Item 7: Evolution of the International Trading System and its Trends from a Development Perspective

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The Economic Commission for Latin America

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International trade and inclusive development: building synergies

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Main links between trade, growth, development and social inclusion

The experience of Latin America and the Caribbean

Some policy recommendations

A few words on agricultural trade and Latin America
Main trends in the global scenario

**Fast tech change**
- Informática, TIC, nube informática, ciberservicios y “ciudades inteligentes”
- Impresión en 3D, robótica y vehículos teledirigidos
- Interfaz biología, nanociencias y ciencias informáticas
- Complejo energía, agua y recursos naturales

**New geography of economic growth**
- Ec Growth, Trade, FDI, Medium class, patents and new technologies
- Process very concentrated on China and East Asia

**Global value chains**
- Three big factories:
  - North America
  - Europe
  - East Asia

**Megatrade agreements**
- TPP
- TTIP
- UE-Japón
- ASEAN+6 (RCEP)

Urgency to deal with Climate Change and with increasing inequality
What is inclusive trade?

- A type of trade that contributes to reducing **structural heterogeneity** through growth in employment, productivity and incomes
  - Thus helping to raise overall welfare and to reduce inequality
- Book published by ECLAC in 2013, now available in English
The region’s production structure is very heterogeneous and a source of inequality.

**LATIN AMERICA (18 COUNTRIES): STRUCTURAL HETEROGENEITY INDICATORS, AROUND 2009**

(Percentages)

- GDP composition: 66.9, 22.5, 10.6
- Employment composition: 50.2, 30, 19.8

**LATIN AMERICA (18 COUNTRIES): GDP PER WORKER, PPP AROUND 2009**

(Thousands of dollars)

- High-productivity segment: 91.2
- Medium-productivity segment: 20.5
- Low-productivity segment: 5.6

Trade and growth: The links

- Debate: Is there a link between openness and growth?
- In general, there is positive correlation between both
- Open economies tend to grow more. No success stories of countries in autarky
- Both static factors (reallocation of factors) and dynamic forces are at play:

  - Trade opening
  - More competition
  - More innovation and incorporation of technology
  - Increase in productivity
  - Higher rate of growth

- Openness by itself does not produce growth; it needs complementary policies
  - Macroeconomic stability, rule of law, safety net and re-training for displaced workers, education, internationalization of firms, R&D, ...
Link 1: (Net) exports reduce poverty through economic growth

Selected countries and groups: Variation in exports, GDP and poverty, 2000-2010

A. Average annual GDP and export growth
   (In percentages)

B. Contributions of growth and improvements in income distribution to the reduction of poverty
   (In percentage points)

Source: ECLAC, based on CEPALSTAT and UNCTADSTAT databases, World Bank and ECLAC, Social Panorama of Latin America.
Since 1980, the region’s trade has grown faster than its GDP

World and selected regions and countries: Share of trade in GDP

(At constant 2005 prices)

Source: ECLAC, based on World Bank and UNCTAD.
Link 2: Terms of trade gains explain part of LAC’s high national income growth in recent years

Source: ECLAC, based on countries' national accounts.
Link 3: Export diversification and growth

The degree of export diversification affects the GDP growth rate

More diversified exports → Less volatility of terms of trade → Reduced fluctuations of export income → Less fluctuations of GDP growth and exchange rate → Higher GDP growth rate

Structural transformation → Investment in physical and human capital and knowledge → Entrance to new types of activities and sectors → New comparative advantages → Structural transformation

Latin America and the Caribbean still have a large potential to diversify exports

Latin America and other regions:
Concentration of export basket (Herfindahl-Hirschman Index)

Source: ECLAC, SIGCI database.
Indeed, in the last decade the region’s exports have been re-concentrating on commodities.

