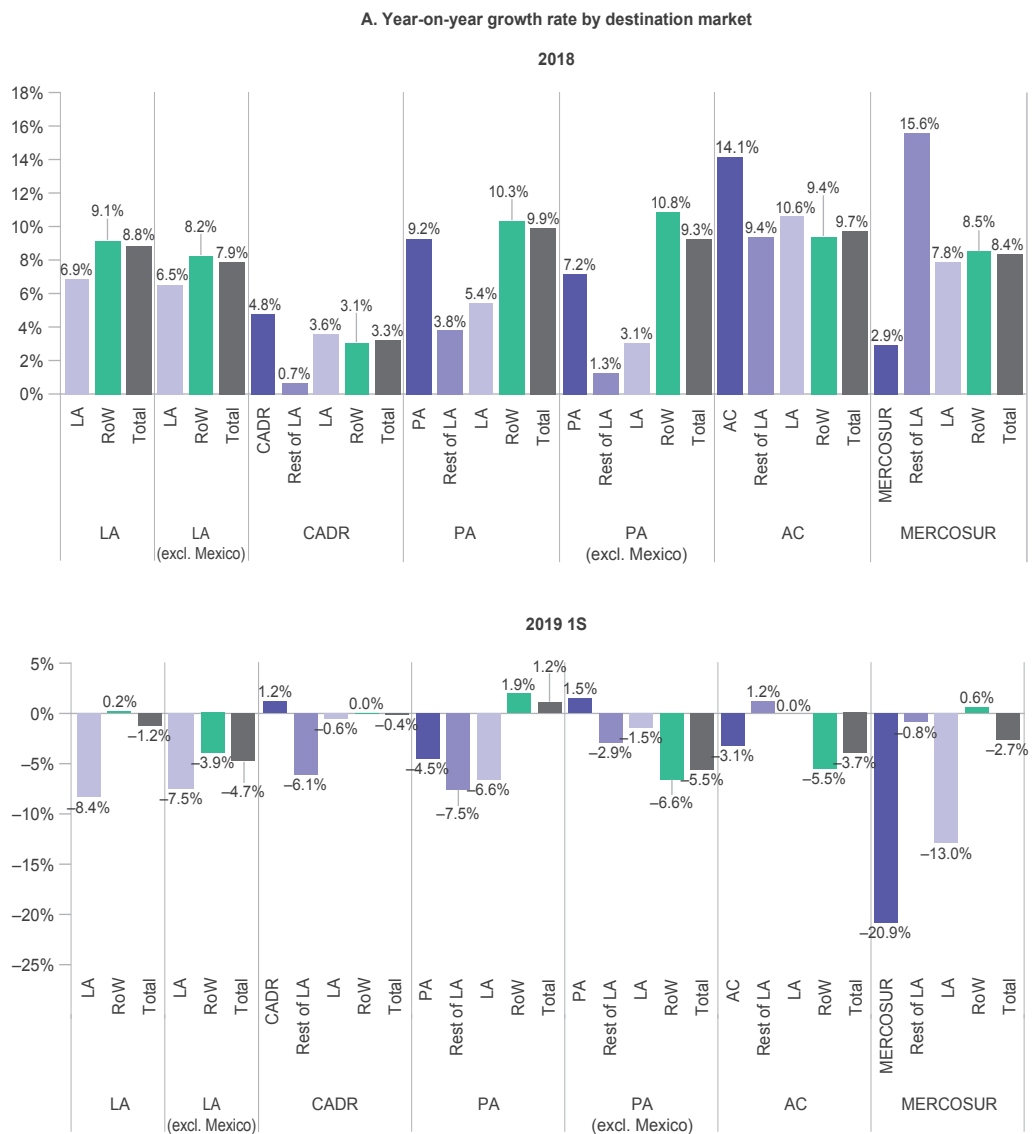
²⁶ It should be noted that, in this chapter, "intraregional exports" refers to exports to LAC partners, while "intra-zone exports" are exports to other members of the respective trading blocs.

²⁷ Excluding Mexico from the analysis, since it biases the average for the region given its overall size and its strong trade relationship with the U.S., the proportion of intraregional trade was 22.7% in the first half of 2019, a slight increase of 0.3 p.p. with respect to 2018. From these figures it can be inferred that the loss of regional share in the total external sales figures is due to the rise in Mexican exports to extraregional destinations, and the fall in exports to the rest of LA.

saw rising interannual growth in exports to the U.S., from 4.9% to 10.5%, in contrast with AC, which experienced a decline in exports to the U.S. (-9.6%). The stagnation of exports to China was the result of a decline in sales from the PA (-5.2%), offset by increases in MERCOSUR, AC, and CADR (2.8%, 6.7% and 17.3%, respectively),

FIGURE 14 • INTRAREGIONAL EXPORTS AND EXPORTS TO THE REST OF THE WORLD FROM LATIN AMERICA

(Year-on-year growth rate and contribution to growth rate, percentage, and percentage points, 2018 and 2019)



(continued on next page)

FIGURE 14 • INTRAREGIONAL EXPORTS AND EXPORTS TO THE REST OF THE WORLD FROM LATIN AMERICA (continued)

(Year-on-year growth rate and contribution to growth rate, percentage, and percentage points, 2018 and 2019)



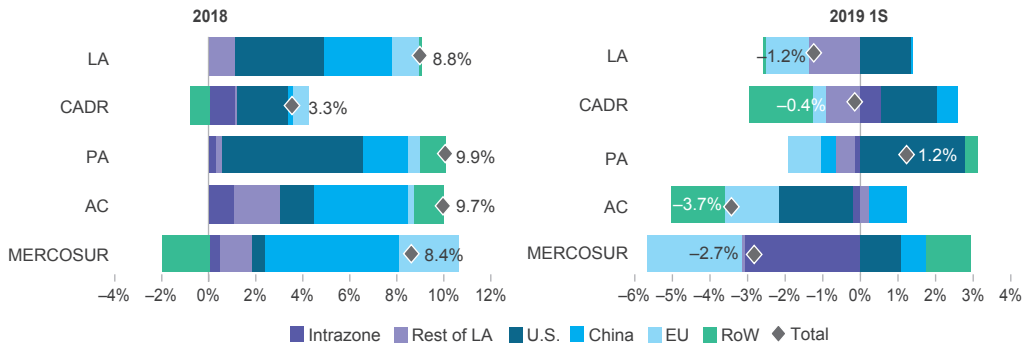
Source: IDB Integration and Trade Sector with data from national sources.

Note: "Intrazone" indicates exports to members of the same subregional trade bloc, "Rest of LA" indicates exports to LAC countries that do not belong to the same subregional bloc, and "RoW" indicates exports to the rest of the world.

although with growth rates significantly lower than those observed in 2018 in the first two cases, which had previously expanded at an annual rate of around 30%. Finally, the decline in exports to the EU affected all trading blocs, with MERCOSUR being the hardest hit (-13.7%).

FIGURE 15 • EXPORTS FROM LATIN AMERICA BY SELECTED DESTINATION MARKETS

(Year-on-year growth rate and contribution to growth rate, percentage and percentage points, 2018 and 2019)



Source: IDB Integration and Trade Sector with data from national sources.

Export Trends by Country Groups

In the first half of 2019, total CADR exports recorded a slight decline (-0.4%) in comparison with the same period of 2018 (Table 4). The interannual increase of 1.2% in intrazone trade was offset by a 6.1% fall in exports to the rest of LAC, while sales to the rest of the world were stable. Although the expansion in trade between member countries slowed down markedly in comparison to the figure of 4.8% recorded in 2018, this was the only group in the region where intrazone flows made a positive contribution to the overall export trend.

In CADR, intrazone exports performed relatively strongly.

The performance of individual countries varied widely.

However, the performance of individual countries varied widely, and primarily reflected the flows of manufactured goods of industrial origin, with only a few cases in which performance reflected flows of manufactured goods of agricultural origin. In Costa Rica, the Dominican Republic, Guatemala, and Panama, there were falls in intrazone exports, while in El Salvador, Honduras, and Nicaragua sales to the bloc increased.²⁸

²⁸ This can be explained primarily by the fall in exports from Guatemala to Honduras (-8.4%) and Nicaragua (-8.2%), particularly in manufactured goods such as plastic materials and cereal-based preparations, in the first case, and petroleum derivatives, in the second. The contraction in exports from Costa Rica to Nicaragua (-12.5%) was similarly marked, particularly in the food and metal mechanics sectors. In contrast, there were increased flows from El Salvador to Guatemala (11.6%) and Honduras (5.0%), primarily in knitted textiles, paper and cellulose, and beverages. Exports from Honduras to El Salvador also rose (8.6%) in synthetic textiles and metal items. Finally, Nicaragua expanded its food exports to El Salvador (19.1%) and its exports to Honduras (20.9%) in a range of goods traded under special trade regimes.

TABLE 4 • CENTRAL AMERICA AND DOMINICAN REPUBLIC – VARIATION MATRIX FOR THE VALUE OF INTRAZONE TRADE
(Year-on-year growth rate, percentage, 2018 and 2019)

| Exporters | Importers | | | | | | | | | | | Total Exports to the World |
|--|------------|-------------|-----------|----------|-----------|--------|--------------------|--------|-------------|-------------------|-------|----------------------------|
| | | | | | | | | | | | | |
| | Costa Rica | El Salvador | Guatemala | Honduras | Nicaragua | Panama | Dominican Republic | CADR | Rest of LAC | Rest of the World | | |
| | 2019 1S | | | | | | | | | | | |
| Costa Rica | | -3.8% | 0.2% | 0.0% | -12.5% | 0.0% | 9.3% | -2.2% | -21.4% | 4.1% | 0.9% | |
| Dominican Republic | 9.5% | 14.8% | -4.7% | -20.7% | 91.8% | -40.0% | | -7.9% | 2.9% | 4.1% | 3.4% | |
| El Salvador | 4.8% | | 11.6% | 5.0% | -1.9% | -0.7% | 10.3% | 5.9% | 4.4% | -6.1% | -0.4% | |
| Guatemala | -0.7% | 2.5% | | -8.4% | -8.2% | -1.9% | 0.5% | -2.9% | -14.4% | 3.8% | -0.3% | |
| Honduras | 1.4% | 8.6% | 2.6% | | 0.5% | 8.5% | 1.3% | 4.3% | 4.2% | -6.2% | -3.5% | |
| Nicaragua | -0.6% | 19.1% | -5.7% | 20.9% | | n.a. | 6.6% | 11.0% | 9.8% | -10.7% | -6.2% | |
| Panama | 10.7% | -30.8% | 9.2% | -34.0% | -37.9% | | 26.1% | -6.8% | -22.9% | -5.5% | -6.9% | |
| CADR | 1.6% | 5.0% | 5.0% | 0.0% | -5.2% | -2.5% | 5.7% | 1.2% | -6.1% | 0.0% | -0.4% | |
| 2018 | | | | | | | | | | | | |
| Costa Rica | | 4.0% | 8.1% | 7.7% | -10.7% | 1.5% | 2.9% | 1.5% | -3.0% | 8.4% | 6.1% | |
| Dominican Republic | -35.1% | -2.9% | -20.9% | -4.4% | 1.4% | 0.1% | | -12.1% | 6.5% | 7.7% | 7.3% | |
| El Salvador | -1.0% | | 7.0% | 13.7% | -5.8% | 0.6% | 16.9% | 6.1% | 10.4% | -1.0% | 2.5% | |
| Guatemala | 1.4% | 9.7% | | 8.5% | -3.9% | -15.8% | 20.4% | 4.7% | 2.3% | -3.3% | -0.1% | |
| Honduras | 0.9% | 14.5% | -3.7% | | 3.4% | -3.0% | 15.0% | 6.9% | 10.1% | -0.6% | 0.2% | |
| Nicaragua | -1.8% | 1.9% | 24.5% | 27.4% | | n.a. | 6.5% | 11.5% | -9.3% | 5.8% | 3.9% | |
| Panama | 3.0% | 21.9% | 25.3% | -38.7% | 10.8% | | -9.7% | 3.3% | 7.6% | 1.1% | 1.9% | |
| CADR | -1.2% | 9.5% | 6.7% | 11.3% | -4.1% | -3.3% | 11.3% | 4.8% | 0.7% | 3.1% | 3.3% | |
| Legend: ■ Less than -20% ■ Between -20% and -10% ■ Between -10% and 0% ■ Between 0% and 10% ■ Between 10% and 20% ■ Greater than 20% | | | | | | | | | | | | |

■ Less than -20% ■ Between -20% and -10% ■ Between -10% and 0% ■ Between 0% and 10% ■ Between 10% and 20% ■ Greater than 20%

Source: IDB Integration and Trade Sector with data from official sources.

