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Mechanisms and modalities to promote trade among South American countries

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Mechanisms and modalities to promote trade among South American countries

Intra-Regional Relations

Permanent Secretariat of SELA
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C O N T E N T S

F O R E W O R D

This study has been prepared in compliance with the Activity 1.2.2. of the Work Programme of the Permanent Secretariat for the Year 2012, entitled "Preparation of report on mechanisms and modalities to promote trade among Latin American and Caribbean countries. Case Study."

This document analyzes trends, developments and characteristics of trade among South American countries and explores the methods, actions and tools that contribute to the promotion of trade.

The analysis consists of eight chapters related to: public policies to promote exports, trade in goods, trade in services, problems of market access and distribution of trade benefits, role of investment in trade, aspects of productive integration, selected commercial channels, and treatment of government procurement.

Each chapter ends with a set of conclusions. In addition, a special chapter on conclusions and recommendations is included at the end of the document.

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EXECUTIVE SUMMARY

This study analyzes the trends and characteristics of trade in goods and services among South American countries, as well as direct investment flows and their impact on trade. Further, it explores the methods, actions and tools that contribute to the promotion of trade.

The first part refers to public policies and the promotion of exports, from the instrumental and institutional viewpoints.

The second part focuses on trade in goods and services. It is a well-known fact that the region has a clearer understanding and better statistics on trade in goods than on trade in services. Regarding trade in goods, this paper describes its evolution and addresses the issue of the distribution of trade profits across the region. Similarly, it reviews many of the proposals that have been made to boost South American trade.

Special attention is given to trade in services, as it is increasingly important and under growing pressure for liberalization within the framework of both World Trade Organization (WTO) negotiations and bilateral negotiations. Given the significant growth of "non-traditional" services (taking both transport and travel as "traditional" services), this sector has become a factor for competitiveness of the region's economies in the world. Therefore, it is clear that a key for South American performance in the future is the growth of (both traditional and non-traditional) services and trade in services within the region.

The third part deals with some of the "deep agenda items," particularly negotiations and agreements on foreign direct investment and government procurement. Both aspects are assessed in this study because they have – and will increasingly have – an impact on global and regional trade in goods and services. Multilateral, subregional and bilateral negotiations on investment and government procurement are also dealt with.

The final part delves into certain trade circuits among selected South American countries and ends with a set of conclusions and recommendations.

Trends and questions

According to WTO projections, Latin America's share in the world Gross Domestic Product (GDP) would remain unchanged in the next two decades, while the United States and the European Union would reduce its share and Asia's would rise. It should be noted also that the slow negotiations of the Doha Round of the World Trade Organization, which could even come to a standstill, are helping boost regional and bilateral understandings. Paradoxically, in South America – a pioneer in regional and subregional integration – there is growing discomfort with these processes, subject to powerful centrifugal forces.

South America is made up of 12 States and one overseas region of France (French Guiana). However, for purposes of this study, French Guiana and the countries that are part of the Caribbean Community (CARICOM) (Guyana and Suriname) are excluded. The latter two are discussed in another paper of SELA on the Caribbean and Central America. However, it should be noted that as the physical integration of South America develops, these territories should become part of the trade and economic dynamics of this region.

In response to their sovereign and specific interests, some South American countries have signed free trade agreements (FTAs) with developed countries. Such FTAs address issues included in the so-called "deep agenda,"[1] whose impact on development needs further analysis. As a consequence, besides the crisis hitting developed economies, three effects are very likely in these circumstances: a rise in protectionism, bigger importance of South-South trade, particularly the influence of Asia, and the incipient reconstruction of the type of centre-periphery trade between China and several South American countries.

Trade in goods

Exports of goods from developing countries show two trends: an increased share in exports of raw materials, with South America playing a leading role, and a higher share in high-technology manufactured goods, with the Asian countries being the most relevant.

Exports of goods from South America are growing at a rate similar to the world rate; this is higher than the developed countries but lower than the developing countries in general. The profile of exports in the region has changed noticeably. Exports of food, minerals and oil have climbed significantly. Al the same time, South American exports of manufactured goods have stagnated or slowed down.

Further, rules and disciplines have become increasingly unequal in South America. The region has failed to simplify its rules. Instead, it has segmented rules and disciplines, which does not favour coordination or agreement on a common project.

In part, the delay in achieving the goals of integration planned from the 1960's should also be attributed to the non-tariff restrictions (NTR) that are implemented from time to time. In this context, two important facts need to be addressed: the unequal distribution of trade benefits and the uneven use of tariff preferences. As for the unequal distribution of trade benefits, some South American countries export considerably more than they import from the region. The main reason why five out of 10 South American countries do not use or rarely use the preferences granted to them is the lack of export supply combined with the occasional implementation of restrictions.

Additionally, compared to Asia, it should be noted that South America lags behind in infrastructure of transport and communications, especially in smaller countries. Closing this gap will require investments three times higher than those made in the past 10 years, when the region invested on average 2% of GDP. Furthermore, the automation and simplification of foreign trade are urgently needed to facilitate intra-regional and extra-regional trade among South American countries.

Trade in services

In the first decade of this millennium, exports of services in Latin America and the Caribbean, as measured in terms of value, grew at an annual rate of 7.3%, while world exports of services soared by 9.3% annually. Obviously, the gap continues to widen rather than shrinking.

South America has little weight in the world trade of services. In the aggregate, the 10 countries accounted for less than 2 percent of world trade, lower than the percentage recorded in 1980-1982.

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[1] These issues refer mainly to services, intellectual property, public procurement, investment, electronic commerce, environment and labour.

Based on the evolution of their service exports over the past 30 years, South American countries can be divided into three groups: countries that have gained a share in regional exports of services (Brazil); countries that kept a relatively stable share (Argentina and Chile); and countries whose share declined (all the remaining South American countries).

In the early eighties, the bulk of the services exported by the region were transport and travel. But in the 1990s, following a trend that already existed in developed countries, "other services" recorded a rapid growth. The "other services" include technology and knowledge-intensive activities (engineering, architecture, design, information technology, finance and insurance, legal and accounting services, among others).

There are no clear signs showing international specialization in certain services, in any country in the region, or evidence of obvious strengths in some areas, particularly in the technology and knowledge-intensive sectors.

As for imports of services, the "other services" have grown noticeably, including an increase in imports of business services. The latter item has expanded rapidly in world trade, and several of its components contribute to overall economic productivity.

Multilateral, subregional and bilateral negotiations have been intense in recent years. Bilateral negotiations of Colombia, Chile and Peru in the form of FTA have been much more dynamic and have embraced the criterion of liberalization of the entire universe of service activities, with limited exceptions.

Foreign Direct Investment (FDI)

The major recipients of foreign direct investment in South America were the natural resources and services sectors, with a share of 43% and 30%, respectively.

In the case of transnational corporations in Latin America, better known as trans-Latin companies –which in recent years have represented 10% of FDI in South America – FDI flows are directed predominantly to services and trade. Trans-Latin companies or some large state-owned and private companies in the region could encourage, with appropriate incentives, the creation of value chains with suppliers from several countries in South America.

The integration of production should be intended to create value chains and encourage better links among businesses, as well as sectoral specializations that increase overall productivity. They are also a means for SMEs to improve their standards and join these value chains.

But one should not minimize the difficulties and limitations, such as uncertain access, legal uncertainty and the relative backwardness of South America in terms of services, the weakening of the manufacturing sectors in the countries of the region and the lack of infrastructure, which hinder development of transport and communications and all the activities resulting from their availability, such as social services and tourism.

Government procurement. Domestic companies and SMEs

Proposals to liberalize government procurement and include, under conditions of equality, bidders from diverse countries – made by the U.S. and the EU in international negotiations – have been the subject of analysis and debate in international, regional and binational forums. This is a huge market whose purchases have been predominantly

reserved for domestic suppliers and whose full liberalization would undoubtedly have an impact on the amounts and characteristics of international trade in goods and services.

Bilateral negotiations (FTA) are presently under big pressure for liberalization. However, it should be noted that purchases have been and remain a major tool for domestic development.

The U.S. legislation on government procurement is a perfect example of active public policies aimed at fostering domestic development. One of its laws requires Federal government agencies to buy U.S. products and another law sets fixed percentages of public procurement for small businesses and specific population groups.

On the other hand, it does not seem advisable to enter into treaties or protocols to liberalize government procurement if they do not address, explicitly, the asymmetries among the economies and companies of either party. The very different production scales make genuine competition between domestic and foreign suppliers unthinkable. The liberalization of government procurement would produce effects similar to the distribution of the use of tariff preferences, stressing asymmetries.

Therefore, government procurement should be a matter of utmost importance in the analysis, debate and, if possible, agreement on South American integration.

Conclusions

This study focuses on three basic concerns:

- How to encourage South American trade in goods with more equitable results and higher quality;
- How to close the gap between the region and the world in the difficult yet crucial issue of services and in particular the other services, which are highly dynamic;
- How to get the most out of the complex international negotiations on services, foreign direct investment and government procurement.

The responses to these concerns are of the essence for the fate of integration in South America and – more importantly – for the marginal or central role South America might play in the global economy in the coming decades. The recommendations in this study are intended to help revitalize South American integration, so that the region plays a greater role in the process of coordination and convergence of Latin American and Caribbean integration.