**Latin America and the Caribbean:**
Distribution of total exports by technological content, 1981-82 to 2011-12

*(In percentages)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Manuf. de Alta Tecnología</th>
<th>Manuf. de Tecnología Media</th>
<th>Manuf. de Recursos Naturales</th>
<th>Materias Primas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1982</td>
<td>25.5</td>
<td>48.4</td>
<td>23.5</td>
<td>51.5</td>
</tr>
<tr>
<td>1985-1986</td>
<td>25.0</td>
<td>48.4</td>
<td>23.5</td>
<td>25.5</td>
</tr>
<tr>
<td>1991-1992</td>
<td>23.5</td>
<td>39.5</td>
<td>21.7</td>
<td>25.0</td>
</tr>
<tr>
<td>1995-1996</td>
<td>21.7</td>
<td>32.5</td>
<td>18.4</td>
<td>48.4</td>
</tr>
<tr>
<td>1998-1999</td>
<td>18.4</td>
<td>26.7</td>
<td>16.6</td>
<td>39.5</td>
</tr>
<tr>
<td>2001-2002</td>
<td>16.6</td>
<td>27.6</td>
<td>19.3</td>
<td>32.5</td>
</tr>
<tr>
<td>2005-2006</td>
<td>19.3</td>
<td>35.1</td>
<td>20.2</td>
<td>27.6</td>
</tr>
<tr>
<td>2008-2009</td>
<td>20.2</td>
<td>38.8</td>
<td>19.2</td>
<td>26.7</td>
</tr>
<tr>
<td>2011-2012</td>
<td>19.2</td>
<td>40.2</td>
<td>19.2</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Source: ECLAC, based on COMTRADE.
Most of the region’s export growth comes from selling the same products to the same markets.

**Sources of export growth**

**Destination markets**
- **Existing**
- **New**

**Products**
- **Existing**
- **New**

The extensive margin leads to more productivity gains and growth than the intensive margin.

However, LAC export growth in the last 2 decades has been dominated by the intensive margin.

**Breakdown of LAC export growth by extensive and intensive margins, 1995-2010**

- **1995-2002**
  - New product to new market: 1%
  - New product to existing market: 5%
  - Existing product to new market: 10%
  - Existing product to existing market: 84%

- **2003-2010**
  - New product to new market: 1%
  - New product to existing market: 4%
  - Existing product to new market: 9%
  - Existing product to existing market: 86%
Direct employment: Those employed in export firms

Indirect employment: Those working in sectors supplying goods and services to export firms

Estimates are based on input-output tables which are available for some countries in the region:

- Brazil, Chile, Colombia, Mexico and Uruguay

Despite the destruction of employment by imports, the net effect of international trade on employment was positive in all countries.
Employment in the export sector grew faster than in the non-tradable sector (except for Colombia)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>% of total employment</th>
<th>Indirect/Direct</th>
<th>Average annual growth rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Direct</td>
<td>Export related employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td>Brasil</td>
<td>2000</td>
<td>10,1</td>
<td>0,99</td>
<td>2,9</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>14,5</td>
<td>1,17</td>
<td>10,6</td>
</tr>
<tr>
<td>Chile</td>
<td>1996</td>
<td>18,4</td>
<td>0,69</td>
<td>1,6</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>24,1</td>
<td>0,62</td>
<td>5,6</td>
</tr>
<tr>
<td>Colombia</td>
<td>1997</td>
<td>14,6</td>
<td>0,36</td>
<td>3,4</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>12,2</td>
<td>0,37</td>
<td>1,1</td>
</tr>
<tr>
<td>Mexico</td>
<td>2003</td>
<td>13,4</td>
<td>0,34</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>1997</td>
<td>12,5</td>
<td>1,00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>16,8</td>
<td>1,04</td>
<td></td>
</tr>
</tbody>
</table>

Source: ECLAC, based on national input-output tables.
**Link 5: Firms that export (and import) perform better in terms of growth/productivity than those that do not**