Note: Exports from Honduras, Nicaragua, and Panama corresponding to the first half of 2019 are estimates. See Methodological Annex 5 for more details. n.a.: data not available.

PA exports grew as a result of extraregional exports from Mexico.

Global exports from the PA in the first half of 2019 grew 1.2% year-on-year, representing a sharp slowdown with respect to 2018, when they rose by 9.9% (Table 5). Despite this slowdown, the PA is the only Latin American bloc whose external exports continued to grow. However, this result is due exclusively to extraregional exports (1.9%), in particular those of Mexico (4.7%), as exports from the PA—both within the bloc and to the rest of LAC—contracted (–4.5% and –7.5%, respectively).

Excluding Mexico, the other members of the group had an average decline of 5.5% in total external sales, with a slight increase in intrazone exports of 1.5%, which was not enough to offset the 2.9% decline of exports to the rest of LAC and the 6.6% fall in exports to the rest of the world.

The 4.5% contraction in intrazone trade in the first half of 2019, after growth of 9.2% in 2018, was explained by the sharp decline in Mexican exports (–12.5%) and the fall in sales

Chile was the only member with strong intrazone export growth.

TABLE 5 • PACIFIC ALLIANCE - VARIATION MATRIX FOR THE VALUE OF INTRAZONE TRADE

(Year-on-year growth rate, percentage, 2018 and 2019)

| | | Importers | | | | | | Total Exports to the World |
|-----------|----------|-----------|----------|--------|--------|--------|-------------|----------------------------|
| | | Chile | Colombia | Mexico | Peru | PA | Rest of LAC | Rest of the World |
| | | 2019 1S | | | | | | |
| Exporters | Chile | | –5.9% | 8.3% | 9.2% | 6.1% | –9.0% | –6.3% |
| | Colombia | –11.6% | | –3.9% | 8.7% | –2.5% | –2.0% | –1.2% |
| | Mexico | –18.6% | –3.6% | | –23.1% | –12.5% | –13.4% | 4.7% |
| | Peru | 4.0% | 2.8% | –10.4% | | 0.9% | 6.3% | –10.7% |
| | PA | –10.7% | –2.9% | 0.0% | –3.7% | –4.5% | –7.5% | 1.9% |
| | | | | | | | | 1.2% |
| | | 2018 | | | | | | |
| Exporters | Chile | | 2.8% | 10.2% | –1.7% | 3.0% | –4.0% | 11.9% |
| | Colombia | 14.7% | | 6.6% | 2.3% | 7.6% | 11.1% | 10.3% |
| | Mexico | 15.0% | 12.0% | | 9.3% | 12.2% | 7.3% | 10.2% |
| | Peru | 17.5% | 12.9% | 5.4% | | 13.7% | –8.9% | 9.7% |
| | PA | 15.6% | 10.7% | 7.8% | 3.1% | 9.2% | 3.8% | 10.3% |
| | | | | | | | | 9.9% |

■ Less than –20% ■ Between –20% and –10% ■ Between –10% and 0%
 ■ Between 0% and 10% ■ Between 10% and 20% ■ Greater than 20%

Source: IDB Integration and Trade Sector with data from official sources.

from Colombia (-2.5%), which were not offset by the increases for Chile and Peru (6.1% and 0.9%, respectively). The bilateral flows that accounted for the largest share of the decline were those from Mexico to Chile and Peru, particularly in the automotive manufacturing sector and televisions. The striking increase in exports from Chile to other PA countries is driven by sales in all sectors, but particularly those of copper and of some agricultural and industrial manufactures.

In the AC, total exports declined by 3.7% year-on-year in the first half of 2019, after solid growth of 9.7% in 2018 (Table 6). Exports to the bloc fell by 3.1%, in stark contrast with the previous year, when they increased 14.1%, making it the strongest performing category that year. Although sales to the rest of LAC slowed down markedly in comparison to the previous year, they remained in positive ground (1.2%), in contrast with the other trade blocs. However, it was the fall in exports to the rest of the world (-5.5%) what determined the contraction in total external sales.

AC exports
fell to all
destination
markets
except the rest
of LAC.

The decline in
exports from
Ecuador to
Peru depressed
intrazone trade.

Intrazone trade was primarily affected by the evolution of trade in fuels and, to a lesser degree, in some agricultural products. The decline in trade within the bloc was almost entirely due to lower sales by Ecuador (-20.7%), in particular to Peru (-31.9%), primarily driven by the impact of oil prices drop.²⁹

Total MERCOSUR exports also recorded a significant decline in the first half of 2019, contracting by 2.7% year-on-year, after growing 8.4% in 2018 (Table 7). In this case, the reduction was explained primarily by the collapse of intrazone flows (-22.0%). Data reflect an intensification of the slowdown that began in 2018, when trade among MERCOSUR members grew by just 2.9%, primarily resulting from a weak demand from Argentina.³⁰ Moreover, although to a lesser extent, the relative stagnation of exports to the rest of LAC (-0.8%) and

MERCOSUR
intraregional
trade
collapsed.

²⁹ Likewise, Bolivia's exports fell (-4.3%) due to a major decline in sales to Ecuador (-30.0%), particularly of soy. In contrast, the intrazone exports of Colombia and Peru rose by 8.5% and 2.8%, respectively. Colombia's exports were driven by increased sales to Ecuador (9.4%) and Peru (8.7%), primarily of crude oil. In the case of Peru, sales to Bolivia (20.0%) and Colombia (2.8%) rose, mainly due to the effect of risking exports of petroleum oil and palm oil, respectively. However, this was partially offset by the decline in sales to Ecuador (-8.9%), principally of some agricultural and mining sector manufactured products.

³⁰ The strong growth in exports from Paraguay to Argentina in 2018 was due primarily to soybean exports for the production of oil and subsequent re-export and therefore does not reflect Argentinian domestic demand for Paraguayan products.

TABLE 6 • ANDEAN COMMUNITY - VARIATION MATRIX FOR THE VALUE OF INTRAZONE TRADE

(Year-on-year growth rate, percentage, 2018 and 2019)

| | | Importers | | | | | | |
|-----------|----------|-----------|----------|---------|--------|--------|-------------|-------------------|
| | | Bolivia | Colombia | Ecuador | Peru | AC | Rest of LAC | Rest of the World |
| | | 2019 1S | | | | | | |
| Exporters | Bolivia | | 1.6% | -30.0% | 1.6% | -4.3% | -14.6% | -4.1% |
| | Colombia | -4.3% | | 9.4% | 8.7% | 8.5% | -5.1% | -1.2% |
| | Ecuador | 23.6% | 0.1% | | -31.9% | -20.7% | 17.6% | 1.9% |
| | Peru | 20.0% | 2.8% | -8.9% | | 2.8% | 5.1% | -10.7% |
| | AC | 15.9% | 1.4% | 0.9% | -14.0% | -3.1% | 1.2% | -5.5% |
| | 2018 | | | | | | | |
| | Bolivia | | -3.7% | 101.2% | 26.1% | 15.4% | 17.3% | 3.2% |
| | Colombia | -7.9% | | 26.4% | 2.3% | 14.5% | 8.8% | 10.3% |
| | Ecuador | -4.9% | 9.1% | | 25.9% | 19.2% | 20.3% | 8.8% |
| | Peru | 6.4% | 12.9% | 5.5% | | 8.1% | -6.3% | 9.7% |
| | AC | 3.2% | 7.2% | 21.5% | 16.0% | 14.1% | 9.4% | 9.4% |

■ Less than -20% ■ Between -20% and -10% ■ Between -10% and 0%
 ■ Between 0% and 10% ■ Between 10% and 20% ■ Greater than 20%

Source: IDB Integration and Trade Sector with data from official sources.

to the rest of the world (0.6%), which in the previous year grew by 15.6% and 8.5% respectively, contributed to the decline in total exports.

The contraction of intrazone trade in MERCOSUR in the first half of 2019 is explained almost entirely by the collapse in exports from Brazil to Argentina (-41.6%), in particular in the automotive sector. However, all bilateral flows within the bloc recorded significant declines, with the exception of increased sales from Uruguay to Brazil (3.6%), while exports from Brazil to Uruguay were unchanged. In general, the most affected sectors were in manufacturing, given the greater weight of these flows within the bloc, except in the case of Paraguay. Argentina's intrazone exports fell by 6.4%, due to reductions across all categories and to all partners, in particular exports of the automotive sector to Brazil. Uruguay's exports fell by 1.2%, driven in particular by the fall in transportation material and chemical industry exports to Argentina. Paraguay's exports fell by 16.2%, primarily due to the contraction in flows of soybeans and electricity to Argentina and Brazil, respectively.

The collapse of Argentinian imports depressed intrazone trade.

TABLE 7 • MERCOSUR – VARIATION MATRIX FOR THE VALUE OF INTRAZONE TRADE
(Year-on-year growth rate, percentage, 2018 and 2019)

| | | Importers | | | | | | Total Exports to the World |
|-----------|-----------|-----------|--------|----------|---------|----------|-------------|----------------------------|
| | | Argentina | Brazil | Paraguay | Uruguay | MERCOSUR | Rest of LAC | Rest of the World |
| 2019 1S | | | | | | | | |
| Exporters | Argentina | | -3.7% | -18.1% | -18.6% | -6.4% | -0.4% | 5.9% |
| | Brazil | -41.6% | | -15.8% | 0.0% | -33.7% | 0.2% | 0.0% |
| | Paraguay | -17.9% | -14.6% | | -13.3% | -16.2% | -8.1% | -26.0% |
| | Uruguay | -13.4% | 3.6% | -2.8% | | -1.2% | -17.7% | 1.8% |
| | MERCOSUR | -37.8% | -5.2% | -16.1% | -6.0% | -22.0% | -0.8% | 0.6% |
| | 2018 | | | | | | | |
| | Argentina | | 21.2% | 8.5% | 3.0% | 18.1% | 11.7% | 0.1% |
| Exporters | Brazil | -15.4% | | 10.1% | 28.1% | -7.9% | 18.5% | 11.3% |
| | Paraguay | 92.1% | 1.2% | | -32.2% | 24.5% | 1.2% | -18.2% |
| | Uruguay | -6.3% | -12.6% | 15.1% | | -9.3% | 2.1% | -4.2% |
| | MERCOSUR | -8.8% | 13.8% | 9.7% | 16.6% | 2.9% | 15.6% | 8.5% |
| | | | | | | | | 8.4% |

■ Less than -20%
■ Between -20% and -10%
■ Between -10% and 0%
■ Between 0% and 10%
■ Between 10% and 20%
■ Greater than 20%

Source: IDB Integration and Trade Sector with data from official sources.