In this regard, it can be concluded that the negotiations for tariff reduction have served their purpose. Therefore, it is time to design a new model of regional integration based on trade promotion activities and investment, productive integration and modernization and institutional and regulatory simplification.

I. INTRODUCTION

This study analyzes the trends and characteristics of trade among South American countries and explores the modalities, actions and mechanisms that contribute to the promotion of such exchange. For better presentation and convenience, it comprises three sections. The first section presents the background, i.e. the major trends, the protracted Doha Round (WTO) of multilateral trade negotiations and the proliferation of bilateral negotiations and, simultaneously, the progress of regional and subregional integration processes in South America. The first part refers to public policies and export promotion from the instrumental and institutional viewpoints.

The second part refers to goods and services. In particular, emphasis is made on trade in services, as this sector has become increasingly important for productive activities, such as foreign trade. Further, this sector is at the centre of WTO and bilateral negotiations. "Non-traditional" services (taking transport and travel as "traditional" services) have grown significantly, thus boosting the trade in services and the global competitiveness of the economies in the region. It should be noted, however, that South American economies are relatively lagging behind in the services sector, compared to both developed countries and developing countries of Asia.

It is clear, therefore, that a key to South American performance in the future lies in the progress of both traditional and non-traditional services and the growth of global and regional trade.

The third part deals with some of the issues on the deep agenda, including negotiations and agreements on foreign direct investment and government procurement. Both areas have – and will increasingly have – an impact on global and regional trade in goods and services. Investments are addressed because in a context of growing intra-firm trade worldwide, the trans-Latin companies (from Brazil, Mexico, Chile, and Colombia) have gained ground. Trans-Latin companies are predominantly involved in investment in services.

As regards government procurement, it is a huge market that traditionally has given special treatment to domestic companies. This market has been open only when the domestic supply was non-existent or insufficient. However, the free trade agreements (FTA) that are beginning to proliferate in the region support the liberalization of government procurement and national treatment of foreign suppliers taking part in biddings and tenders. This paper analyzes the significance of this liberalization and the impact it will have on South American economies and companies.

Finally, the study makes an in-depth analysis of a number of commercial channels. The last section includes a set of conclusions and recommendations.

II. TRENDS AND QUESTIONS

Trade in goods and services among South American countries takes place in a global context that has a direct or indirect impact on performance. The slowdown in the U.S. and the EU, as well as the emergence of China and other Asian economies, are some key factors in such context. In the first decade of the millennium, the share of South American exports of goods and services to the U.S. and the EU has shrunk, while the share of the latter has increased.

Trade among South American countries also takes place within a regional context characterized by its own negotiations and conflicts, periods of expansion and contraction, and tensions stemming from the centrifugal forces operating in the region. The following sections refer to certain events that mark or suggest certain trends that affect and will continue to affect trade in South America and worldwide.

1. The relative weight of countries and regions

A first element to be considered is the change in the relative weight of certain countries and regions. Projections for 2030 show that the gross domestic product (GDP) of the EU will decline from 35% today to 25%, while the GDP of North America (U.S. and Canada), with a more favourable demographic trend, will fall from 30% to 28%. In the same period, China's GDP will rise from 8% today to 20% in 2030, India's will climb from 3% to 5%, Africa's will increase from 2% to 3%, and Latin America's GDP will remain stable at around 5%.[2]

If the above projections were correct, then:

i) North America (U.S. and Canada) will continue gravitating significantly in world GDP, and the EU, even in decline, will remain a relevant actor.

ii) BRICS[3] actually will be nothing but an imaginative acronym: in 2030 the only relevant BRIC will be China, followed far behind by India.

iii) Latin America and the Caribbean will not change their modest share of world GDP by 2030.

2. The stagnation of the Doha Round and its possible consequences

After several years of negotiations, it appears that the Doha Round of WTO negotiations will not be successfully completed in the near future. The differences of opinions on agricultural subsidies and tariff reduction in certain manufacturing activities have not been easy to overcome[4]. Developing countries request that the EU and U.S. meet the commitment to eliminate domestic support and export subsidies in agriculture[5],

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[2] The projections are in Pascal Lamy Global viewpoint network, Tribune Media Services, 2/28/2012. There have been many projections with different methodologies. Calculations based on purchasing power parity (PPP) show more similarities between the economies of the U.S. and China. By contrast, estimates of the respective GDP in current dollars show a considerable gap. In 2010, in current dollars, the IMF said that the U.S. GDP amounted to US$ 14.7 trillion and China's US$ 5.9 trillion. In other words, the U.S. GDP was 2.49 times higher than China's GDP. According to the IMF, the product of the purchasing power parity (PPP) is not the most appropriate to compare the relative size of economies because it is influenced by the prices of non-tradable services (...) The IMF believes that the product at market prices is more relevant for comparison, said the Financial Times on 6 May 2011. At a cumulative growth rate of 3% per year, in 2030 the U.S. GDP would hit US$ 26.5 trillion. For China's GDP to amount to US$ 21.2 trillion in 2030 – and represent approximately 80% of U.S. GDP – it should grow at a cumulative rate of 6.6% per year.

[3] This acronym refers to the countries of Brazil, Russia, India, China and South Africa.

[4] "The differences of views on industrial tariffs have stopped the progress (of the Doha Round) in practice and may affect its successful conclusion in 2011." P Lamy, 21 April 2011. WTO Web site.

[5] "The negotiators need more time to reflect on how to advance the negotiations on agriculture." P Lamy, 22 March 2012, WTO Web site.

and developed countries request that the big emerging markets reduce or remove tariffs, especially in the chemical industry, industrial machinery and electronics.

During 2012, the lack of agreement in the Doha Round would most likely have medium and long-term effects on the credibility of the WTO, on its ability to gravitate towards the sensitive issue of dispute settlement, to monitor the trade policies of the Group of Twenty (G-20), and could possibly hinder multilateral agreements in other areas such as environment and financial regulatory reform. But the failure of the Doha Round would be accompanied also by the strengthening of the trend towards preferential regional or bilateral agreements. This trend towards regionalism and approaches outside the overall progress are clearly hinted at in Asia[6].

Further, the stalemate in WTO negotiations goes hand in hand with three effects that should not be ignored. This trend towards protection has several causes, including economic difficulties in the developed countries of the EU and U.S. and capital inflows in emerging countries that revalue their currencies, increase foreign exchange competitiveness of imports and encourage trade protection.

The second significant trend is the growing importance of South-South trade. In 2000, this trade amounted to 14% of world trade and in 2010 that percentage rose to 23%. If trade between South America and the world is taken as an indicator, in 2000 it amounted to 32.8% and in 2010 it climbed to 43.6%.[7] Undoubtedly, this is a phenomenon led by Asians and particularly China. Latin America and the Caribbean play a very small role in South-South trade.

A very important part of South-South trade consists of intra-regional circuits. Considering five circuits, namely Africa, Asian developing countries, Latin America and the Caribbean, the Middle East and the Commonwealth of Independent States (CIS), Asian intra-regional trade amounted to 73.5%, the Latin American and Caribbean trade (excluding Mexico) was 9.4%, the Middle East was 7.6%, the CIS was 5.4% and Africa 4.1%.

However, South-South trade has another side: a “centre-periphery” trade between China and several South American countries, predominantly of final goods. On the one hand, South American exports of raw materials and semi-manufactured goods based on natural resources, which represented 44.2% of total exports in the early first decade of the millennium, climbed to 59% at the end of the decade. On the other hand, the Southern Common Market (MERCOSUR), which records the largest industrial development in the region, reduced its share in China's import of manufactured goods from 1.37% in 1990 to 0.54% in 2006. This trend did not change in the subsequent four years.

The third aspect is the growing weight of trade in parts and the loss of weight of finished goods in global trade. Asian regional value chains are increasingly characterized by this feature, while driving the various economies of the region towards specialization. These chains are usually analyzed as a feature of trade in manufactured goods, but one cannot ignore the fact they are composed of various types of services (including transport, distribution, logistics and even “business services”). Such services are essential for the chain to operate. Besides, value chains of services exist and are expanding. Again, the relative weakness of the South American value chains – in manufacture and services – vis-à-vis the Asian value chains is a notorious fact.

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[6] ECLAC (2012): Overview of the international insertion of Latin America and the Caribbean, Santiago de Chile, 2010-2011.
[7] ECLAC (2012), Ibidem.

3. International negotiations and public policies

International negotiations encompass three main areas: multilateral, regional and bilateral. As set forth in a document of the United Nations (UN)[8] concerning public policies, the trade policy can be a highly relevant tool for achieving development goals. The use of trade policy as an instrument for achieving industrial diversification and the creation of added value is crucial[9]. However, it should be noted that, when designing and implementing trade policies, developing countries are faced with both new options and the constraints posed by trade agreements that are already in place.

South American countries have signed FTAs with the U.S., Chile, Peru and Colombia, which are part of the Pacific Alliance, along with Mexico. A new relationship is envisioned among the American countries on the Pacific and between them and Asian markets, with a significant potential in trade in goods and services and investments.