**Results from econometric studies on firms’ participation in trade in Latin America**

<table>
<thead>
<tr>
<th>Results</th>
<th>Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term growth is higher in those firms that export than in those that do not. When firms also import, long term growth is even higher</td>
<td>México (Bernard 1995, Clerides et al. 1998); Chile (Meller 1995, Alvarez y López 2005, Kasahara y Lapham 2008); Colombia (Clerides et al. 1998, Isgut 2001)</td>
</tr>
<tr>
<td>The impact of exports on long term growth is larger in small plants</td>
<td>Colombia (Isgut 2001)</td>
</tr>
<tr>
<td>New plants that export show higher Total Factor Productivity growth than plants that do no export</td>
<td>Colombia (Fernandes y Isgut 2005)</td>
</tr>
<tr>
<td>Importers (of intermediate goods) have a major probability of survival than those who do not import</td>
<td>Chile (López 2006; Gibson y Graciano 2011; Namini et al. 2011)</td>
</tr>
</tbody>
</table>
Excluding Mexico, the regional market absorbs almost 60% of the manufactures exported from Latin America and the Caribbean.

Source: ECLAC, based on COMTRADE.
The Latin American market is also the most conducive to export diversification

Source: ECLAC, based on COMTRADE.
However, Latin America trades little with itself compared to other regions.

SELECTED GROUPINGS: SHARE OF INTRA-GROUP EXPORTS IN TOTAL EXPORTS, 2008-2013
(In percentages)

Source: ECLAC, based on COMTRADE.
Moreover, regional production integration continues to be very limited.

**SELECTED GROUPINGS: SHARE OF PARTS AND COMPONENTS IN INTRA-GROUP EXPORTS, 2000-2013**

*In percentages*

Source: ECLAC, based on COMTRADE.
Fostering intraregional trade is key to promote inclusive growth

LAC: Inclusive trade indicators by export destination

<table>
<thead>
<tr>
<th>Export destination</th>
<th>Diversification</th>
<th>Employment</th>
<th>SME involvement</th>
<th>Linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Products</td>
<td>Firms</td>
<td>Direct</td>
<td>Indirect</td>
</tr>
<tr>
<td>LAC</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>United States</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>European Union</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

- LAC needs to strengthen regional integration to:
  - Increase the region’s competitiveness in international markets
  - Promote intraregional trade and integration in GVCs

- To do this, it is key to move towards a more integrated market by:
  - Improving regional infrastructure (transport, telecoms) and logistics
  - Harmonizing regulations (FDI, services, competition, public procurement, TBT)
  - Coordinating national industrial policies at the regional level
LAC exports are very concentrated in terms of firms and markets

**EXPORT SHARE OF THE TOP PERCENTILE OF EXPORTING FIRMS, AROUND 2010**

<table>
<thead>
<tr>
<th>Country</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela (Bol. Rep. of)</td>
<td>98</td>
</tr>
<tr>
<td>Colombia</td>
<td>80</td>
</tr>
<tr>
<td>Chile</td>
<td>78</td>
</tr>
<tr>
<td>Bolivia (Plur. State of)</td>
<td>77</td>
</tr>
<tr>
<td>Paraguay</td>
<td>76</td>
</tr>
<tr>
<td>Mexico</td>
<td>73</td>
</tr>
<tr>
<td>Argentina</td>
<td>72</td>
</tr>
<tr>
<td>Peru</td>
<td>70</td>
</tr>
<tr>
<td>Brazil</td>
<td>60</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>54</td>
</tr>
<tr>
<td>Panama</td>
<td>47</td>
</tr>
<tr>
<td>Uruguay</td>
<td>41</td>
</tr>
</tbody>
</table>

**LATIN AMERICA (10 COUNTRIES): DISTRIBUTION OF EXPORTING FIRMS BY NUMBER OF MARKETS AND PRODUCTS, AROUND 2010**

- 1 product / 1 destination: 36.1%
- From 2 products / 2 destinations to 3 products / 3 destinations: 25.4%
- From 4 products / 4 destinations to 10 products / 10 destinations: 4.0%
- 10 or more products / 10 destinations: 34.6%

Source: ECLAC, on the basis of official information from the customs services of the respective countries, OECD, World Bank and specialized studies.
Latin American SMEs account for the majority of export firms, but for a very small share of export value.