Intrazone exports of CARICOM countries grew.

In the case of CARICOM, data available for a sample limited to the Bahamas, Barbados, Belize, and Jamaica³¹ indicate that the performance in 2019 was more favorable for exports of the latter three countries to other bloc members in comparison with exports to other destinations, both within LAC and in the rest of the world. Intrazone exports grew in most cases, with the exception of the Bahamas, where the share accounted for by Caribbean countries is, however, very low. Exports from Jamaica to CARICOM rose by an estimated 6.8% in the first half of 2019, a faster growth rate than that to other destinations (5.2%), driven in particular by rising sales of foodstuffs. Intrazone exports from Belize rose by 23.8% in 2019, in contrast with exports to other destinations (-14.5%), primarily driven by exports of minerals, fuel, and lubricants to Trinidad and Tobago and Jamaica. In the case of Barbados, sales

³¹ Due to the limitations of the official records, it is not possible to distinguish between flows to LA and flows to the rest of the world in these countries.

to regional bloc partners rose by 7.5%, a faster growth rate than that of exports to other markets (5.9%), primarily due to exports of fuel and beverages to Jamaica.

In conclusion, the performance of exports of all trade blocs in Latin America and the Caribbean deteriorated in the first half of 2019. The contraction of total foreign sales resulted from a fall in intraregional exports within the context of stagnating exports to the rest of the world. The Pacific Alliance was the only bloc to record an increase in total exports, although this was small and driven exclusively by Mexico's exports to the rest of the world. In MERCOSUR, the collapse of the bloc's exports was the decisive factor of the decline in total exports. In the other trading blocs, the contribution of intraregional trade was nil, although a comparison with the previous year shows that this had been a key driver of export growth. The outlook of shrinking intraregional flows and sluggish exports of goods to the rest of the world raises the need to analyze the prospects for trade diversification in more dynamic sectors, such as services, which is the focus of the next chapter.

The Competitiveness of Services Exports

5

Technological progress and increased connectivity have created new markets, expanded the tradability of services and, looking ahead, provide an opportunity for incorporating more talent into trade flows. However, despite some success stories, the region's share in global service markets is relatively low and continues to be concentrated in traditional sectors. A map of the competitiveness of Latin America's export supply shows the challenges faced by the countries of the region to position themselves in the most dynamic segments of world trade, particularly in knowledge-intensive services.

The Growing Importance of Trade in Services

Although global and regional statistics for trade in services suffer from major shortcomings and must be improved in order to develop sound public policies, certain indicators allow the performance of LAC countries to be outlined and compared with that of international competitors.³² The growth in services from LAC has broadly tracked the global trend, and its share of the global market has remained at around 3% during the

Growth in services exports from LAC followed global trends.

³² The intangible nature of services makes them difficult to measure and record, which gives rise to errors and omissions. Despite some progress, the quality of services trade data in LAC remains poor, particularly when it comes to conducting a disaggregated analysis such as the one presented in this chapter. In particular, the disaggregated data for type of services exported is incomplete, while data for destination countries is virtually nonexistent, with the exception of a few countries. Moreover, there is wide variation in terms of the quality and availability of data in different countries, which hinders comparisons. It is therefore important to treat the results of this analysis as indicative and subject to correction. This chapter uses WTO data, where services are classified in accordance with the sixth edition of the IMF Balance of Payments Manual and, therefore, only those services reported in modes 1, 2, and 4 (respectively, cross-border supply, consumption abroad, presence of natural persons) are used, while mode 3 (commercial presence) is excluded. For a recent complementary analysis, including an evaluation of progress in statistics gathering, see CEPAL (2017). For an extensive review of the literature on the determinants of international trade in services and its economic impact, see Francois and Hoekman (2010).

last decade and a half, amounting to US\$166 billion in 2018. This proportion is lower than the relative to exports of goods (5%), which is lower, in turn, than the region's share of global GDP (6%). The average annual growth rate of external sales of services between 2005 and 2018 in LAC was 5.9%, slightly below the global rate of 6.2%.

In the Caribbean and Central America, the share accounted for by services is greater than the global average.

The contribution of services exports to total LAC exports is below the global average, accounting for 13.7% and 23.2% in 2018, respectively (Figure 16). However, there is wide variation among subregions.³³ The Caribbean and Central America are the subregions where services exports represent the largest proportion of total exports, with shares of 39.9% and 39.4%, respectively. MERCOSUR follows with services exports accounting for 20.6% of the total, above the average for LAC. At the other extreme, in Mexico services only represented 6.0% of total foreign sales.³⁴ It is also important to note that the share accounted for by trade in tasks has increased since 2005. This trend results from the rise of new types of services, such as business services and computer and information services, and the greater ease with which these can be traded as a result of technological progress.³⁵

Within LAC, Central America is the subregion that contributes most to the region's services exports, amounting to US\$42 billion in 2018 and representing 25% of the regional total (Figure 17).³⁶ Moreover, average annual growth for the subregion between 2005 and 2018 was 6.9%, a rate only exceeded by the countries Intensive in Fuels and Energy and by the Rest of MERCOSUR (6.9% and 7.3%, respectively). Services exports from Brazil and Mexico totaled US\$34 billion

One quarter of LAC's services exports originate in Central America.

³³ In the analysis of the export performance of the services sector, this chapter separates Brazil and Mexico, and groups the other economies as follows: Central America (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama); Rest of MERCOSUR (Argentina, Paraguay, and Uruguay); Rest of Pacific Alliance (Chile, Colombia, and Peru); countries intensive in fuels and energy (Bolivia, Ecuador, and Venezuela); and the Caribbean (Bahamas, Belize, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago).

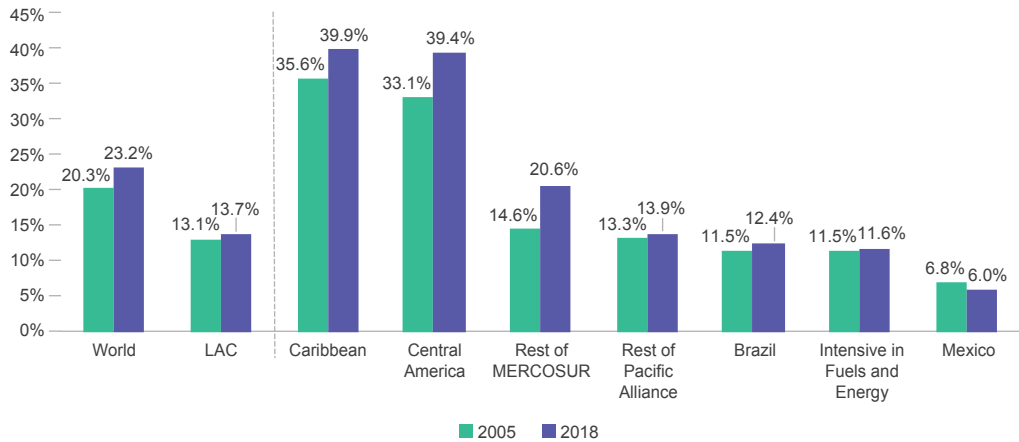
³⁴ It is important to note that records for Mexico may be incomplete, distorted by inaccuracy, and are likely to be inconsistent with respect to disaggregation by category. The share of total LAC exports represented by services exports, excluding Mexico, was 17.0% and 18.8% in 2005 and 2018, respectively, a smaller gap than the one with rest of the world.

³⁵ An extensive body of policy-focused academic literature has emphasized the growing tradability of services, the structural transformations due to technological change, and the strategic and institutional implications of this. See, for example, Mattoo *et al.* (2007) for a discussion of the economic effects of the increase in trade in services; Hernández *et al.* (2014) for the disruptive impact on the region's economies; and Lund *et al.* (2019) for a discussion of the impact on international integration strategies in the future.

³⁶ A third of services exports from Central America are generated by Panama, reflecting the extensive commercial activity linked to the Panama Canal.

and US\$29 billion (accounting for 20% and 17% of the regional total, respectively) although, in Mexico, the average annual growth was 4.7%, the second-lowest among LAC subregions. The Caribbean was the least dynamic group, growing a mere 2.6% and

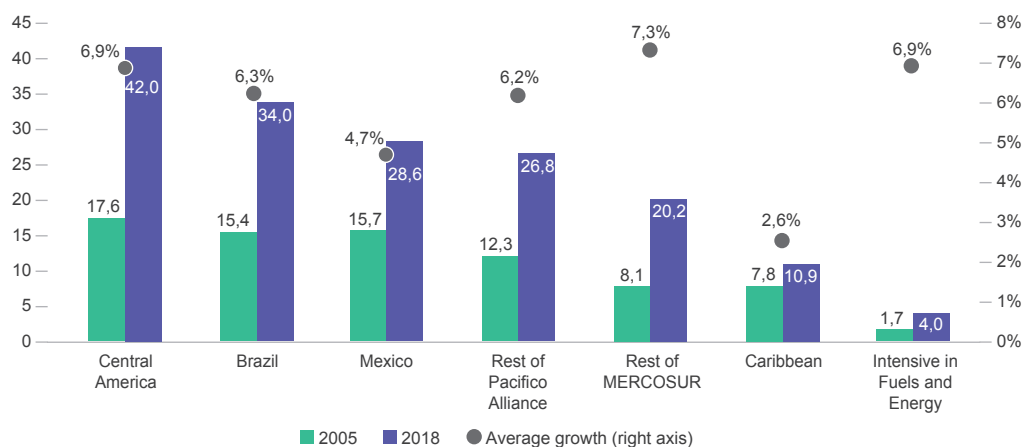
FIGURE 16 • SERVICES EXPORTS AS A SHARE OF TOTAL EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN AND THE WORLD
(Percentage, 2005 and 2018)



Source: IDB Integration and Trade Sector with data from the WTO.

Note: The composition of the groups of countries is provided in note 33. In this case, the group of Intensive in Fuels and Energy excludes Venezuela, and the Caribbean excludes Guyana due to lack of data.

FIGURE 17 • SERVICES EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY SUBREGION
(Billions of US\$ and average annual growth rate, 2005 and 2018)



Source: IDB Integration and Trade Sector with data from the WTO.

Note: The export services growth rate refers to the annual geometric average between 2005 and 2018. The composition of the groups of countries is provided in note 33. The group of Intensive in Fuels and Energy excludes Venezuela, and the Caribbean excludes Guyana due to lack of data.

accounting for 7% of total services exports. Finally, the countries Intensive in Fuels and Energy, despite the rapid growth mentioned above, only generated US\$4 billion in services exports in 2018, accounting for 2% of the total.

Sales of knowledge-intensive services have increased significantly.

LAC has typically focused on traditional services, such as travel and transportation. Although these still play a major role, there is some diversification into more sophisticated—and thus more lucrative—sectors. Exports of knowledge-intensive services (KIS)³⁷ from LAC accounted for 28.8% of the total in 2017, slightly below the global figures, where exports of KIS represented 31.0% (Figure 18).³⁸ Among traditional services in LAC travel stands out, well above the world aggregate (40.8% and 24.5%, respectively), and it is followed by transportation (18.3%) and goods-related services (2.8%). Compared to global figures, the low share accounted for by charges for the use of intellectual property and construction is noteworthy. Within KIS, both for LAC and for the world, the business services category is the largest,³⁹ representing 23.7% and 22.2% of the total, respectively. There is a large gap with the next-largest category, as computer services⁴⁰ only account for 4.3% of total services exports, well below the global share (7.9%). Finally, personal, cultural, and recreational services account for a mere 0.9%,⁴¹ in line with the global share (0.9%).