Negotiations on trade liberalization, which began decades ago through the General Agreement on Tariffs and Trade (GATT) and was limited to trade in goods, now covers a much broader and complex scope within the framework of the WTO. The main objective of multilateral trade negotiations was and remains mutual reduction of tariffs and other barriers to trade in goods. However, in recent decades they also deal with trade in services, the flow and treatment of trade-related investment, liberalization of government procurement and protection of intellectual property rights. These "deep agenda items" have been introduced in the negotiations by developed countries. Discussions of these topics in the WTO have been complex, and the reconciliation of interests of different parties has not been achieved in many ways.

FTAs with countries outside the region often go beyond the provisions of the WTO ("WTO-plus"), in connection with the terms (which are extended to protect intellectual property), the extent of negotiations or the weakening of certain development instruments (for example, the opening to competition of foreign companies in government procurement).

Further, it is undeniable that regional and subregional integration processes have faced serious internal difficulties in recent years and, in many respects, have not fulfilled the expectations. In South America, the slow evolution of traditional regional agreements, such as ALADI, and of the two historic subregions – Andean Community (CAN) and Southern Common Market (MERCOSUR) – continues and accentuates. It is partly for these reasons that some countries in this environment have explored other options, such as extra-regional agreements. The current relationship among South American countries should be addressed within this context.

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[8] Gibbs Murry (2007): "Trade Policy", Department of Economic and Social Affairs, UN.

[9] This aspect appears more and more blurred in South American countries that believe that favourable prices of food, raw materials and minerals will be permanent. A new theoretical reflection points to the economic and social development with the issue of commodities. At its most elaborate version, this reflection stresses, correctly, that producing grains today requires a lot more technology than in the past. But that does not mean that the final product – grain – defined as a commodity for its rather undifferentiated character, which is sold in bulk and whose price depends on the quantity supplied, will maintain a highly volatile price, in the long term, will cause instability in the development process.

4. The evolution of integration processes

As noted above[10], the basic subregional integration agreements in Latin America, unlike the Asian examples, show a clear stagnation of the region's share in world trade. This conclusion on the deadlock is independent of the size of the countries making up the agreement and the trade volumes of each case. It equally applies to MERCOSUR and the Andean Community, as well as the countries of the Central American Common Market (CACM) and the Caribbean Community (CARICOM)[11]. Following are several aspects that have caused the deadlock:

a) Obstacles to free movement of goods:

Although regional and subregional negotiations in South America have advanced towards trade liberalization and the opening of the countries has increased (see Table II.1. in the Annex), full and free movement of goods has not been established. Trade defense instruments and non-tariff restrictions (NTR) have survived and have been activated in the region occasionally.

Non-tariff restrictions are a clear expression of (structural)[12] size-related asymmetries. It is obvious that the difficulties of access to intra-regional markets are much more significant for economically smaller members than for economically larger members. In addition, the higher the protection costs associated with the implementation of these barriers the smaller the country that applies them. Non-tariff restrictions generate uncertainty regarding access to the expanded market, thus representing an obstacle to investments that could be made in smaller domestic markets with the purpose of offering their production in the regional market.

Particularly in the case of MERCOSUR, in the first decade of the millennium, trade disputes between the partners[13] lingered. Just to mention recent events, Argentina adopted protectionist measures in connection with trade in goods in early 2012. Such measures, which included the granting of non-automatic licenses to a higher number of tariff items, a call for an early affidavit as of 1 February and the expansion of limitations on services as of 1 April, have had an impact on neighbours. Chile, Peru, Colombia and Mexico have

[10] The issue was also dealt with by SELA (2011): The multilateral trade system: Can the bicycle be stopped? Trade challenges for development in Latin America and the Caribbean, SP/CL/XXXVII.O Di No. 26-11, Caracas.

[11] The conclusion of the regional agreement is not necessarily valid for each of the parties thereof. For example, in a bloc with a stable share in global trade for forty years, one or several of its members may achieve quantitative progress while others recede. A priori, however, it is possible to guess that in a dynamic bloc (i.e., with increasing share in world trade) all members are more likely to cash in on the situation and, on the contrary, in a bloc with a stable share, the dynamism of one or several members must inevitably lead to decline of the other(s).

[12] On this subject, see SELA (2011). "Asymmetries in Latin American and Caribbean integration processes," SP/ Di N° 12-1, Caracas.

[13] Just to mention some examples, Member States have resorted to the implementation (or threat of implementation) of anti-dumping measures on several occasions: Brazil implemented such duties on imports of resins from Argentina; Uruguay did so in connection with Argentine edible oils; Argentina in connection with polystyrene trays from Uruguay. Brazil has implemented minimum prices for entry of wines from Argentina to its market; Uruguay has implemented restrictions on entry of goods from the Argentine provinces with promotional schemes; Argentina has used import licenses with varying terms according to local needs, which are justified as a need before third parties but also apply to MERCOSUR partners.

announced that they will file a joint claim with the WTO[14], Uruguay has faced immediate consequences in various sectors (clothing, graphics and automotive industry) and its government announced its determination to replace Argentina with other markets.

In Brazil, steps have been taken also towards protection of the industrial sector, which has been seriously hit by the strength of the real and the increased costs[15], particularly wages[16]. As for protectionism, the Brazilian government has been more cautious than the Argentine government in its relations with MERCOSUR. However, it has implemented some specific measures to slow imports from the subregion. In the context of relations between Brazil and Argentina, which generate a significant industry surplus for the former, Brazil has held bilateral talks with Argentina to lessen the impact.

b) The effect of asymmetries:

South American integration agreements experienced serious changes from the nineties as the non-reciprocal treatment for less developed economies reduced its relevance or was no longer included in new treaties; special treatments disappeared or weakened; compensation for asymmetries was reduced (in MERCOSUR) to longer time for convergence; market mechanisms and domestic policies were privileged as the only instruments to reduce competitiveness gaps and asymmetries[17].

In addition, the benefits of trade and the use of tariff preferences – as discussed in the chapter on this topic – concentrated in the largest countries in the region. It should also be noted that various incentives have had a distorting effect on intra-regional trade. For example, in the case of MERCOSUR, it is worth mentioning the treatment given by Argentina and Brazil to duty-free zones and the promotional loans granted by the Brazilian Development Bank (BNDES) for the acquisition of companies in other countries in South America.

At present, there is little progress in policies, instruments and results to reduce asymmetries in South American integration agreements. There is some consensus that the results are not satisfactory.

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[14] Statements by Carlos Posada, Vice Minister of Commerce of Peru, to the Cronista, Buenos Aires, on 13 March 2012: "We were having problems for a long time and we still face them because of the issue of licenses and certificates of free movement. Peru is already assessing the measures we will adopt within the framework of the World Trade Organization (WTO), considering that we have a deficit trade balance with Argentina, 10 to 1, just like Chile and Colombia do. Therefore, any policy that Argentina may have to protect the domestic industry with the variables that they manage would not apply in any of our countries and would only affect a trade relationship where they are the big winners. I also understand that the US and Europe have called into question these measures."

[15] "Protectionism is in the air. The government has launched a series of measures to restrict imports. Initially, they focused on the automotive industry, with the official announcement of a new tax of 30% on car imports, mainly from Asia (....) More recently, Brazil has proposed renegotiating the car agreement with Mexico through the introduction of a quota system. The Finance Minister, Guido Mantega, has said that Brazil will implement a set of safeguards in some industries, including textiles." The Economist Intelligence Unit: "Brazil Risk: Weighing the risk of a slowdown ", 12 March 2012.

[16] "Brazil, however, has hit a ceiling. It cannot count on the rising price of commodities forever. More importantly, the country has developed a serious cost-related problem. Even in local currency terms (....) labour costs in Brazil have grown by 25% in real terms over the past decade." Financial Times, 12 April 2012.

[17] As it is known, the Cartagena Agreement of 1969 included the principle of non-reciprocity for Bolivia and Ecuador, with non-reciprocal trade preferences and asymmetrical liberalization programmes. But since the 90's, the Andean Community adapted to the drive of the WTO. While it maintains special treatment for Bolivia and Ecuador, reciprocity tends to prevail in relationships and commitments. Something similar happened in the Southern Cone. In 1975, Uruguay signed non-reciprocal agreements with Argentina (CAUCE) and Brazil (PEC) but some years later, in 1991 it signed the Treaty of Asuncion and the reciprocity was included among the four partners. Instruments such as the Structural Convergence Fund of MERCOSUR (FOCEM) are partially to correct asymmetries affecting Paraguay and Uruguay. However, the principle of reciprocity among the four parties is still in effect.

This situation is – like it or not – a new fact of life and forces us to rethink new instruments in current regional and subregional processes to promote new ways to overcome asymmetries.

Additionally, compared to Asia, South America is significantly lagging behind in terms of transport and communications infrastructure, especially in smaller countries. The solution will require a threefold increase in investments in the next 10 years compared to investments made in the past decade, which averaged 2% of GDP. Also, the automation and simplification of foreign trade transactions are urgently required amidst increased intra-regional and extra-regional trade among South American countries.

