Latin America and the Caribbean in the World Economy

The region amid the tensions of globalization
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A. Growing dissatisfaction with hyperglobalization
B. The region’s vulnerable participation in global trade
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A. Growing dissatisfaction with hyperglobalization
Globalization questioned in the North

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<th>Tensions</th>
<th>Reactions</th>
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<tr>
<td>▪ Low dynamism of the global economy</td>
<td>▪ Rise of nationalisms</td>
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<tr>
<td>▪ High unemployment (Europe)</td>
<td>▪ Opposition to new trade agreements</td>
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<td>▪ Wage stagnation</td>
<td>▪ Resistance to immigration</td>
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<td>▪ Increasing inequality</td>
<td>▪ Anti globalization movements</td>
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<td>▪ Gowing migratory flows</td>
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<td>▪ Intense competition from Asian manufactures</td>
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<tr>
<td>▪ Disruptive impacts of the digital revolution</td>
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</tbody>
</table>
World GDP and trade do not recover after the crisis

Variation in the volume of global merchandise exports and GDP, 1952-2016

(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), with data from the World Trade Organization and International Monetary Fund.

a Figures for 2016 are projections.
The ongoing transition in China’s economic model has reduced its demand for imports

China: consumption, investment and trade

A. Consumption and investment, 2000-2015 (Percentages of GDP)

B. Trade volume: year-on-year variation, Q1 2006-Q2 2016 (Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), with data from World Bank, World Development Indicators, National Bureau of Statistics of China and World Trade Organization.
The incomes of the middle class in developed countries stagnated

Change in real income by percentile of the world population between 1988 and 2008 (Percentages)

A. The middle class of emerging economies
B. The middle class of developed countries
C. The world’s richest 1%

The tensions of globalization have large implications for emerging economies

**Risks**
- Continued imbalances and adjustments
- More protectionism
- Less *offshoring*
- Migratory tensions
- Growing digital gaps

**Repercussions**
- Weak growth
- Greater exposure to financial volatility and indebtedness
- Worsened social indicators
B. The region’s fragile participation in international trade
The region shows a fragile participation in global trade

Latin America and the Caribbean and developing Asia:
Share in world exports of goods and services, 2000 and 2015
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), with data from UN COMTRADE database.
In 2016 the region’s exports are projected to fall 5% and its imports 9%, completing 4 years of contraction.

Latin America and the Caribbean: annual variation in merchandise trade, 2000-2016 a

(source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries’ official information.

a Figures for 2016 are projections.)
The sharp contraction of the region’s imports weakens perspectives for investment and growth.

### Latin America and the Caribbean: projected variation in the value of merchandise imports by category, 2016 (Percentages)

- **Consumption goods**: -3.7%
- **Capital goods**: -7.3%
- **Intermediate goods**: -10.0%
- **Fuels**: -20.5%

### Latin America and the Caribbean: structure of merchandise imports by category, 2015 (Percentages)

- **Consumption goods**: 19%
- **Intermediate goods**: 16%
- **Bienes de capital**: 10%
- **Fuels**: 55%

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on data from national central banks, customs offices and statistical offices.
The largest drops in exports and imports will be in South America and the Caribbean

Latin America and the Caribbean: projected variation in merchandise trade by value, volume and price, 2016

(Percentages)

A) Exports

<table>
<thead>
<tr>
<th>Region</th>
<th>Volume</th>
<th>Price</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caribbean</td>
<td>-12.6</td>
<td>-6.3</td>
<td>-16.7</td>
</tr>
<tr>
<td>South America</td>
<td>-15</td>
<td>-10</td>
<td>-16.7</td>
</tr>
<tr>
<td>Central America</td>
<td>-7.6</td>
<td>-5.0</td>
<td>-9.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>-3.1</td>
<td>-2.0</td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-11</td>
<td>-5.0</td>
<td></td>
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B) Imports

<table>
<thead>
<tr>
<th>Region</th>
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<td></td>
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</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries’ official information.
In 2016 there is a deep reduction in the region’s trade deficit

Latin America and the Caribbean: trade balance with the world and with selected countries and regions, 2014-2016 a
(Millions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on data from national central banks, customs offices and statistical offices.

a Figures for 2016 are projections.
Trade falls with all the region's main partners

Latin America and the Caribbean (LAC): variation in the value of merchandise trade by origin and destination, 2015-2016

(Percentages)