The weight of KIS exports increased significantly between 2005 and 2017, both in LAC and globally, with foreign sales growing by an annual average of 10.5% and 11.2%, respectively. The development of these services is significant, as they are associated with high levels of innovation and with positive externalities in the rest of the economy. The main component of KIS is business services, since sales in 2017 represented 82% of total KIS exports in LAC, and 72% in the world (Figure 19).

³⁷ In line with the definition established by López *et al.* (2014), knowledge-intensive services are defined as services that fulfil the following three criteria: i) make intensive use of skilled labor; ii) absorb, generate, and disseminate knowledge; and iii) are tradable. KIS cover the following economic activities: i) computer services; ii) business services; and iii) personal, cultural, and recreational services. Although charges for the use of intellectual property could be classified as KIS, it was decided not to include them in this report in order to maintain comparability with the study mentioned above.

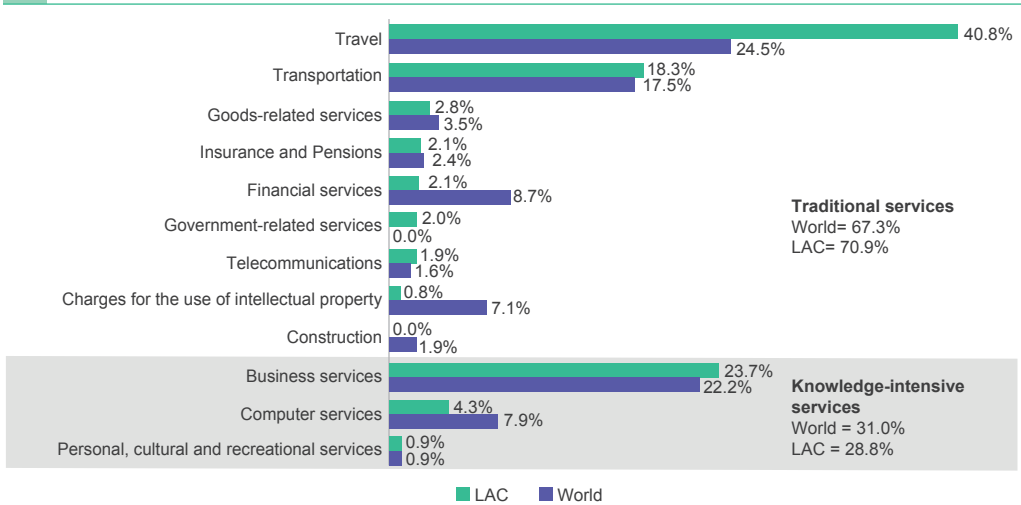
³⁸ Mexico is excluded from the LAC total because this would distort the distribution by category, as official statistics report data for travel, transportation, insurance, and pensions and financial services consistently, while data for the other categories is not broken down adequately and may be incomplete. For analysis of trade in KIS, 2017 was used as the most recent reference point, as the data for 2018 is not adequately disaggregated for all countries. It should be noted that comparisons between countries may be distorted by the higher quality of services trade statistics for developed countries as compared to developing countries.

³⁹ Business services include: i) research and development services; ii) professional consultancy services; and iii) technical services, related to trade and other business services (architectural, engineering, scientific, related to agriculture and mining, among others).

⁴⁰ Computer services include: i) computer services; and ii) information services.

⁴¹ Personal, cultural, and recreational services include i) audiovisual and related services; ii) health services; iii) education services; iv) heritage and recreational services; and v) other personal services.

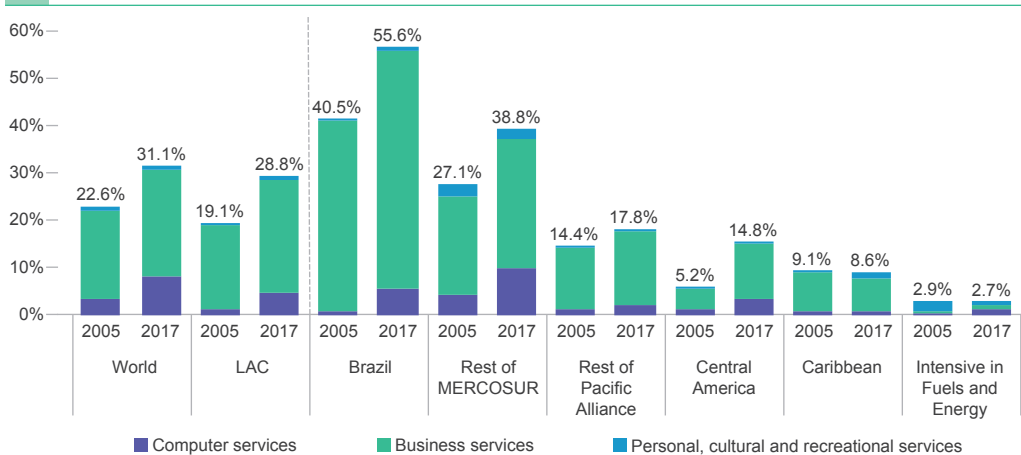
FIGURE 18 • BREAKDOWN OF SERVICES EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN AND THE WORLD BY SECTOR
(Share of total services exports, percentage, 2017)



Source: IDB Integration and Trade Sector with data from the WTO.

Note: LAC excludes Barbados and Venezuela (lack of data) and Mexico (lack of disaggregation). The totals may not add to 100% due to the existence of a heading for unclassified services.

FIGURE 19 • STRUCTURE OF EXPORTS OF KNOWLEDGE-INTENSIVE SERVICES FROM LATIN AMERICA AND THE CARIBBEAN BY SUBREGION
(Share of total services exports, percentage, 2005 and 2017)



Source: IDB Integration and Trade Sector with data from the WTO.

Note: Mexico is excluded due to a lack of sufficiently disaggregated data, and as a result, the aggregated figures for LAC do not match those shown in Figure 18. Due to lack of data, the group of Intensive in Fuels and Energy excludes Venezuela, and the Caribbean excludes Guyana and Haiti.

Business services exports stand out within knowledge-intensive services.

Furthermore, between 2005 and 2017 they grew by an average annual rate of 9.6% and 9.9%, respectively (Statistical Annex). It is worth noting that computer services are gaining ground, representing just 6% of LAC exports in the KIS sector in 2005, but rising to 15% by 2017, and featuring an impressive average annual growth of 18.4%. Although this rate is slightly higher than the rate corresponding to the world, of 17.2%, its share of regional exports remains lower than the global average, which was 25% of KIS exports in 2017.

Among LAC subregions, the importance and composition of KIS vary widely.⁴² However, it should be noted that in all groups of countries the participation of computer services in KIS exports is increasing. In 2017, in Brazil and the Rest of MERCOSUR, KIS external sales accounted for 56% and 39% of total services exports, respectively. These figures are far higher than the regional average and are also larger than the ones corresponding to 2005, since they grew by an annual average of 9.8% and 11.6%, respectively. While in Brazil business services stand out considerably (89% of KIS exports in 2017), in the Rest of MERCOSUR the growth in the share of computer services was dramatic, rising from 15% to 25% in the period analyzed.

Computer services are gaining ground.

By contrast, in the Caribbean and in countries Intensive in Fuels and Energy, foreign sales of KIS have a far lower weight (9% and 3%, respectively) and, moreover, it fell between 2005 and 2017. KIS exports in these regions grew at a slower rate than

The share of knowledge-intensive services has fallen in some subregions.

the average (2.3% in the Caribbean and 6.1% in the countries Intensive in Fuels and Energy). In the Caribbean, the low growth recorded in exports of computer services and business services stands out (3.3% and 1.1%, respectively). In the group of Intensive in Fuels and Energy there was a change in the composition of services exports, with personal, cultural, and recreational services losing their dominance and falling from an 83% share in 2005 to 22% in 2017, with computer and business services taking over (43% and 35%, respectively).

⁴² The corresponding data by individual country are contained in the Statistical Annex. Among the countries and subregions reported in this study, Mexico is the only one for which WTO data indicate a decrease in the value of KIS exports between 2005 and 2017, at an annual average rate of 14.7%. According to these figures, the share of total foreign sales accounted for by this service category fell from 2.4% to 0.2%. These values suggest that the WTO database for this country is incomplete, distorted, or inconsistent in disaggregation by category. The absence of data from sufficiently disaggregated national sources means that it is not possible to validate the KIS data. It is therefore impossible to perform a comparable analysis to that of other countries in the region.

The Region's Competitive Positioning in Global Markets

A comparison of LAC's services export performance with the global average points to the need for the region to position itself competitively in the most dynamic segments of world trade. In this respect, the region has space to grow. In this report, competitiveness is analyzed combining two variables, change in market share and growth in global demand, which generates four distinct groups to categorize exports.⁴³ The

strategic segments are those in which market share is increasing and demand is growing above average. If market share is increasing but demand is growing less than average, the segment is categorized as consolidated. Untapped segments are those in which market share is declining despite dynamic demand. Finally, in declining segments, market share is falling and growth in demand is below average.

The region could improve its competitiveness in global services markets.

Half of LAC's services exports are categorized as consolidated segments.

Even though between 2012 and 2017⁴⁴ LAC increased its market share in 56% of services exports,⁴⁵ most of this corresponded to consolidated segments (Figure 20). Within this group, travel stands out since it represented 47% of total services exported by LAC in 2017, and the region increased its participation in a market with growth below average (Figure 21). In a distant second place, insurance and pension services accounted for 4% of LAC's total services exports, in a market that grew far more slowly than the global average. The most attractive group, the strategic segment, was the smallest of the four and accounted for only 5% of the region's total services exports. Computer services stand out within this group, growing at an impressive global rate of 46%, yet they only accounted for 4% of LAC exports and the increase in market share was moderate.

At the same time, LAC lost share in global markets for 44% of services exports in 2017 compared to 2012.⁴⁶ The group to which special attention should be paid is the one of untapped segments, which represents 20% of total regional exports. It is composed fundamentally of business services, which enjoyed high growth globally

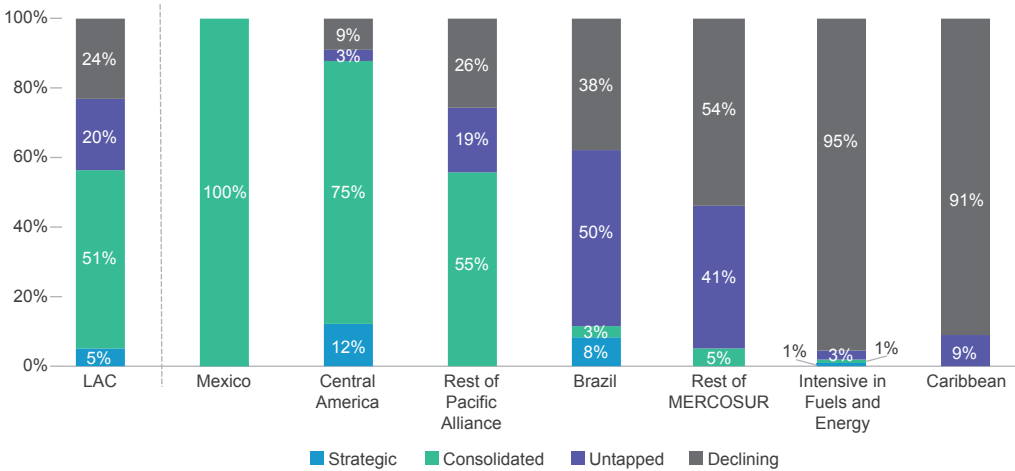
⁴³ The first application of the methodology used in this analysis to trade in services can be found in López *et al.* (2014), which only considered the data available to 2009. It should be noted that, although the category names have been modified in order to simplify the presentation, the underlying concepts are similar, and thus the results are comparable.