5. Conclusions

The following conclusions have been drawn from this section:

- Stagnant negotiations under the WTO Doha Round will continue to promote regional and bilateral understandings;
- There are three likely effects: increased protectionism, greater importance of South-South trade under the influence of Asia, and the revival of centre-periphery trade between China and several South American countries.
- In South America there is some dissatisfaction with the evolution of regional and subregional integration.
- Recent protectionist measures implemented by Argentina and, to a lesser extent, Brazil hit MERCOSUR and other South American countries.
- Bilateral trade agreements between countries providing for the use of local currencies could be extended in the near future to a greater number of countries.
- Some South American countries have signed FTAs among themselves, with other Latin American countries and with extra-regional powers, which address "deep agenda items" whose impact on development must be analyzed.

Given this new scenario, it stands to reason the need to start deepening regional and South American integration in the context of the new realities in terms of trade, production structure, international economic conditions and other structural constraints, which both hinder the strengthening of trade, such as physical infrastructure and trade facilitation, and limit the possibilities of gaining a larger share in world economy and trade.

III. PUBLIC POLICIES AND PROMOTION OF EXPORTS

The international insertion of a country is primarily related to the internationalization of companies, the attraction of foreign direct investment and the promotion of exports of goods and services.

The main objectives of policies to promote exports are commonly the following: a) to provide local exporters with favourable conditions for regional and international market access; b) to diversify the goods and services being exported; c) to diversify export firms and incorporate small and medium-sized enterprises into the exporting process, and d) to count on a system to promote exports at the national level and, if the country's resources are enough, at the regional and international levels.

From the microeconomic point of view, both exporting companies and export promotion policies should take into account, based on the main models received, four major areas of concern: the goods or services to be exported, their target market, the price to access and preserve such market, and the promotion that is required to obtain results. Public policies to promote exports of goods and services are also aimed at influencing these four areas.[18]

It should be noted that the largest economic groups and companies in some countries in the region (particularly in Brazil, Chile, Colombia and Peru) are in the process of internationalization, either through direct investments or acquisitions in other countries in the region. This aspect is often linked to trade as it can be a promoter of intra-firm trade and value chains at the regional level. This is also enhanced when internationalization occurs through acquisitions of regional companies that already had export lines to the purchasing country.

Following is a brief description of the aforementioned goals, as well as some of the instruments being implemented in South American countries. Export promotion institutions are referred to further in this chapter.

1. Public policies to promote exports

a) Conditions for domestic exporters

Public policies encourage domestic exporters in many ways. In general, they are aimed at creating an "export culture" as well as training for export. In fact, based on a number of instruments, public policies are intended to reduce costs, lessen the tax burden and influence public rates not to gravitate negatively towards the competitiveness of exported goods and services.

Some special import regimes, such as temporary admission and tax returns, better known as drawback, are often used in several countries in the region. As regards free trade zones, it should be noted that there is a rich variety of models in South American countries and they have ignited discrepancies in regional agreements such as MERCOSUR[19].

A widely used criterion is indirect tax refunds. Some countries, like Chile, use tax credits for imported capital goods and write off with exports. Uruguay uses the "stock taking"[20] regime and the "free port"[21] regime and Colombia implements the "Vallejo Plan - Drawback."

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[18] An interesting analysis on this item is available in Di Paula C., Paladino L. Plottier C, Silveira L (2009): "Políticas activas para la promoción de exportaciones," UCU, Montevideo.

[19] ALADI (2007), Estudio 186, July. Proposals on regional free trade zones have been basically three: first, to accept free zones in intra-regional trade; second, to exclude products produced in free trade zones from free trade agreements; third, to remove this import regime by a certain date to be determined.

[20] This regime makes it possible to freely pursue imported goods, which are expected to replace others that have been imported and used as an input for transformation, processing, repair or addition of value, with effective labour utilization of exported products, provided that such products have the same technical characteristics, level of quality and tariff position as those used to make the exported product.

[21] It involves the free movement of goods in ports and port terminals of the republic with capacity for overseas ships without authorization and formal procedures. During their stay at the port customs area, goods are exempt from all taxes and surcharges on imports. To enjoy the aforementioned benefits, port activities should involve warehousing, repackaging, price remarking, sorting, grouping and degrouping, consolidation, handling and fractioning (meaning no changes in the nature of goods).

The instruments that have been used in the subregion are in line with the WTO Agreement on Subsidies and Countervailing Measures[22]. A subsidy is any form of financial contribution from the government, or any mechanism designed to support income or prices, which creates an advantage for some companies or branches of production[23]. Excluded from the definition are certain special schemes such as temporary admission and drawbacks, while horizontal subsidies are allowed. Such horizontal subsidies do not have a direct impact on prices and, therefore, do not distort trade, such as: 1) subsidies applied to the core activities of research and development; 2) pre-competitive development; 3) assistance to disadvantaged regions; and 4) assistance in complying with new regulations and environmental standards.

Although the agreement recognizes that subsidies can be an integral part of development programmes, the purpose of the agreement was to reduce drastically the scope of the subsidies that had been one of the resources used by developing countries during the late industrialization.[24]

Now, two scopes are necessary. First, there is heterogeneity in the instruments used by countries in South America and a very uneven use of them. Moreover, there is no evidence of balance and learning from different experiences of the countries, which opens a field of cooperation that may be helpful. Second, for two decades Latin American countries have implemented radical processes of unilateral liberalization, have incorporated important changes into their export promotion schemes and have met their commitments under the WTO.

b) Diversification of exported goods and services

The diversification of goods and services for export is often pursued through active policies to promote and widen the supply of goods and services with greater added value and technological content. The instruments can be horizontal or sectoral. International examples abound in Southeast Asia (especially in the 1970s and 1980s), India (software) and Ireland (drugs and information technology).

In the region there are examples of these incentives in large and small countries. Brazil has implemented very advantageous loan programmes to boost exports of "business services" (particularly engineering, infrastructure and construction). Uruguay, meanwhile, implemented for two and a half decades a subsidy scheme combined with soft loans to boost the expansion of forestry, in selected plots of land and with certain forest species. The debate on whether it is convenient to use only horizontal stimuli and the need to combine them with sectoral stimuli has been in the spotlight in recent decades at the global and regional levels. Such debate, however, is not addressed in this study.

One of the widely used instruments for diversification is the creation of "export platforms." Companies that are installed in those "platforms" enjoy tax benefits that help increase the competitiveness of the exported product. Trade free zones are included in these efforts

[22] A detailed analysis of this topic, prepared shortly after the conclusion of the Uruguay Round, is available in M. Lengyel and D. Tusie: "Export promotion and multilateral disciplines; possibilities and questions," FLACSO, BA 1999. See also L. Garay: "Colombia: estructura industrial e internacionalización 1967-1996," Biblioteca Luis Angel Arango, Col S/F.

[23] Based on this definition, besides direct payments to companies, subsidized loans, loan guarantees, capital contributions, tax exemptions, supply of goods and services (excluding infrastructure) at preferential prices and mechanisms of income or price support are also included. Subsidies to the use of local inputs or inputs to be used for export are prohibited.

[24] According to provisions outlined above, it is clear that the new agreement limits the use of aggressive subsidy programmes, such as those run by Taiwan and South Korea at the beginning of their industrialization process targeting foreign markets, or even within the region, by countries such as Brazil and Mexico in the 1970s.

aimed at tax-free exports and diversification. Further, the Brazilian government[25] has boosted Export Processing Zones (EPZ)

One of the major constraints to the diversification of goods and services is the macroeconomic policy being implemented by most South American countries. Parallel implementation of trade liberalization and stabilization programmes, using monetary and fiscal instruments, led to predictable and known results: "The stabilization undermines the sustainability of the trade reform by promoting the strengthening of the local currency, which boosts the bias against exports and increases the current account deficit[26]." The increase in foreign currency in several South American countries from mid-2005, due to the export of primary goods and the inflow of short-term capitals and designed to capture high rates of interest on national currencies, led to an overvalued exchange rate. This generated a stimulus to imports and a strong disincentive to value-added exports.

The economic policy of exchange rate overvaluation has become the most important instrument of some governments in the region to fight against domestic inflationary pressures. In the meantime, controlling inflation has increasingly become the top target of macroeconomic policies. The simultaneous overvaluation of national currencies of several countries in the region – most notably, cyclically, in Argentina and Brazil – partly explains the cyclic increase in trade in the "zone of overvaluation," as well as the great instability in foreign exchange rates (foreign exchange crises) and intra-subregional trade flows. A serious policy to promote intra-regional trade requires a review of macroeconomic policies (primarily the monetary, exchange and tax policies) that have been applied by several countries in the region in recent decades.

c) Diversification of export companies

Noteworthy are the programmes incorporating SMEs to exports. In some countries, public policies have promoted strategic partnerships among businesspeople. Promoted partnerships have been horizontal (export consortia) or vertical (value chains).

Export consortia among small and medium-sized domestic producers have been successful in some cases (for example, in Chile, Uruguay and Brazil). These partnerships reduce costs, help guarantee the fulfilment of export obligations and allow access to target markets in less time. Soft loans from state banks and the support to trade fairs and missions, as well as specific market studies, are usually necessary supplements for the success of export consortia.

Vertical partnerships, in value chains, are often more complex to organize, even though there are some successful examples in the region. Government procurement (for small producers to reach a certain position that enables them to become exporters) and incentives for large private companies to operate with a national provider network are instruments that have been used – with varying success – in several countries in the subregion.