A) Exports

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAC</td>
<td>-20</td>
<td>-10</td>
</tr>
<tr>
<td>United States</td>
<td>-17</td>
<td>-4</td>
</tr>
<tr>
<td>World</td>
<td>-15</td>
<td>-5</td>
</tr>
<tr>
<td>Asia (including China)</td>
<td>-20</td>
<td>-4</td>
</tr>
<tr>
<td>China</td>
<td>-18</td>
<td>-2</td>
</tr>
<tr>
<td>European Union</td>
<td>-14</td>
<td>-1</td>
</tr>
</tbody>
</table>

B) Imports

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
</tr>
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<td>-9</td>
</tr>
<tr>
<td>United States</td>
<td>-10</td>
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</tr>
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<td>China</td>
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Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries’ official information.

aData for 2016 are projections.
Same as in 2014 and 2015, intraregional trade falls the most, especially in South America.

Latin America and the Caribbean: annual variation in the value of goods exports to the region and to the rest of the world, 2007-2016

(Percentages)

Variation in the value of intra-grouping goods exports, January-June 2016 with respect to same period of 2015

(Percentages)

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Variation</th>
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<tbody>
<tr>
<td>Andean Community</td>
<td>-19.1%</td>
</tr>
<tr>
<td>Pacific Alliance</td>
<td>-12.0%</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>-11.7%</td>
</tr>
<tr>
<td>CARICOM</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Central American Common Market</td>
<td>-1.3%</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries’ official information.

*Figures for 2016 are projections.*
A modest recovery of the region’s trade is projected for the remainder of this decade

Latin America and the Caribbean: value of merchandise trade, 2000-2020

(Index: 2010=100)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on countries’ official information.
C. A political scenario with new uncertainties:

- Mega regional trade negotiations: TTP, TTIP, RCEP
- Climate change: future of the Paris Agreement
- Migration
- Future of the digital era
An uncertain political scenario for the regulation of global trade

**TPP**
- 11% of world population
- 36% of world GDP
- 23% of world exports
- 26% of world imports
- 28% of FDI inflows
- 43% of FDI outflows

**TTIP**
- 11% of world population
- 46% of world GDP
- 41% of world exports
- 44% of world imports
- 28% of FDI inflows
- 46% of FDI outflows

**RCEP**
- 48% of world population
- 29% of world GDP
- 29% of world exports
- 28% of world imports
- 30% of FDI inflows
- 26% of FDI outflows
The political economy of the current globalization

An international system with few regulations and weak multilateral mechanisms favors the stronger players (firms and governments) who have:

- Greater negotiating power (large countries and blocs vis-a-vis small ones)
- Greater market power
- Greater ability to mobilize resources across borders
- Lock-in effect of Business As Usual (BAU) on policies and interests (by definition future generations do not have a voice today)
US trade with Canada and Mexico accounts for 60% of total trade among TPP members

TPP: top 10 bilateral trading relationships and cumulative share in intra-group exports, 2015 (Billions of dollars and percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), with data from UN COMTRADE database.
# The TPP at a crossroads: implications for the region

## With TPP
- Chile, Mexico and Peru enjoy cumulation of origin and improve access to Japan for their agricultural exports
- Some loss of policy space (for example in intellectual property) but less than for Asian TPP members
- Countries from the region who are not TPP members could suffer export diversion, especially in the USA (for example Central America with Viet Nam)
- Reduced flexibility of Pacific Alliance vis-a-vis future convergence with Mercosur

## Without TPP
- Renegotiation of NAFTA (in terms more favorable to the USA)
- Uncertainty about the other US free trade agreements in the region
- Greater room for convergence between the Pacific Alliance and Mercosur
- The return of bilateralism in the USA?
Possible scenarios of the new hemispheric context in the production sphere

• A geopolitical adjustment of trade and FDI flows
• Increased infrastructure spending:
  – Impact on prices of metals
  – Fiscal expansion, higher interest rates, a stronger dollar
• More carbon-intensive production, less support for renewable energies
  – Increases in hydrocarbon production, effect on prices
• Support for reshoring in the United States:
  – Lower taxes on repatriation of profits
  – Managed trade and investment with China and Mexico
  – Pressure to invest locally
Tasks for the region in the new global and hemispheric context

• Given the current uncertainty, moving forward with regional integration is more necessary than ever
  • Promote convergence between the different regional integration mechanisms
  • Move towards a single digital market
  • Implement a regional infrastructure program
  • Develop regional value chains
  • Speed up implementation of the trade facilitation agenda

• At the national level, productive diversification requires industrial and trade policies consistent with the technological revolution and with a big environmental push