⁴⁴ For the competitiveness analysis, data for the last available year (2017) were used, with a five-year window taken as reference (2012–2017).

⁴⁵ Particularly in insurance and pensions, travel, maintenance and repair services, and computer services.

⁴⁶ Particularly in personal, cultural, and recreational services, government-related services, telecommunications, and business services.

FIGURE 20 • BREAKDOWN OF SERVICES EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY COMPETITIVE SEGMENT
(Share of total services exports, percentage, 2017)



Source: IDB Integration and Trade Sector with data from the WTO.
Note: Due to lack of data, the group of Intensive in Fuels and Energy excludes Venezuela, and the Caribbean excludes Barbados. Records for Mexico may be incomplete, distorted by inaccuracy and are likely to be inconsistent with respect to breakdown by category. Totals may not add to 100% due to rounding.

The untapped segments represent opportunities for LAC to expand its exports.

but in which LAC lost market share. Finally, among the declining segments, that account for 24%, the main components are transportation, representing 16% of the total and with a global growth in demand far below average. Government services, also in this group, is the only category with a declining global demand and a simultaneous loss of market share for the region.

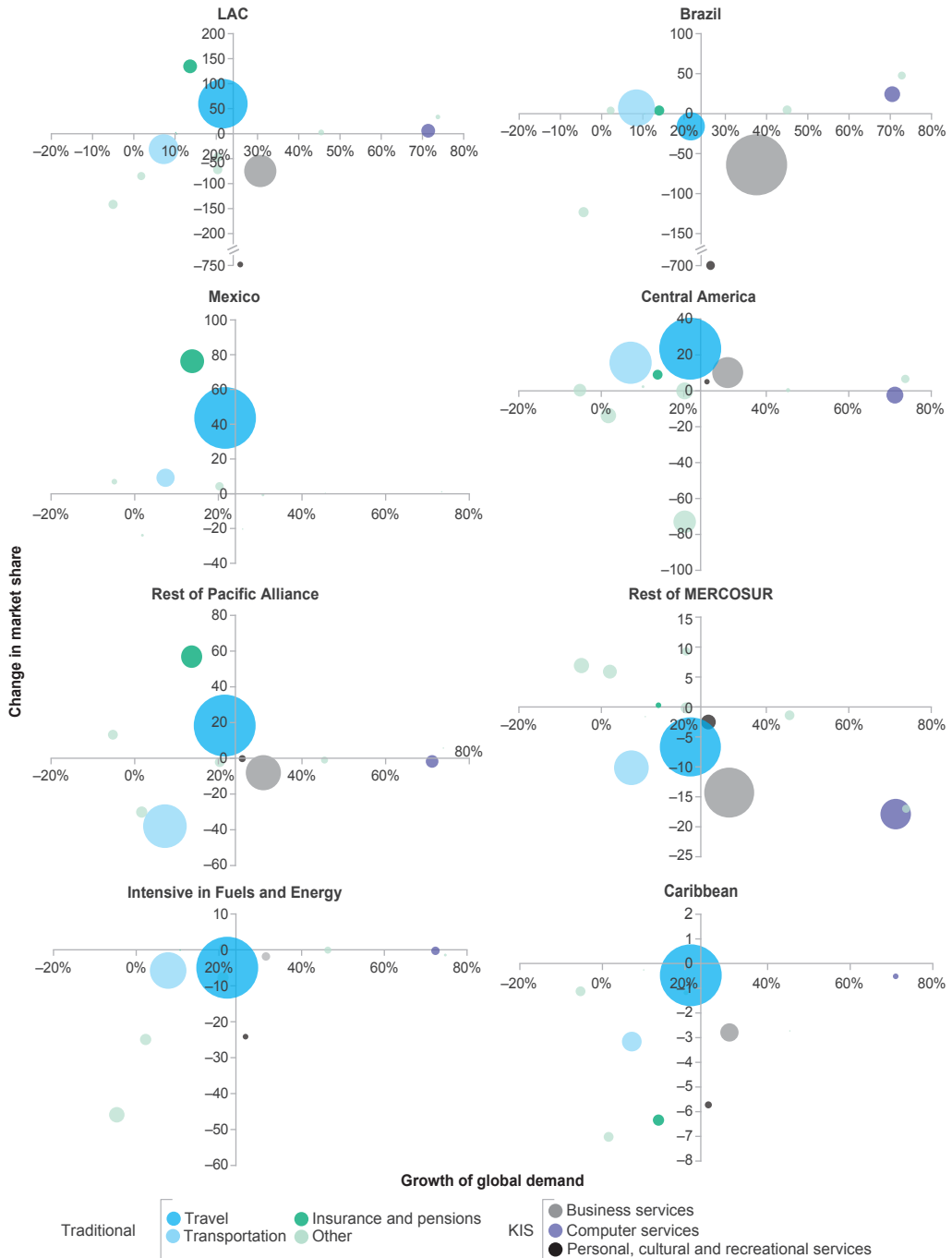
The performance of the different LAC subregions varies widely. Central America stands out as the one with the highest proportion of services exports in the strategic category (12%), with business services contributing 11% to total exports. This group of countries also gained market share in travel and transportation (47% and 21% of the total exported), although these markets are less dynamic than average and, therefore, are categorized as consolidated segments.

Brazil also has a significant share of external sales in strategic segments (8%). Computer services stand out with rising participation in a market with a demand that is expanding at a spectacular pace (77%). At the same time, there was a more moderate increase in the market share of charges for the use

Central America stands out for its dynamism in strategic segments.

FIGURE 21 • COMPETITIVE POSITIONING OF SERVICES EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY GROUP OF COUNTRIES

(Growth in base points and percentage, 2012-2017)



Source: IDB Integration and Trade Sector with data from the WTO.

Note: The horizontal axis represents the change in global demand for each type of services and crosses the vertical axis at the point representing global growth in total services (24%). The vertical axis represents the change in market share, in base points. Each circle represents a type of services and the size represents the significance of those services as a proportion of total services exports in each subregion.

Brazil is particularly competitive in computer services.

of intellectual property, with global demand increasing by a substantial 46%. However, the country lost ground in 88% of services exports. In particular, among untapped segments, business services had a dominant position (50% of total value), while in the declining segments, transportation and travel stood out (17% of the total value in both cases).

The Rest of the Pacific Alliance expanded its presence in 55% of exports, although in segments that were less dynamic than average, and which are categorized as consolidated. Among them, travel stands out, accounting for 48% of the total. For the remaining 45% where the Rest of the Pacific Alliance lost market share, 26% corresponds to declining segments, primarily transportation services, and 19% corresponds to untapped segments. However, it is important to note that in this last group, the decline in market share for business services, which account for 15% of the total exported, was small.

The Rest of the Pacific Alliance has gained market share in travel.

The Rest of MERCOSUR faces strong global competition.

The Rest of MERCOSUR lost market share in 95% of services exports.

Among the untapped segments, which accounted for 41%, business services (27%) and computer services (10%) were key. Performance in these segments indicates that export growth occurred in a context of strong global dynamism, which points to the need to increase competitiveness to expand participation. In the declining segments, which accounted for 54% of total exports, travel, and transportation stand out, accounting for 40% and 13% of the total, respectively.

Mexico gained market share in practically all services exports, although this was concentrated in consolidated segments with sluggish global demand.⁴⁷ While travel accounted for the lion's share of recorded services exports (78%) and its participation increased slightly, insurance and pension services had a far smaller impact (12%) but experienced a significant rise in market share.

Mexico is distinguished by increasing market shares, but in sluggish segments.

Both Intensive in Fuels and Energy and the Caribbean countries lost ground in almost all types of services exports. In the first group of countries, travel and transportation stand

⁴⁷ However, the categorization of the export basket should be considered incomplete, as the composition of service exports from Mexico may be distorted, due to the fact that travel, transportation, insurance and pensions, and financial services are reported consistently, but those for the remaining categories are not adequately disaggregated and could be incomplete.

out, accounting for 64% and 23%, but with moderate reductions in market share. In the Caribbean, travel drove services exports, accounting for 77% of the total and maintaining a stable market share.

The other countries lost ground in services exports.

In summary, although the poor quality of the data available on trade in services prevents a more detailed evaluation—shortcoming that must be addressed urgently— the analysis conducted in this report outlines a map of the region’s competitiveness in global markets. In the majority of LAC economies, traditional sectors such as travel continue to play a relatively large role. However, it is important to highlight the development of exports supply in the fastest-growing segments globally, such as computer services and business services, which are knowledge-intensive. These sectors are gaining weight in the region’s basket of services exports, although there is still room to improve competitiveness and increase market share. In order to improve the positioning and performance of the region in global services markets—particularly in a context of stagnating trade in goods—reforms and investment to promote the development of strategic sectors, and statistical improvements to evaluate the development of cross-border transactions are well overdue.⁴⁸

⁴⁸ For an analysis of policy recommendations for developing services exports, see OECD (2017), UNCTAD (2017), and WTO (2019e). For a discussion focused on the specific needs of Latin America and the Caribbean, see Hernández *et al.* (2014) and Aboal *et al.* (2015). For an example of sector-specific and horizontal export promotion plans in a specific country in LAC, see García and Capobianco (2012).

Conclusions

After just over two years of expansion, goods exports from Latin America and the Caribbean contracted once again in 2019. While the trend reversal was largely the result of a drop in certain commodity prices, real flows stagnated in the first half of 2019, in line with the downward trend in global trade and the shrinking of intraregional trade. Similarly, the pace of growth of services exports slowed and performed only slightly better than global services exports, which entered negative ground. This trade relapse underscores how urgent it is for the economies in the region to find an insurance strategy that will make them less vulnerable to external risks. In particular, it points to the need to make services exports more competitive and advance in deepening regional integration.

The third trade contraction in a decade, itself characterized by a new normal of sluggish global trade, shows how vulnerable Latin American and Caribbean economies are to increased external risks. At the current juncture, the balance of risks depends on both the prices and volumes of trade.

With regard to prices, the region's terms of trade returned to a level similar to the one that preceded the commodity price boom that began fifteen years ago, and no imminent recovery is expected. In a context of uncertainty as to how global trade tensions will be resolved, structural factors such as the United States move toward energy independence or the slowdown in the growth of China's economy have led to expectations that commodity prices will remain stable or may even drop over the next few quarters. In the long term, these same trends underscore the need to activate new drivers for export growth in LAC in the aftermath of the commodity boom that has held up the region's trade performance since the beginning of the century.

Furthermore, in real terms, the synchronized slowdown in economic activity in advanced and emerging economies limits the potential short-term expansion in the volume of global trade. Similarly, the recent downward revisions of growth forecasts for the Latin American and Caribbean economies point to sluggish intraregional trade flows. In this context, the proliferation of trade-related tensions in practically every center of global trade has a direct effect not just on the prospects of a trade recovery but also on the investment outlook, with impacts that will probably be felt

beyond the short-term. Regardless of how circumstances develop, the recent brief period of growth has laid bare just how flimsy the region's ties to the most dynamic global trade hubs are and how urgently the region needs to identify new areas with potential for trade growth.