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[25] Companies installed in EPZ enjoy the following benefits: exclusion of country risk; no restrictions on the repatriation of profits and temporary exemption from certain taxes; full administrative and exchange control liberalization, to the extent that no import license is required; tax incentives beyond those granted to the export drawback scheme (including more benefits than the mere reimbursement of import duties for imported inputs used in producing goods for export). It is about creating large production centres in less developed areas with large tax benefits. Zones are installed at 18 points of the Brazilian territory and tend to specialize (chemistry and biotechnology, electronics, precision mechanics, footwear and textiles, furniture, etc.)

[26] D Tussie: "The politics of trade: the role of research in trade policy and negotiation," IDRC, Otawa, 2009; and S Edwards: "Trade, liberalization reforms, and the World Bank," American Economics Review, 1997.

The FTAs that some countries in the region have signed with the U.S. include the liberalization of government procurement. While they operate with ceilings that reserve market shares for domestic companies, they do not always support special programmes for small and medium-sized enterprises (SMEs), which can be a limitation for them. Value chains and government procurement will be analyzed in other sections of this study.

The incorporation of SMEs to exports has been modest in the region. In the mid-2000s, SMEs represented a high percentage of exporting firms in some countries, but their share in export value was very small.

TABLE III.1
Share of SMEs in exports, %

SMEs	Argentina	Brazil	Chile	Mexico	Peru
Share in exporting companies	73.0	77.0	63.0	95.0	65.0
Share in exported value	8.0	8.4	7.2	9.8	2.2

Source: ECLAC (2008 :) "Indicadores de comercio exterior y política comercial: mediciones de posición y dinamismo comercial," Santiago.

The available evidence suggests that SMEs in the smaller countries in the region have a smaller share in both indicators. Two initiatives may be relevant in this regard: First, it is important to continue to advance, within the framework of the Latin American Integration Association (ALADI), towards the construction of common approaches in South America (from what has been done by the Andean Community and MERCOSUR) in order to have a regional definition of small and medium-sized enterprises (taking into account the staff and sales, among other criteria). Second, it is necessary to encourage regional, subregional and bilateral agreements among South American countries, in order to promote the incorporation of SMEs to exports[27].

d) Incentives to export and investment in the region

While most South American countries have developed strategies and incentives to promote exports and attract FDI, they have failed to do so with regard to the support for the internationalization of their companies. Brazil is a representative case of a country that has included the internationalization of its companies in its industrial policy, granting them public support and funding.

It is important to note the government support received by Brazilian companies in their internationalization process. The Productive Development Policy (PDP), designed by the Brazilian government for the triennium 2008-2010, pursued five strategic objectives:[28]

i) Global Leadership: keeping or positioning the Brazilian production system or Brazilian companies among the top five global players in the activity.

ii) Market Conquest: keeping or positioning the local production system among the world's largest exporters, combined with a position of prominence in the local market.

[27] This is the goal of the inter-institutional cooperation for the development of SMEs as part of the Work Programme of the Permanent Secretariat for 2012. For more information on this subject, see: SELA (2011), SP/CL/XXXVII.O/ DT N ° 4-11/Rev.1, Caracas.

[28] Di Paula C, Paladino L, Plottier C, Silveira L: "Políticas activas para la promoción... op. cit.

iii) Focus: building and strengthening competitiveness in strategic high-technology areas.

iv) Differentiation: positioning Brazilian companies and brands among the top five in their relevant market.

v) Improved access: expanding the population's access to basic goods and services for better quality of life.

Consequently, several programmes and instruments intended to achieve the development goals are programmes and instruments to promote Brazilian companies and place them "among the top five of their relevant market" and "among the top five global players in the activity[29]." The sectors included in this strategy, according to the BNDES, are the aerospace, oil, gas and petrochemical industries, as well as bioethanol, mining, paper and cellulose, steel and meat.

The Brazilian companies and government have implemented policies regarding the meat category. As a result, they have purchased a number of meat-processing plants in Argentina and Uruguay. Five of the top meat-processing plants in Uruguay, which are authorized for export to demanding destinations outside the region – destinations that only allow the entry of products from FMD-free countries – have been purchased by Brazilian companies. Major acquisitions have been recorded also in rice, beer and other items. In these cases, exports go to Brazil, the main market for the rice and beer produced by its neighbours[30].

Public incentives to purchase companies in neighbouring countries, which are partners under subregional integration agreements, could be clearly opposed to the spirit and the provisions of MERCOSUR agreement, since one of the purposes of MERCOSUR is to promote joint business development through the establishment of binational or trinational enterprises or strategic partnerships to enlarge the scope and boost competitiveness.

2. Organization of export promotion

Most South American countries have created institutions to promote exports, following a practice that is implemented in European and Asian countries.

a) Institutions

Table III.2 shows the 10 South American countries that have created institutions to promote exports. With the exception of PROCHILE, established in 1974, all others started to work in the nineties (6) or in the first decade of the millennium (4). It is also interesting to note how they have been projected territorially. In Argentina (except for ProMendoza), Bolivia, Paraguay, Peru and Uruguay, these institutions have local offices, but have not spread abroad.

[29] Some specific examples include the support provided by the Brazilian Development Bank (BNDES) to the purchase of the U.S. firm Keystone Foods by Marfrig and the purchase of another U.S. firm, Pilgrim's Pride, by JBS Friboi. In addition, BNDS Participações S.A. (BNDESPAR) bought 100% of the issue for US$ 1,260 billion made by Marfrig to pay for the purchase of Keystone Foods and bought almost all the obligations of JBS Friboi as pledge for the purchase of Pilgrim's Pride for US$ 800 million. BNDESPAR now owns 14% of the share capital in Marfrig and about 17% in JBS Friboi.

[30] This strategy of the Brazilian government introduces a new dimension in the analysis of regional asymmetries and distances the subregional integration process from its historical objectives: the promotion of joint business development through partnerships, mergers or value chains.

TABLE III.2
South America: Export Promotion Institutions

Country	Institution	Name	Year of creation	Local offices	Offices abroad
Argentina	Fundación Exportar	EXPORTAR	1993	1 and 24 POA(·)	0
Argentina	Procórdoba	Procórdoba	1998	1 and 26 POA	0
Argentina	Promendoza	Promendoza	2003	4 and 18 POA	2
Bolivia	Centro para la promoción de Bolivia	CEPROBOL	1998-2008		
Bolivia	Bolivia Promueve	Bolivia Promueve	2008	1 and 9 POA	0
Brazil	APEX	APEX		1 and 27 POA	5
Chile	Dirección de Promoción de Exportaciones	PROCHILE	1974	15	50
Colombia	PROEXPORT	PROEXPORT	1992	8 and 33 POA	15
Ecuador	Corporación para la promoción de Exportaciones e Inversión	CORPEI	1997	3 and 24 POA	3
Paraguay	Red de Inversiones y Exportaciones	REDIEX	2004	1 and 17 POA	0
Peru	Comisión para la promoción de las exportaciones y el turismo	PROMPERU	2007	6 and 26 POA	0
Uruguay	Uruguay XXI	URUGUAY XXI	1996	1 and 19 POA	0
Venezuela	NA				

Note 1: POA: Points of Access
Note 2: The creation date refers to the current institution. Several years ago, there were offices in many countries dedicated to export promotion.
Source: Based on information from Christian Volpe (2010): "An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean," IDB, Washington.

Chile, Colombia, Brazil and Ecuador have established offices in the country and abroad. Chile, with 50 overseas offices in 39 countries, is the South American country with the most comprehensive coverage. Chilean offices abroad and the countries they cover are similar to those of Finland (57 and 40). The Chilean number exceeds that of New Zealand (37 and 30), Singapore (35 and 21), Ireland (31 and 25) and the Netherlands (20 and 11), but it is below Korea (94 and 68), Denmark (83 and 63), Spain (98 and 77), Thailand (61 and 44) and many relatively more developed countries such as Japan, the United Kingdom, Australia and Italy.

The weak presence or lack of offices abroad shows that the main concern of promotion offices is to help local entrepreneurs improve their information tools, training, procedures and controls to access foreign markets in better conditions. By contrast, a strong presence

of offices in foreign countries, such as Chile and, to a lesser extent, Colombia, adds the presentation and promotion of the country and its goods and services abroad (regionally and worldwide) to the collaboration efforts with local businessman. This is an important component – a necessary condition, which is obviously not enough – for export growth.

Promotion institutions in South America tend to be small (relative to other countries), are fully funded by the public sector (in other countries, the budget is partially covered with services to exporters) and often have the dual task of promoting exports and attracting investment. The exceptions are Brazil's APEX, in terms of budget (over US$ 100 million annually), and PROCHILE and PROMPERU, with smaller budgets but with more than 300 employees in both cases.

In general, the institutions of the region serve companies of different sizes and with different export experience (ranging from those that have not made any export transaction to experienced companies intending to target other markets or introduce a new product). However, SMEs are their common target audience, with special programmes. The range of services is broad: market research, collaboration and assistance to attend trade fairs, screening of prospective buyers abroad, etc.