### Selected LAC countries: SME export performance indicators, around 2010
(In percentages)

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
<th>Colombia</th>
<th>Costa Rica</th>
<th>Mexico</th>
<th>Peru</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs/Total export firms</td>
<td>76,1</td>
<td>61,2</td>
<td>58,3</td>
<td>71,1</td>
<td>64,6</td>
<td>88,4</td>
<td>88,0</td>
</tr>
<tr>
<td>SME exports/Total exports</td>
<td>6</td>
<td>7,5</td>
<td>7</td>
<td>4,5</td>
<td>16</td>
<td>4</td>
<td>3,3</td>
</tr>
<tr>
<td>Main SME export markets</td>
<td>Latin America</td>
<td>Latin America, EU</td>
<td>Latin America, USA</td>
<td>Latin America, USA</td>
<td>Central America, USA</td>
<td>USA</td>
<td>Latin America, USA</td>
</tr>
</tbody>
</table>

Some policy proposals at the national level

- Foster innovation networks
- Put education and training at the heart of upgrading policies
- Help SMEs to improve their performance so they can connect to GVCs
- Strengthen links between commodities, manufacturing and services
- **A modern, smart industrial policy is essential to do all this**
- The WTO agreements and most FTAs leave sufficient policy space to:
  - Support R&D, innovation
  - Provide preferences to SMEs in public procurement
  - Support “green” goods and services
  - Support clusters
  - Implement supplier development programs
  - Implement programs to train specialized human capital and to certify professional qualifications, quality
Some possible indicators of inclusive trade

A. Diversification (products/markets)
   - Herfindahl-Hirschman Index
   - Number of exported products/export markets
   - Number of products exported to each market
   - Breakdown of exports (traditional vs. non traditional) en each market

B. Innovation, technological content
   - Breakdown of exports by technological content

C. Inclusiveness
   - Breakdown of exports by firm size
   - Share of intraregional trade (number of products and firms involved)
   - Direct and indirect employment involved in exports and imports
   - Wages in export firms by industry/sector
A few final words on agricultural trade and Latin America and the Caribbean
LAC agricultural exports have been less dynamic than total exports in the last quarter of a century.

Latin America and the Caribbean: Total merchandise exports by main categories, 1990-2013

(In US$ billions)

Average annual export growth:
- Agricultural: 8.7%
- Fuels & mining: 9.3%
- Manufactures: 9.8%
- Total exports: 9.4%

Share of Ag in total exports:
- 1990: 25%
- 2013: 22%

Source: WTO, Statistics Database.
However, agriculture is still a vital export sector for several Latin American countries.

### Share of agricultural products in total merchandise exports, 2013

Source: WTO, Statistics Database.
Moreover, trade surpluses in agriculture help to compensate deficits in fuels & mining, manufactures and services

Selected LAC countries: Trade balance by main categories, accumulated 2010-2013

(In billions dollars)

Argentina

Uruguay

Paraguay

Nicaragua

Source: WTO, Statistics Database.
Global economic and demographic trends open up enormous opportunities for Latin American food exporters

- World population is expected to reach 9 to 9.5 billion by 2050
- Rapid urbanization and growth of the middle class in Asia, Africa
- Changes in consumption patterns: increased demand for meat, fish, dairy, fruits, vegetables, processed foods, wine, etc.
- Some Latin American countries (especially those in the Southern Cone) are ideally placed to meet that growing demand

However, this poses important challenges:
- Being able to export processed products, not just food commodities
- Understanding and meeting the demands of consumers in non-traditional markets
- Expanding food production while ensuring environmental sustainability and combating climate change
Thank you