From a broader perspective, the vulnerability of Latin American and Caribbean trade to external risks points to the need to operate in two fundamental areas to expand and improve the resilience of exports.

An integrated regional market is a strategic asset for the diversification of trade in both goods and services. Even without the recent contraction in trade due to the economic slowdown—and, in some cases, recession—in the economies of the region, the share of intraregional trade in total trade has stopped growing altogether. This reduction in intensity is driven not only by the limited progress in intrazone trade within the main integration blocs but also by the low growth in trade between them. Falling commodity prices had a significant impact on the value of some intraregional trade flows, which also points to the need to promote productive integration and develop regional value chains in the industrial and natural resource-based manufacturing sectors.

Looking beyond trade in goods, despite success stories in some knowledge-intensive services segments, the region has plenty of room to improve its competitive position in the most dynamic global services markets. Although shortfalls in data are a challenge when it comes to analyzing and designing development policies, the available empirical evidence suggests that services in the region remain concentrated in traditional, consolidated segments. The exponential pace of technical progress in the services sector has brought opportunities, as is evidenced by the rise of some economies of the region in global markets for computer services. However, the acceleration of technological change also implies that the innovation capacity needs to be continually improved and adapted, as is the case with business services.

Looking ahead, against a backdrop of economic slowdown and uncertainty regarding the future of the regulatory architecture of international trade, it is necessary to promote an ambitious policy agenda that seeks to minimize external risks and lay the groundwork for transforming the region's role in global markets. To successfully confront the structural forces that drive the development of the global economy, a political environment that is less favorable to the opening up of markets, and delays in progress toward regional integration, the governments of the countries in the region face the challenge of renewing their strategies for providing support to the private sector in the process of internationalization. The policy agendas that are needed to successfully engage in the current phase of globalization are complex, affect multiple factors, and seek different objectives in each country and sector. However, there are two priority aspects that are common to economies in the region.

Trade in tasks is set to expand on the back of technological progress, which facilitates the international tradability of services, along with their growing inclusion in goods exports. To increase productivity, competitiveness, and employment in services exports, urgent progress needs to be made on multiple fronts. First, the sector needs to be better understood. A joint effort by governments, the private sector, and academics is needed to analyze the latest trends and identify bottlenecks, opportunities, and policy priorities to promote the region's participation in international markets. It is also key to acknowledge that the competitiveness of services is heavily dependent on the quality of the workforce's education and training and thus on countries' abilities to implement agile training policies that are tailored to the specific requirements of these highly dynamic sectors. Finally, it is time to review the existing regulatory framework and adapt it to the specific needs of services exporters, which are often penalized over their size and the intangible nature of their assets.

It has been argued that there is potential for economic integration policies to become more effective at expanding and promoting the qualitative transformation of intraregional trade flows. Initiatives that seek to fill in the gaps in the network of existing regional trade agreements and promote their regulatory convergence, investments in infrastructure that aim to reduce logistics costs, and policies to stimulate productivity and improve the quality of the export supply, would all help strengthen intraregional trade in consumer goods and productive inputs. Similarly, bringing renewed momentum to integration and cooperation in the regulation of services markets would provide an opportunity for progress at the regional level, without having to sit out the foreseeably long lead times that multilateral negotiations entail. Strengthening regional value chains and improving the density of trade in services would not only favor export diversification, but would also help increase competitiveness in the global market.

These are just some of the complex challenges at the present juncture. However, the current relapse in the region's export performance shows that it will not be possible to reactivate an expansive trade cycle without placing the challenges of international competitiveness at the heart of the region's development agenda.

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Statistical Annex

Knowledge-Intensive Services Exports by Country

TABLE A1 • VALUE OF EXPORTS OF KNOWLEDGE-INTENSIVE SERVICES FROM LATIN AMERICA AND THE CARIBBEAN BY COUNTRY

(Millions of US\$ and year-on-year growth rate, 2005 and 2017)

| Group | Country | Category | Value of exports (millions of US\$) | | Annual average rate of change (%) |
|---------------------|-----------|---|--|--------------------|--|
| | | | 2005 | 2017 | |
| World | | Computer services | 62,024.2 | 417,115.3 | 17.2% |
| | | Business services | 378,626.5 | 1,181,284.1 | 9.9% |
| | | Personal, cultural, and recreational services | 18,078.7 | 48,348.2 | 8.5% |
| | | Total KIS | 458,729.4 | 1,646,747.6 | 11.2% |
| LAC | | Computer services | 761.5 | 5,800.2 | 18.4% |
| | | Business services | 10,607.3 | 31,818.3 | 9.6% |
| | | Personal, cultural, and recreational services | 379.6 | 1,145.3 | 9.6% |
| | | Total KIS | 11,748.4 | 38,763.7 | 10.5% |
| Brazil | Brazil | Computer services | 87.7 | 1,779.3 | 28.5% |
| | | Business services | 6,115.8 | 17,083.5 | 8.9% |
| | | Personal, cultural, and recreational services | 55.8 | 313.1 | 15.5% |
| | | Total KIS | 6,259.3 | 19,175.9 | 9.8% |
| Rest of MERCOSUR | Argentina | Computer services | 237.9 | 1,856.8 | 18.7% |
| | | Business services | 1,597.9 | 4,321.9 | 8.6% |
| | | Personal, cultural, and recreational services | 203.0 | 366.9 | 5.1% |
| | | Total KIS | 2,038.9 | 6,545.6 | 10.2% |
| | Uruguay | Computer services | 82.5 | 193.1 | 7.3% |
| | | Business services | 51.5 | 1,279.4 | 30.7% |
| | | Personal, cultural, and recreational services | 0.4 | 84.5 | 57.3% |
| | | Total KIS | 134.4 | 1,557.1 | 22.6% |

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TABLE A1 • VALUE OF EXPORTS OF KNOWLEDGE-INTENSIVE SERVICES FROM LATIN AMERICA AND THE CARIBBEAN BY COUNTRY *(continued)*

(Millions of US\$ and year-on-year growth rate, 2005 and 2017)

| Group | Country | Category | Value of exports (millions of US\$) | | Annual average rate of change (%) |
|--------------------|--------------|---|--|----------------|--|
| | | | 2005 | 2017 | |
| Central America | Paraguay | Computer services | 0.4 | 0.4 | 0.0% |
| | | Business services | 8.2 | 2.7 | -8.8% |
| | | Personal, cultural, and recreational services | 0.0 | n.a. | — |
| | | Total KIS | 8.6 | 3.1 | -8.2% |
| | Total | Computer services | 320.8 | 2,050.3 | 16.7% |
| | | Business services | 1,657.6 | 5,604.1 | 10.7% |
| | | Personal, cultural, and recreational services | 203.4 | 451.4 | 6.9% |
| | | Total KIS | 2,181.8 | 8,105.8 | 11.6% |
| | Costa Rica | Computer services | 164.2 | 1,161.4 | 17.7% |
| | | Business services | 367.6 | 2,960.6 | 19.0% |
| | | Personal, cultural, and recreational services | 0.1 | 0.0 | -100.0% |
| | | Total KIS | 531.9 | 4,122.0 | 18.6% |
| | El Salvador | Computer services | 0.0 | 74.8 | — |
| | | Business services | 21.2 | 77.6 | 11.4% |
| | | Personal, cultural, and recreational services | 0.0 | 0.2 | 0.0% |
| | | Total KIS | 21.2 | 152.6 | 17.9% |
| | Guatemala | Computer services | 9.5 | 56.6 | 16.0% |
| | | Business services | 71.0 | 443.5 | 16.5% |
| | | Personal, cultural, and recreational services | 0.1 | n.a. | — |
| | | Total KIS | 80.6 | 500.1 | 16.4% |
| | Honduras | Computer services | 0.1 | 12.3 | 46.7% |
| | | Business services | 13.5 | 138.1 | 21.4% |
| | | Personal, cultural, and recreational services | 0.3 | 7.4 | 29.3% |
| | | Total KIS | 14.0 | 157.9 | 22.4% |
| | Nicaragua | Computer services | 0.0 | n.a. | — |
| | | Business services | 0.0 | 8.7 | — |
| | | Personal, cultural, and recreational services | 0.0 | n.a. | — |
| | | Total KIS | 0.0 | 8.7 | — |
| | Panama | Computer services | 11.7 | 36.2 | 9.9% |
| | | Business services | 196.7 | 533.8 | 8.7% |
| | | Personal, cultural, and recreational services | 0.0 | 51.3 | — |
| | | Total KIS | 208.4 | 621.3 | 9.5% |

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TABLE A1 • VALUE OF EXPORTS OF KNOWLEDGE-INTENSIVE SERVICES FROM LATIN AMERICA AND THE CARIBBEAN BY COUNTRY *(continued)*

(Millions of US\$ and year-on-year growth rate, 2005 and 2017)

| Group | Country | Category | Value of exports (millions of US\$) | | Annual average rate of change (%) |
|--------------------------------|-----------------------|---|--|----------------|--|
| | | | 2005 | 2017 | |
| Rest of Pacific Alliance | Dominican Republic | Computer services | 15.4 | 34.8 | 7.0% |
| | | Business services | 44.7 | 404.3 | 20.1% |
| | | Personal, cultural, and recreational services | 0.0 | 40.9 | — |
| | | Total KIS | 60.1 | 480.0 | 18.9% |
| | Total | Computer services | 200.9 | 1,376.2 | 17.4% |
| | | Business services | 714.8 | 4,566.6 | 16.7% |
| | | Personal, cultural, and recreational services | 0.6 | 99.8 | 54.1% |
| | | Total KIS | 916.2 | 6,042.6 | 17.0% |
| | Chile | Computer services | 91.5 | 290.6 | 10.1% |
| | | Business services | 1,116.3 | 2,321.8 | 6.3% |
| | | Personal, cultural, and recreational services | 8.9 | 29.4 | 10.5% |
| | | Total KIS | 1,216.7 | 2,641.8 | 6.7% |
| | Colombia | Computer services | 21.1 | 159.7 | 18.4% |
| | | Business services | 272.3 | 1,013.8 | 11.6% |
| | | Personal, cultural, and recreational services | 41.4 | 118.7 | 9.2% |
| | | Total KIS | 334.8 | 1,292.2 | 11.9% |
| | Peru | Computer services | 0.0 | 44.8 | — |
| | | Business services | 211.5 | 598.5 | 9.1% |
| | | Personal, cultural, and recreational services | 0.0 | 6.6 | — |
| | | Total KIS | 211.5 | 649.8 | 9.8% |
| | Total | Computer services | 112.6 | 495.1 | 13.1% |
| | | Business services | 1,600.1 | 3,934.1 | 7.8% |
| | | Personal, cultural, and recreational services | 50.3 | 154.7 | 9.8% |
| | | Total KIS | 1,763.0 | 4,583.8 | 8.3% |
| Caribbean | Bahamas | Computer services | n.a. | n.a. | — |
| | | Business services | 333.6 | 151.8 | −6.4% |
| | | Personal, cultural, and recreational services | n.a. | n.a. | — |
| | | Total KIS | 333.6 | 151.8 | −6.4% |
| | Belize | Computer services | 0.0 | 13.1 | — |
| | | Business services | 30.2 | 60.7 | 6.0% |
| | | Personal, cultural, and recreational services | 0.0 | 0.0 | 0.0% |
| | | Total KIS | 30.2 | 73.8 | 7.7% |