Promoting exports, and specially a network of offices abroad, is costly and often unaffordable for small countries. Therefore, cooperation efforts abound in South America, perhaps among countries with non-competitive exports, to overcome the backwardness of most of them in the region in this regard.

b) An assessment of export promotion institutions

Attempts to evaluate the performance of South American institutions that promote exports should include two tests: The difficulty in obtaining objective and reliable information, and the incipient development of institutions in most countries in the region.

A recent work[31], based on case studies in six countries (Argentina, Chile, Colombia, Costa Rica, Peru and Uruguay), draw some interesting conclusions that are worth mentioning:

- Promoting exports increases the number of countries of destination of exports and, to some extent, the number of products exported. Therefore, there is an impact on the diversification of both destinations and products, but it seems larger on the former than on the latter.
- With regard to the type of product exported, the impact of promotion seems to be more noticeable in exports of differentiated and scarce goods than in homogeneous goods.
- The most outstanding result of the actions of these institutions can be seen in SMEs, which are the companies with more difficulty and less experience in exports.
- Support to companies throughout the export process usually provides better results than isolated actions.

Export promotion institutions should aim at diversifying trade within and outside the region. In the latter case, a topic relevant to the promotion of intra-regional exports, especially for small countries whose goods and services have access to some South American markets, but only marginally for the others, is to build on already established offices in the latter. The information exchange agreements on mutual opportunities, as signed by export promotion institutions in each country, would contribute to: (i) benefiting more from the

[31] Ch Volpe (2010): "Una evaluación de la efectividad de la promoción de exportaciones en América Latina y el Caribe," Special Report, Summary, IDB, Washington.

tariff preferences already granted but not used; (ii) learning more about the rules and regulations governing the other party; and (iii) enhancing bilateral and regional trade.

3. Conclusions

From the above analysis the following conclusions can be drawn:

- All South American countries pursue strategies, implement policies and promote exports through various instruments.
- Instruments have been adjusted as agreed in the WTO, particularly the Agreement on Subsidies and Countervailing Measures.
- Instruments are heterogeneous, and more than a ground for competence, they should be a ground for learning and cooperation among South American countries.
- Several South American countries have implemented programmes to incorporate SMEs to exports through export consortia, integration of SMEs into value chains and the use of government procurement.
- Despite these programmes, the share of SMEs in the value of exports is small and appears to be correlated with the size of the economy: the smaller the economy the smaller the share of SMEs in exports. Therefore, it is advisable to implement regional, subregional or bilateral programmes to promote exports of SMEs in South America.
- One of the major constraints to export diversification so as to cover higher added-value products lies in the macroeconomic policies that have been implemented in several countries in the region and turn to the overvaluation of local currencies as the main instrument to fight inflation. Thus, it is important to review those policies first.
- The internationalization of companies or national holdings is important mainly in Brazil, Chile and Colombia. In Brazil, it has been explicitly promoted by the leading development bank in that country.
- The institutional organization of export promotion is in progress in all South American countries, although some have started earlier and have a large network of branches in the country and abroad; the results of that international organization seem to hold promise for diversifying the markets and promoting exports of various products.

IV. TRADE IN GOODS IN SOUTH AMERICA

1. Main trends

Global exports of goods rose at an annual average rate of 7.68% in 1980-2010. Exports from developed countries were below that average (6.96%). To the contrary, exports from developing countries were above (9.36%). South America's performance was similar to that of world exports (7.69% on average), yet clearly behind developing countries, pushed by the great strides of Asian exporters.

TABLE IV.1
South America: Share in global exports, %

Term average	Goods exports	Services exports	Goods and services exports
(*)1978/80	3.14	2.22	
1988/90	2.54	1.61	2.37
1998/00	2.49	1.71	2.33
2008/10	3.34	1.84	3.04

Note: Data on 10 countries
(*) Term covered for services: 1980-1982
Source: UNCTAD (2011): Service Trade and Development, Geneva

In a shorter term, 1995-2010, global exports of products grew at a similar pace as the exports of primary goods, except for oil. As for the exports of products, however, a change of interest is apparent. High-tech products are the fast growing goods, followed by low-tech and medium-tech products. (See Table IV.2 in the Appendix).

It should be noted also that developing countries show two marked trends: increasing share of primary products in exports (which would be much higher if oil were to be included) and soaring exports of high-tech products. South America takes the lead in terms of primary goods exports from developing countries, whereas Asia stands out with high-tech products.

2. Highlights

a) Share in global exports

Over the past six decades, South America has been underperforming in global exports of goods. In 1946-1950 and 1998-2000, its share steadily dropped. In the first decade of the millennium, Asia's demand and high prices of several commodities exported from the subregion – a glaring phenomenon since 2003 – have levered up its share in global exports to a percentage higher than that in 1980-2000, but lower than that in 1968-1970.

Notwithstanding, in the last decade, South America has turned into one of the most salient regions in the world due to, among others, stability and macroeconomic growth, productive diversification, dynamic investments, and a higher clout as supplier of mineral and food raw materials. It is a more and more important market for world trade and, sure enough, for Latin American and Caribbean nations. According to the WTO, while the demand of imports gained 3% in 2011 in Europe, it climbed by 17% in CIS countries, followed by South America, 10%, and Asia, at 6%. The WTO forecasts a similar situation by 2012-2013, with imports from developing and CIS countries at 6%, threefold higher than that of developed countries[32].

b) An indicator of the distribution of benefits

The cited paper prepared by SELA[33], with 2008 data, referred to structural trade flows between subregions and countries. Some countries export much more than what they import from the region. Reference is made to Brazil and Argentina. The export/import ratio of Argentina/South America stood at 1.3; except for Brazil, such ratio would leap to 4.2. Likewise, the export/import ratio of Brazil stood at 1.38. For their part, CAN and Chile purchase more than what they sell in the region. The export/import ratio of CAN-Chile/South America was around 0.8.

As appears from data in Table IV.3, in the Appendix, in 2010 Argentina had a surplus trade in goods with eight South American countries, except for Brazil. In turn, Brazil showed a

[32] Speech by Alejandro Jara, WTO Deputy Director General, during the opening session of the Seminar on World Input-Output Database (WIOD), held in Brussels, on 16 April 2012.
[33] See SELA (2011): op.cit.

surplus with seven South American nations[34]. Undoubtedly, the "indicator of the distribution of benefits" (UNCTAD) prepared from trade surplus and deficits inside the region reveals benefits for Brazil and Argentina.[35]

In addition to a surplus balance of trade in goods with the region, both countries have also resorted to public policies[36] to spur their exports to the region and the world and restrictions to protect themselves once in a while against the sales of the rest of the region targeted at their markets. Such a situation arrests the expansion of intra-South American trade.

c) Utilization of tariff preferences

Special attention should be paid to this issue as well. After decades of regional talks, what is the outcome in terms of trade flows? The papers authored by the ALADI General Secretariat[37] on long-term trade (1993-2008) clearly illustrate intra-regional trade. Note, however, that the ALADI General Secretariat refers to tariff exemption only in the event of reaching 100%, that is, full tariff exemption, putting partial allowances aside. This is the case of MERCOSUR agreements with CAN Member States, except for Bolivia. While their discount schedules are well advanced, they will be completed in 2018. It is worth mentioning that partial allowances also encourage trade and investments.

In the long run, Regional Scope Agreements (RSA), regional preferential tariffs and the lists of access to markets on behalf of less developed countries, such as Bolivia, Ecuador and Paraguay, would lose ground and were gradually replaced with Partial Scope Agreements (PSAs). Throughout the years, 120 PSAs that provided for preferential tariffs among the parties were executed. A half (58) of these PSAs was labelled as Economic Complementation Agreements (ECAs), the most relevant for the expansion of intra-regional trade and investments.

Since the 1990's, ECAs included automatic tariff allowance schemes, replacing talks on a case-by-case basis; disciplines on trade defense (safeguards and antidumping measures), and schemes to remove technical obstacles and sanitary and phyto-sanitary barriers. In 1995, fully exempted items in intra-regional trade totalled 22%, 35% in 2003 and 54% in 2008.

In 1993, the trade in goods in the ten South American nations amounted to US$ 19.13 billion, US$ 9.42 billion out of this total value, i.e., 49.3%, stood for trade channelled through

[34] This is not a Latin American phenomenon only. As stated by UNCTAD, the indicator of the distribution of benefits inside a regional bloc is the intra-regional trade surplus and deficit structure. Overall, more industrially developed and diversified countries, such as South Africa inside SADC, Ivory Coast inside UEMAO, Kenya inside COMESA, India inside ASAMCOR, Brazil inside MERCOSUR, Colombia inside CAN and the Russian Federation inside CIS, smashed a trade surplus vis-à-vis their regional partners. Less developed countries – and more commonly, smaller countries – recorded a deficit. Add to this imbalance the fact that trade surplus of bigger and more developed countries generally accounts for a tiny share of their GDP. To the contrary, trade deficit of smaller and less developed countries stands for a significant share of their GDP. Such imbalances are mainly used to structural factors. However, in many cases they are also the result of economic policies. UNCTAD (2007) Trade and Development Report, UN, Geneva.