(continued on next page)

TABLE A1 • VALUE OF EXPORTS OF KNOWLEDGE-INTENSIVE SERVICES FROM LATIN AMERICA AND THE CARIBBEAN BY COUNTRY *(continued)*

(Millions of US\$ and year-on-year growth rate, 2005 and 2017)

| Group | Country | Category | Value of exports (millions of US\$) | | Annual average rate of change (%) |
|-------------------------------------|------------------------|---|--|--------------|--|
| | | | 2005 | 2017 | |
| | Guyana | Computer services | 4.6 | n.a. | — |
| | | Business services | 29.0 | 39.9 | 2.7% |
| | | Personal, cultural, and recreational services | n.a. | n.a. | — |
| | | Total KIS | 33.6 | 39.9 | 1.4% |
| | Jamaica | Computer services | 34.5 | 40.7 | 1.4% |
| | | Business services | 9.6 | 216.9 | 29.7% |
| | | Personal, cultural, and recreational services | 29.6 | 105.0 | 11.1% |
| | | Total KIS | 73.7 | 362.6 | 14.2% |
| | Suriname | Computer services | 0.0 | 0.7 | — |
| | | Business services | 67.2 | 48.8 | -2.6% |
| | | Personal, cultural, and recreational services | 0.0 | 0.1 | — |
| | | Total KIS | 67.2 | 49.6 | -2.5% |
| | Trinidad and Tobago | Computer services | 0.0 | 3.0 | — |
| | | Business services | 41.9 | 77.5 | 5.3% |
| | | Personal, cultural, and recreational services | 0.0 | 0.0 | — |
| | | Total KIS | 41.9 | 80.5 | 5.6% |
| | Total | Computer services | 39.1 | 57.5 | 3.3% |
| | | Business services | 511.5 | 595.5 | 1.3% |
| | | Personal, cultural, and recreational services | 29.6 | 105.1 | 11.1% |
| | | Total KIS | 580.2 | 758.1 | 2.3% |
| Intensive in Fuels and Energy | Bolivia | Computer services | 0.4 | 41.8 | 46.9% |
| | | Business services | 7.5 | 34.5 | 13.6% |
| | | Personal, cultural, and recreational services | 1.4 | 1.4 | 0.2% |
| | | Total KIS | 9.3 | 77.8 | 19.4% |
| | Ecuador | Computer services | 0.0 | 0.0 | 0.0% |
| | | Business services | 0.0 | 0.0 | 0.0% |
| | | Personal, cultural, and recreational services | 38.5 | 19.8 | -5.4% |
| | | Total KIS | 38.5 | 19.8 | -5.4% |
| | Total | Computer services | 0.4 | 41.8 | 46.9% |
| | | Business services | 7.5 | 34.5 | 13.6% |
| | | Personal, cultural, and recreational services | 39.9 | 21.2 | -5.1% |
| | | Total KIS | 47.8 | 97.6 | 6.1% |

Source: IDB Integration and Trade Sector with data from the WTO.

Note: Mexico is not included due to the lack of sufficiently disaggregated data. n.a.: data not available.

Methodological Annex 1

Estimates of the Value of Global and Regional Trade

This annex explains the adjustments made to the world trade series published by the Netherlands Bureau for Economic Policy Analysis (CPB) and the export series for Latin America used in this publication.

CPB World Trade Monitor

The CPB compiles monthly series on trade flows by country utilizing selected sources that publish information online. Once collected, the data are standardized in terms of frequency and currency (dollars). This allows the construction of consistent series of values, prices, and volumes. Additionally, different techniques are used to estimate the missing observations at the country level for the most recent months. The data by country are aggregated regionally, which requires completing missing data for some countries using regional growth rates. The CPB Monitor covers 81 countries. The series are generally obtained seasonally adjusted, and when not, the adjustment is made.⁴⁹ Since 2016, the base year for the series is 2010.

Estimation of Latin American Exports

The series of seasonally adjusted exports covers 18 LA countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The series was constructed using national sources and IDB estimates for Venezuela (see Methodological Annex 2). The Caribbean is not included due to the lack of availability of updated monthly data.

⁴⁹ For more detail, see Ebregt (2016).



Methodological Annex 2

Indices of Price, Volume and Terms of Trade

This annex summarizes the methodology used to estimate the price and volume indices of exports and imports and the terms of trade indices used in Chapters 1 and 2 in aggregate form.

Monthly Series

The decomposition of variations in the price and volume of LA exports in the first half of 2019 presented in Figures 3 (Chapter 1) and 8 and 9 (Chapter 2) come from a monthly aggregate volume index that includes 10 countries: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. The export volume indices were calculated using data from official sources for Argentina (National Institute of Statistics and Censuses), Brazil (Center for Foreign Trade Studies Foundation), Chile (Central Bank of Chile), Colombia (Bank of the Republic), El Salvador (Central Reserve Bank of El Salvador), Peru (Central Reserve Bank), and Uruguay (Central Bank). The series for Paraguay was calculated using data on export volumes for the country's main products reported by the Central Bank and aggregated according to the export structure of 2010. For Mexico, the series of exports in dollars were deflated using the import price index published by the U.S. Bureau of Labor Statistics (BLS). Venezuela's export volumes were calculated using OPEC information on Merey-type oil prices. The national series were geometrically aggregated based on countries' shares in total exports valued in U.S. dollars in 2015. For imports, the price and volume indices published by the official sources in the list above were used, except for Venezuela. The indices were aggregated using the relative weight of the respective imports in the first semester of 2019.

Annual Series

Formulas

Price Indices

The price indices correspond to Laspeyres estimates for imports and exports:

$$P_t = \frac{\sum_i p_t^i * q_0^i}{\sum_i p_0^i * q_0^i}$$

where $P_t^i = \frac{v_t^i}{q_t^i}$ is the unit value of item i in time t ,

- Value, v_t^i , (thousands of US\$)
- Volume, q_t^i , (thousands of kg)

The Laspeyres price index compares the value of a basket of products in the base year with the value of the same basket in period t . When $P_t = 1$, the basket costs the same as in the base year.

Volume Indices

The Paasche volume indices are estimated for imports and exports:

$$Q_t = \frac{\sum_i p_t^i * q_t^i}{\sum_i p_t^i * q_0^i}$$

where $P_t^i = \frac{v_t^i}{q_t^i}$, is the unit value of item i in time t ,

- Value, v_t^i , (thousands of US\$)
- Volume, q_t^i , (thousands of kg)

The Paasche volume index compares the value of a basket of goods in period t valued at the prices of period t (current) with the value of a basket in the base year valued at the prices of period t . When $Q_t = 1$, the current basket is composed of the same quantities as in the base year.

Terms of Trade

Based on the following formula:

$$TI_t = \frac{P_{x,t}}{P_{m,t}} * 100$$

Where $P_{x,t}$ and $P_{m,t}$ correspond, respectively, to the export and import price indices of the country in year t .

Specific Methodologies and Data Sources

Two methodologies were used to estimate the annual price and volume indices, according to the availability and quality of the disaggregated data. The first draws on the primary microdata available in INTrade/DataINTAL, used to estimate import and export deflators for the countries of South America and the imports of Central America. The second used deflators elaborated by the Bureau of Labor Statistics (BLS), applied to the exports of Mexico and Central America. The indicators corresponding to Mexico's imports come from the series published by the Bank of Mexico (Banxico). All data were homogenized according to the 1996 revision of the Harmonized System (HS).

Methodology 1: South American Trade Flows and Central American Imports

For exports and imports of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Paraguay, Peru, and Uruguay, and for the imports of Costa Rica, Guatemala, and Mexico, Laspeyres price indices were calculated at the HS 6-digit subheading level, taking 2005 as the base year and 2015 as the reference period. These calculations were based on data for current values and physical volumes reported by national sources to INTrade/DataINTAL as of July 2019, and using COMTRADE for imports from Venezuela, which were obtained according to the value of exports to Venezuela reported by other countries.

Methodology 2: Exports of Mexico and Central American Countries

This group includes Costa Rica, Guatemala, and Mexico. Problems that were detected in the data, particularly in the volume data for manufacturers, made it advisable to proceed with estimates at constant prices at the HS chapter (2-digit) level, using the price indices of U.S. imports obtained from the BLS. The disaggregation is composed of 35 chapters of the HS: 2, 3, 7, 8, 9, 20, 22, 27, 28, 29, 30, 39, 40, 42, 48, 61, 62, 63, 64, 69, 70, 72, 73, 74, 76, 82, 83, 84, 85, 87, 90, 91, 94, 95, and 96. se calculations were computed using the current values data reported by national sources to INTrade/DataINTAL as of June 2019.

Methodology 3: Venezuelan Exports

Price indices were estimated using OPEC data on Meroy crude oil, and volume indices were estimated using primary and secondary data on production volume, from the same source.

Additional Notes

At the time of publication, complete data were not available for Caribbean countries.

Indicators for the region and group of countries presented in Figures 3 (Chapter 1) and 8 and 9 (Chapter 2) were obtained from weighted averages of the price and volume indices of trade flows corresponding to each country. The relative values of exports or imports of the countries within each group in each year were used as weights.

Data for the last two years are subject to revision by the respective sources and does not necessarily coincide with the figures that are subsequently updated and published by these sources. These estimates should thus be viewed as being preliminary.

Methodological Annex 3

Leading Indicator of Latin American and Caribbean Exports

The data on global trade in goods are published with delays due to the corrections that statistical institutes make to the data provided by customs agencies. The leading indicator for LAC exports gives an early indication of short-term trade trends and the outlook for the region's export flows.

Objective

The indicator does not represent a forecast of the value or volume of flows but rather provides an indication of performance in the immediate future (up to three months). Its main contribution is identifying turning points in the trend of exports. In other words, it allows analysts to anticipate a transition from a peak to a contraction trend or from a low point to an expansion path.⁵⁰

Data and Sources

The indicator is based on a set of variables that are published in advance and are correlated to the region's exports. The variables included in the version published in this report include data that were accessed up to September 24, 2019, on:

- 151 variables for daily commodity prices, exchange rates, and interest rates, obtained from Bloomberg, transformed into monthly data and classified into 5 categories: agriculture, energy, metals, bilateral and multilateral exchange rates, and interest rates and stock exchange indices.
- Price of Brent crude oil per barrel.
- Vehicle production in Mexico, Brazil, and Argentina.

⁵⁰ This indicator is comparable to the WTO Goods Trade Barometer, which uses a similar methodology to describe recent trends in global trade. See WTO (2019d).

- Purchasing manager indexes (PMI), including for the U.S., the Eurozone, China (general and nonmanufacturing), and the global PMI.
- Expectation indices, including the IFO Business Climate Index and the Business Expectation Index (six-month expectations of firms in the industry, services, business, and construction sectors).
- Short-term container throughput indices, including the RWI/ISL container throughput index for major ports in North America, Europe, and Asia.
- Commodity futures indices, including the Bloomberg Commodity Index (BCOM) and the Thomson Reuters Core Commodity (CRB) Index.
- Dry bulk carrier transportation indices, including the Baltic Dry Index (BDI).