[35] Interestingly, in 1944, at the Bretton Wood conference, J.M. Keynes declared, "Such trade imbalance is almost impossible to solve under a fixed exchange system if surplus countries fail to accept that they are as much obliged as the countries affected by the deficit to do something."

[36] This matter was tackled in SELA (2011): op. cit.

[37] ALADI: "Estudio sobre el aprovechamiento de las preferencias arancelarias en 2006," Estudio 198,15/5/2009; Addendum. Estudio 198/add.1, 7/9/2009; ALADI: "Evolución del comercio negociado y aprovechamiento de las preferencias arancelarias," Estudio 199, 22/12/2010.

agreements entered into by parties. In 2008, trade stood at US$ 117.10 billion and US$ 77.29 billion, that is, 66% had been negotiated.[38]

A look at the status of each South American country shows substantial differences as to the utilization of the agreed upon preferences and negotiated trade. Firstly, the use of granted preferences is, on average, very low: 12.2% in 2008 for all ALADI Member States, including Mexico and Cuba. However, such number hides very different realities. There is clear consistency between the use of preferences and the size of the economy (or the size and diversification of the export supply). Brazil uses 36% of agreed upon preferences; Argentina 26.9%; Colombia 14.9%; Chile and Peru 12.5%, and remaining countries, less than 6%.

The main reason why five out of the 10 Latin American countries do not use or barely use granted preferences is the lack of export supply. This is the case of Bolivia (no export supply for 87.2% of preferences), Ecuador (81.5%), Paraguay (91.5%), Uruguay (84.5%) and Venezuela (80.1%). This means that, at least in these cases, the preferences agreed upon in almost 30 years (1980-2008) have not sufficed to embolden investment and significantly widen up the export supply of these countries.

Therefore, granted preferences and the resulting negotiated trade have fallen short to turn South America into a region with a more homogeneous development, but have helped widen the gap between bigger economies and smaller economies.

This poses the need to revise in practice alternative mechanisms to ascertain which are helpful for the substantial growth and diversification of the intra-South American trade within a regional framework of balanced, harmonious development.

Secondly, the determinants of the degree of utilization of preferences ought to be explored. Again, the export supply is very relevant. The ALADI Secretariat has included in its papers additional components. Using a cross model where the degree of utilization is the independent variable, the following explanatory variables have been taken into account: i) export supply of the grantee country; ii) demand of the grantor country[39]; iii) effective term of the agreement[40]; iv) number of items negotiated under the agreement[41]; and v) border status of the parties to the agreement[42]. The exercise shows that these variables explain two thirds of the variance of the dependent variable.

In this regard, Table IV.4 shows that MERCOSUR intra-regional trade is based on granted preferences between 80% - Brazil – and 99% – Paraguay. In the Andean Community, trade under regional preferences ranged from 59% – Peru – to 93% – Ecuador. Chile and Venezuela were on equally important levels, 72% and 78%, respectively.

However, a third remains to be explained. Special attention should be paid – ALADI itself mentions it – to various rules and disciplines and, particularly, the use of non-tariff restrictions, which have limited trade for decades. Likewise, if trade is to be facilitated, a number of events should be added, not as a result of the trade policy, but within the

[38] In this context, a relevant question is whether these agreements have helped channel trade, which otherwise would not have materialized, or whether some new trade has been created. The answer is that at the outset the agreements helped redirect the existing trade towards preferences. However, later on, added preferences have helped create new trade. As regards several countries, they have changed the sectoral makeup and driven exports to products, resulting into a higher-quality trade with the rest of the world.
[39] Sometimes, a country would grant preferences over non-demanded goods.
[40] As time goes by and the agreement "matures," preferences should be cashed in on.
[41] The wider the agreement, the less is the utilization of items.
[42] The more the geographical proximity, the more is the use of the preference.

needs for territorial development and creation of external economies for a more competitive production sector. Reference is made to poor infrastructure in terms of transport and communications, as well as multiple constraints and extra charges stemming from lack of automation and simplification of foreign trade procedures.

A third, relevant aspect refers to the determinants of negotiated trade. Undoubtedly, preferences have helped increase imports from the region. Nevertheless, a look at the long, 15-year term shows that negotiated trade, like overall intra-regional trade, expands and contracts according to the degree of activity. The periods of growing regional GDP (1995-98 and 2003-08) show a skyrocketing intra-regional trade, both overall and negotiated. Periods of stagnation or diving regional GDP (crisis in the aftermath of the debt of 1982 and 1999-2002) come together with slowdown or falling intra-regional trade.

Interestingly, in South America, during the years of lower GDP, intra-regional imports, both overall and negotiated, also performed in a cyclic way relative to overall imports. This is true because imports of some countries, namely Argentina and Brazil, with a significant share in intra-regional trade, were more cyclic than imports of other countries in the region, and this deepened the drop. Such a phenomenon can be understood only after reviewing the macroeconomic policy of these and some other smaller countries in the region from the middle 1970s to date. Such policy has become the main factor of cyclic instability.

TABLE IV.4
Negotiated imports in overall imports from South America, %

Country	1993		2000		2008	
Argentina	77.8		92.3		86.3	
Bolivia	40.5	(74.0)	77.9	(95.1)	48.8	(66.1)
Brazil	61.4		91.8		80.0	
Colombia	11.8	(23.2)	26.2	(69.6)	43.4	(79.2)
Chile	36.6		82.6		81.6	
Ecuador	55.1	(99.1)	24.7	(74.7)	30.9	(92.7)
Paraguay	16.6		93.6		99.4	
Peru	25.1	(40.0)	23.4	(45.6)	41.7	(59.4)
Uruguay	46.8		67.7		63.6	
Venezuela	17.6	(58.6)	48.8	(81.7)	30.2	(77.5)
Total	**49.3**		**74.5**		**66.0**	

Source: ALADI, Study 199, 22/12/010
NOTE: ALADI data include Mexico and Cuba. Imports from these two countries were taken out from this table. Study 199 deemed intra-CAN trade as non-negotiated trade. Bracketed values include intra-CAN relations of the major country and do not exclude Mexico and Cuba.

d) Final products and value chains

The prevalence of final products in regional trade highlights the weakness of value chains. To the contrary, trade in parts is characteristic in East and Southeast Asia, where value chains prevail.

As stated by the UNCTAD Secretariat[43], a closely related foreign trade of the Member States of the Association of Southeast Asian Nations (ASEAN) to production networks somewhat explains its recent dynamism. ASEAN overall and intra-regional trade soared in the first decade of the millennium. The trade structure of East and Southeast Asia attests to the organization of their production structure. The region imports high-tech and medium-tech goods, including capital goods, mainly from developed countries; parts and components of electronic products mainly from inside the region, and commodities, mainly from other developing regions.

[43] UNCTAD (2007): op. cit.

It exports a large amount of more labour-intensive products and electronic final products to developed countries, whereas high-tech and medium-tech goods and parts and components of electronic products are mostly traded inside the region. As Pascal Lamy[44] put it, "Fully 60 percent of Asian countries' international trade is concentrated in the Asian zone itself, the area which has witnessed the most in-depth integration of its production chains, with the manufacture of parts and semi-assembled units that are then mixed with components which themselves comprise elements from different countries, and the whole then ends up in China for assembly before being exported elsewhere."

The difference between South America and the recent Asian experience is not trivial at all. Firstly, it prompts to explore the reasons why, after many decades of regional, sub-regional and bilateral integration agreements, value chains in South America have not borne fruit, no matter the strenuous trade in parts and components. Sure enough, there are many reasons, ranging from feeble South American businesses to lack or shortage of properly made active policies to the aforementioned weaknesses in physical infrastructure and trade facilitation.

Add to this the enduring obstacles to ready access of goods in bigger markets in the region. Restriction or threatened restriction also curbs value chains and the search for suppliers across the borders.

Secondly, trade of final products means, as described elsewhere,[45] that South America is underusing the potential of intra-regional trade. "Different estimates of potential intra-regional and intra-subregional exports, based both on historical flows and structural attributes of the parties to the integration schemes (income level, distance and degree of openness, among others) yield higher levels than those actually observed for all schemes. These gaps could be wider in the cases of MERCOSUR and the Andean Community. While the gap between the observed and the potential intra-regional trade would be around 20% for the whole region, alternative estimates based on gravity models which include a larger number of variables yield a gap near 30% (IDB/ECLAC/ The World Bank, 2011)."

e) Export profiles

Interestingly, the export profiles of South American countries have changed. Table IV.6 lists four profiles: food, mining, oil and goods. Exports of each country are arranged in each of the four profiles according to the upward, even or downward level of the share for 15 years.

Highlights:

- Three MERCOSUR Member States display, in 1995-2009, a significant increase in food exports; one country (Argentina) shows steadiness from a high baseline percentage (49%).
- In the same term, all Andean countries, except for Bolivia, show lower share in food exports.
- Two Andean countries (Chile and Peru) and two MERCOSUR Member States (Brazil and Argentina) record a higher share in mining exports.
- All Andean countries, except for Chile, exhibit a higher share in oil exports.
- As regards goods, no share increased in none of the ten countries; two countries keep a steady percentage (Argentina and Venezuela), and two countries have

[44] P Lamy, op. cit.
[45] ECLAC (2012): Latin America and the Caribbean in the World Economy • 2010-2011. Chapter III. The challenges of Latin America and the Caribbean for its better insertion in the world economy.

less percentage. Among the latter, Brazil's drop was very significant. In 1995 and 2009, its share in goods exports edged lower from the total 14.6 percentage points.