The sources of information used in the indicator were:

| Series | Source |
|---|--|
| Agricultural prices (principal component) | Compiled by the authors based on Bloomberg |
| Energy prices (principal component) | Compiled by the authors based on Bloomberg |
| Metal prices (principal component) | Compiled by the authors based on Bloomberg |
| Interest and exchange rates | Compiled by the authors based on Bloomberg |
| Financial variables (principal component) | Compiled by the authors based on Bloomberg |
| Container throughput (RWI/YSL) | RWI/ISL |
| Vehicle production—Mexico | INEGI |
| Vehicle production—Argentina | ADEFA |
| Vehicle production—Brazil | ANFAVEA |
| Commodity futures contracts (BCOM) | Bloomberg |
| Commodity futures contracts (CRB) | Thomson Reuters |
| Bulk carrier transportation (BDI) | Bloomberg |
| Business climate (IFO) | IFO Institute |
| Business expectations (IFO) | IFO Institute |
| Brent crude oil | World Bank |
| PMI | Markit IHS, Caixin |

Methodology

The first step in calculating the indicator is selecting the independent variables. In addition to correlating with LAC exports and fulfilling conditions on availability and frequency of updates, all the variables currently used to estimate the indicator meet the following criteria:

1. Relevance: the existence of correlation between series of potential components and the reference series is not sufficient—there needs to be an economic justification;

2. Spectrum: series covering a broad spectrum of economic activity are preferable to microeconomic series containing specific sectoral information;
3. Frequency: monthly series are preferable so as to avoid the need to transform into monthly less frequent series (such as quarterly or annual series), which could introduce statistical noise;
4. Revision: series that are not subject to constant major revisions are preferable;
5. Periodicity: there must be no delays in the publication of updates to series;
6. Length: long, uninterrupted time series are needed.

Second, to reduce the dimensionality of the group of 151 high-frequency variables, the methodology of principal component analysis (PCA) was used to obtain the PC variables (1 to 5) identified in the table. These variables provide the basis for selecting index components.

Third, the year-on-year variations of the dependent and independent variables are computed, and the trend is identified using the Hodrick–Prescott (HP) filter.

Fourth, an algorithm is constructed to identify all possible combinations of independent variables (a minimum of 2 and a maximum of 7) with high explanatory power regarding the trend for LAC goods exports. For each combination of independent and dependent variables, local highs and lows are estimated using the Bray–Boschan (BB) algorithm,⁵¹ which allows to identify the number of turning points in the trend of the dependent variable. For each combinatorial, the algorithm endogenously assigns a system of weights to the independent variables in order to obtain a weighted synthetic indicator.

An additional algorithm then measures which combinatorial allows the earliest identification of turning points and shows the highest correlation with the series of LAC goods exports value.

As is reported by national sources of trade data for LAC, the most recent data may be subject to substantial revisions in the months following the estimate, and estimates should therefore be interpreted as no more than indicative.

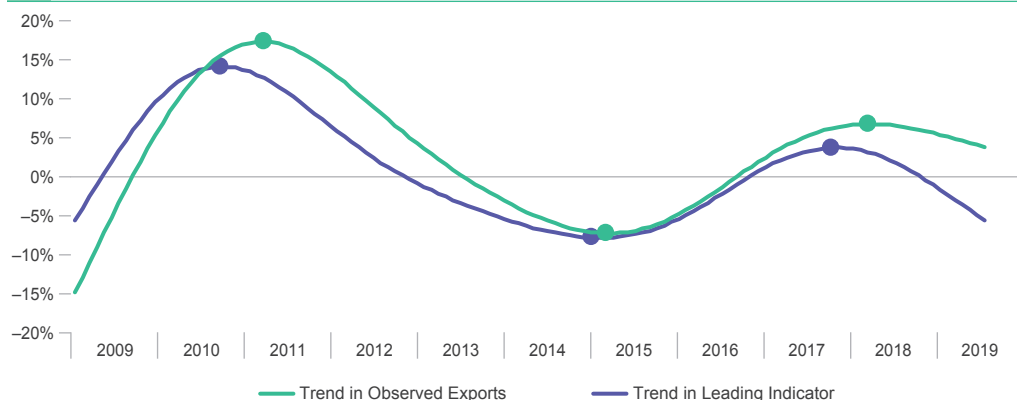
Predictive Capacity

Comparing the trends for the series of the observed variable and the indicator—particularly the local highs and lows—allows the predictive capacity of the index to be assessed.

The indicator allows analysts to anticipate a transition from a peak to a contraction trend or from a low point to an expansion path. For example, the local highs in

⁵¹ See Bray and Boschan (1971).

FIGURE A1 • TRENDS IN THE LEADING INDICATOR AND VALUE OF EXPORTS
(Year-on-year growth rate, 2008-2019)



Source: IDB Integration and Trade Sector and authors' estimations.

Note: Both series only present the trend after applying the HP filter.

the leading indicator observed in November 2010 and 2017 and the low that came in February 2015 allow to anticipate changes in the growth rate of LAC exports.

According to the methodology used for the leading index of the IMF,⁵² to establish the temporal validity of the indicator's predictive capacity, the average number of months that the indicator precedes the turning points was selected. In this case, the average anticipation in the series since 2009 is a three-month period, which is in line with other similar indices.

The 2015 forecast only anticipated the change in trend one month earlier. This reflects the fact that, in addition to the variables that systematically affect exports, there are also other unpredictable factors at play, such as changes in economic policy, which can lead to unexpected changes in trends. For example, in 2015, the sudden decision of the OPEC to change oil production levels explains the limited anticipation in the prediction of the leading index.

Instant Prediction

In addition to evaluating the trend, to estimate the range of future growth rates of the dependent variable, an instant prediction methodology known as *nowcasting* is used.⁵³ This consists of using the independent variables mentioned above and estimating a factor model using principal components, which allows to take advantage of the explanatory variability of the series. The basis of this methodology, which has

⁵² See Barhoumi and Ferrara (2015).

⁵³ See Giannone and Small (2008), Banbura *et al.* (2013), Bell *et al.* (2014) y Andreou *et al.* (2015).

been shown to be effective in anticipating the evolution of variables in the very short term,⁵⁴ is that there are latent movements behind the variables used that relate to the cycle, in this case of exports, which can be captured in synthetic series.

The procedure for estimating this consists of the following steps. First, the correlation between the total number of available variables and the dependent variable is analyzed. Using this methodology, one can analyze the correlation between the independent variables and the measured variable—the value of LAC goods exports. A threshold is then established in order to retain only those variables that have greater correlation with the dependent variable—in general, a value of between 45% or 50% or greater is chosen, bearing in mind that the higher the threshold, the lower number of series that meet this requirement.

An algorithm is then constructed that test different combinatorials of the variables, taking a minimum of five and a maximum of six. For each of these combinatorials, a principal component is estimated and is used to construct the factors—that is, the original variables weighted by the loadings of the first component obtained in the principal component analysis. Finally, the target variable is regressed on the estimated factors.

⁵⁴ See Stock and Watson (2002 y 2010).



Methodological Annex 4

Goods and Services Export Statistics

The figures from 2016 to 2019 in Tables 1, 2, and 3 (Chapter 3) are preliminary and subject to changes by national sources.

Tables 1 and 2

Goods exports are expressed in Free on Board (FOB) values and goods imports are expressed in values that include cost, insurance, and freight (CIF). For Venezuela, exports were estimated based on price and volume data reported by OPEC (see Methodological Annex 2) and imports were estimated based on IMF mirror data (exports to Venezuela recorded by trade partners). Data for Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua include special trade regimes (STR). Data for Panama refer only to national exports and imports. The growth in goods exports and imports through June 2019 is an estimate of the year-on-year change based on monthly data through that month, except in the case of the Caribbean countries, for which estimations are made using records up to the last available month and assuming that the behavior up to that point would be maintained until June. Imports from the Bahamas, Barbados, Guyana, and Suriname were estimated with data for January–March data, those from Jamaica with data for January–April, and those from Belize and Haiti with data for January–May. The aggregate for the Caribbean excludes Trinidad and Tobago as no data were available for 2019.

Table 3

The definition of services exports corresponds to the sixth version of the IMF Balance of Payments Manual. For all years, the series exclude construction, government, manufacturing, maintenance, and repair of goods and services. The services data

for the Bahamas, Barbados, Guyana, Haiti, Jamaica, and Trinidad and Tobago are estimated based on WTO figures. The value of services exports for the first half of 2018 is an estimate that excludes some countries for which no data were available at the time of publication.

Methodological Annex 5

Data Management in the Intraregional Trade Analysis

Country Groupings by Groups and Integration Blocs

Pacific Alliance: Colombia, Chile, Mexico, and Peru. Countries with associate status were not included.

AC: Bolivia, Colombia, Ecuador, and Peru. Colombia and Peru, which are members of both the PA and AC, are included in estimates for both blocs. However, when reference is made to totals for LA or LAC, they are considered only once to avoid double counting.

CADR: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The group includes Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, Panama, and the Dominican Republic, given that the latter belongs to the Central American Integration System (SICA) and has trade agreements with the other members of the group. Belize is not included because even though it belongs to SICA, it does not have trade agreements with most Central American countries, with the exception of Guatemala and Costa Rica.

CARICOM: Bahamas, Barbados, Belize, and Jamaica. The remaining CARICOM countries were not considered in the analysis in this section due to problems with the availability and comparability of data.

MERCOSUR: Argentina, Brazil, Paraguay, and Uruguay. Venezuela, which was formerly in the process of joining the bloc but is currently suspended from it, was not included.

Latin America and the Caribbean: includes all the countries mentioned above and Venezuela.

Database and Estimates

The following official data sources were used: Argentina: National Institute of Statistics and Censuses; Barbados: Barbados Statistical Service and Central Bank of Barbados;

Belize: Statistical Institute of Belize; Bolivia: National Institute of Statistics; Brazil: Ministry of Development, Industry, and Foreign Trade; Chile: Central Bank of Chile; Colombia: National Administrative Department of Statistics; Costa Rica: Central Bank of Costa Rica and PROCOMER; the Dominican Republic: General Customs Directorate; Ecuador: Central Bank of Ecuador; El Salvador: Central Reserve Bank of El Salvador; Guatemala: Bank of Guatemala; Honduras: Central Bank of Honduras; Jamaica: Statistical Institute of Jamaica; Mexico: Bank of Mexico; Nicaragua: Central Bank of Nicaragua; Panama: National Institute of Statistics and Censuses; Paraguay: Central Bank of Paraguay; Peru: Central Reserve Bank of Peru and National Customs and Tax Administration; United States: US International Trade Commission; Uruguay: Central Bank of Uruguay; Venezuela: OPEC, IMF and Central Bank of Venezuela.

Honduran exports were estimated using mirror data from its trade partners. Trade flows to Nicaragua and Panama are estimations based on data from Honduras up to March 2019, on the assumption that the behavior of exports up to that point would be maintained in the second quarter. Nicaragua's exports were estimated using mirror data from its partners, except for shipments to Honduras which were obtained from the records published by Nicaragua in the monthly foreign trade report of its Central Bank, with data through May, on the assumption that the behavior of exports would be maintained through June. Panama was estimated using the data available up to March 2019, on the assumption that the behavior of exports up to that point would be maintained in the second quarter, except in the case of exports to the Dominican Republic, which were obtained from mirror data.

The 2019 edition of the *Trade and Integration Monitor* identifies the factors underlying recent developments in exports of Latin America and the Caribbean, examines the risks that are present at the current juncture, and concludes that the ongoing contraction in the region will continue. It argues that the third trade contraction in a decade, which is unfolding against a backdrop of limited dynamism in global trade, underscores the vulnerability of Latin American and Caribbean economies to increased external risks. Looking ahead, the publication highlights that integrating the regional market and boosting the competitiveness of the services sector are fundamental to expanding exports and improving their resilience.



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