TABLE IV. 6
South America: Export profile trends, %.
1995 and 2009

PROFILE	Upward	Even	Downward
Food	Brazil: (28.5%)(33.9%) Paraguay (43.9%)(84.8%) Uruguay (44.2%)(63.6%)	Argentina: (49.8%) (49.5%) Bolivia (19.1%)(19.2%)	Ecuador (51.8%)(35.5%) Colombia (30.8%)(14.8%) Peru (28.8%)(17.1%) Chile (23.7%)(20.5%)
Mining	Peru (50.2%)(61.9%) Chile (49.5%)(58.8%) Argentina (1.6%)(5.7%) Brazil (11.3%)(13.4%)	Colombia (6.8%)(6.6%)	Bolivia (42.6%)(34.8%) Venezuela (9.3%)(3.4%)
Oil	Venezuela (70.0%).8%) Ecuador (35.1%)(50.7%) Colombia (27.2%)(48.0%) Bolivia (12.9%)(39.1%) Brazil (0.9%)(8.9%) Peru (4.9%)(7.7%)	Argentina (10.3%)(10.2%)	
Goods		Argentina (33.9%)(32.0%) Venezuela (17.2%)(18.0%) Chile (11.7%)(10.5%) Peru (13.6%)(12.2%)	Brazil (52.8%)(38.2%) Colombia (30.0%)(27.2%) Uruguay (38.7%)(23.7%) Paraguay (19.3%)(10.7%) Bolivia (16.5%)(5.7%)

Note: Bracketed numbers are for 1995 and 2009, respectively.
Source: UNCTAD.

f) Changing export profiles and regional market

The regional market has a strategic value given its high clout on goods exports in South America. All of the ten countries ship a great deal of their exported goods (from at least 44.8% up to 89.5%) to Latin American and Caribbean markets (See Tables IV.7 and IV.8 in the Appendix). Today, the regional market is most important for higher added-value and more skill-intensive and labour-intensive exports. Such exports, in turn, lead to

inclusive and sustainable development, based on energetic competitive advantages, as opposed to the customary, static comparative advantages in the region, linked to its wealth of natural resources and cheap labour.[46]

Furthermore, the regional market is a "learning area," particularly with regard to the first steps of SMEs towards exports. Also, the connection between trade in goods and trade in services is feasible by means of regional transportation (cargo and passengers); insurance and reinsurance with regional companies; financing facilities, securities for loans and payment offset which reduce or remove the use of international reserve currency.

Over the past years, South American countries have seasoned their expertise in exports of commodities. Accordingly, further regional economic integration would help offset the growing Asian demand of such commodities. This would reduce the exposure to price volatility and spur the development of more sophisticated export sectors. But for such purpose, the following conditions are required:

- An integrated economic platform;
- Full liberalization of trade in goods and faster regional liberalization of trade in services;[47]
- Adjustment of the macroeconomic (monetary, exchange and tax) policy to the priority goal of producing and exporting with an added value and technology content; and
- Fair apportionment of the trade return among South American countries.

3. Rules and disciplines of agreements

Rules and disciplines contained in the agreements entered into by and among South American countries or with third countries which have an effect on the intra-regional relation are of the most significance. Several studies conducted by the ALADI Secretariat in this regard are tackled in this section[48]. There are four operating models with different regulations. The ALADI model, implemented under an agreement between Chile and MERCOSUR Member States and CAN Member States; the MERCOSUR model, enforced between the four full member countries and the associated member countries; the CAN model, governing the relations among the four Andean partners; and the model of the North American Free Trade Agreement (NAFTA), effective between Mexico and Chile and between Mexico and Colombia.

These models display substantial differences in several aspects. In terms of rules of origin, the ALADI system is uniform and underwritten by third parties (Chambers of Industries, ministerial offices, etc.); the MERCOSUR regime has ALADI as baseline but with some

[46] Such a role of the regional market is widely recognized in the global literature. For instance, the UNCTAD has acknowledged that intra-regional exports include a much higher share of goods, including a high percentage of medium- and high-tech products: 70% in MERCOSUR and over 60% inside CAN and the Central American Common Market MCCA). Extra-regional exports from MCCA and MERCOSUR to other Latin American and Caribbean countries are varied, with a larger proportion of goods compared to their exports to the rest of the world. Thus, for most Latin American and Caribbean countries, regional markets are the main destination of their goods exports.

[47] As described in the quoted ECLAC paper (2011), after collecting the feedback in country papers on FTAs, "Frustration in light of these shortcomings, among other factors, have led several countries in the region to reach free trade agreements with extra-regional partners, which, though, are not a real alternative to regional integration. Such agreements –while they give readier access to relevant markets- usually lack an ample outlook of development. Therefore, they cannot vouch for more global competitiveness. Particularly, the agreements with industrialized countries usually contain provisions in ambits such as those already mentioned (services, investments, government procurement, intellectual property, environmental and labour steps, among others) which could limit the autonomy of the countries in the region as per management of their public policies."

[48] Reference is made to the studies of ALADI SEC/dt/453, dt/467 and SEC/186.

differences; the NAFTA system is more specific and selective; it admits the exporter's self-certification. All these models have distinct specific requirements concerning origin.

As regards dispute settlement, ALADI lacks a regional standard. However, some economic complementation agreements (ECAs) admit a system of consultations, the study of the case by an administrative body and, in the event of a persisting dispute, summons to appear with an arbitral body. The NAFTA system includes the arbitral body.

Bilateral Investment Treaties (BITs) contain a very ample definition of investment. They entail an equal footing for domestic and foreign companies; exclude performance requirements; provide for free transfer of funds abroad and, in the event of disputes, enable companies to resort to international courts, such as the World Bank International Centre for Settlement of Investment Disputes (ICSID).

In dealing with extremely delicate issues, such as non-tariff restrictions, these agreements frequently stipulate that they are not permitted and ought to be removed in a selected period of time. De-phasing is allowed. Likewise, it is commonly set that the parties represent and warrant the *status quo* and undertake not to introduce new non-tariff restrictions under the WTO.

As for trade defense, antidumping measures and countervailing duties are set forth, based on the WTO provisions; some agreements allow for the implementation of consultation mechanisms in accordance with local rules. In relation to safeguards, several models are in force: agreements which do not allow safeguards; a safeguard contained in Resolution 70 of ALADI to which several agreements refer; and agreements with their own safeguard system.

In MERCOSUR, the only common standard that has been approved is related to safeguards. In addition, attempts at gradually increasing the requirements to impose antidumping and countervailing duties on the intra-regional trade have not been successful either.

Customs assessment refers to the WTO rules.

Special import systems, such as temporary admission and drawback, are contemplated in some agreements for specific periods. Most agreements do not include them. Nevertheless, wherever they are allowed, authorizations are regularly renewed, suggesting that transitory licenses are made permanent. Free trade areas, set for foreign export, are excluded from liberalization programmes; however, this has brought along major problems in some cases. As a result, rules and disciplines are more and more distinct.

"The most relevant finding of the study is the shortage of standards and rules characteristic in a regional scope (ALADI rules) and the wide variety –of coverage and content of the rules- noted in sub-regional bilateral agreements," reads one of the ALADI case studies. Rather than simplifying standards, the region has segmented the rules and disciplines, thus moving far away from the common project.

Therefore, can a common programme be approached for all or most South American countries in order to have closer rules and disciplines?

The following policies are suggested:

i. Simplifying the rules of origin and, concerning administrative procedures, admitting in a wide and increasing percentage of tariff items the certification by own exporters, who should be subject to random reviews and, in the event of falsehood, severe trade sanctions.

ii. In the field of dispute settlement, the ALADI is strongly recommended to count on a regional rule, partly based on the ECAs among countries in the region, which allow for a system of consultations, the study on a case-by-case basis by an administrative body and, in the event of continued dispute, summons to an arbitral court. Dispute settlement should be directed towards arbitration in the regional context, including three stages: dialogue among the parties; analysis and suggestions by an administrative office (ALADI); and, in the event of continued dispute, call for arbitrators.

iii. The free trade area system should be tackled not only to pursue its implementation for export, but also to take into consideration its evolution over the past few years in furtherance of industrial development and the establishment of production chains between the operators of free trade areas and the domestic production system.

4. Abiding by standards

The history of intra-regional trade does not boil down to shortage of standards and rules in the region and the wide variety noted in subregional bilateral agreements.

Standardization of rules and disciplines would be a significant step. However, fulfilling the commitments made by the parties under regional, subregional or bilateral agreements is of the essence.

5. Conclusions

The following conclusions can be drawn from the foregoing:

- In the past six decades, South America has had a substandard performance in world exports of goods;
- The indicator of bilateral trade benefits shows that benefits are concentrated in Brazil and Argentina.
- The use of tariff preferences among South American countries has been concentrated in countries with the biggest export supply, such as Brazil and Argentina, and, to a lesser extent, Colombia, Chile and Peru. The rest has used less than 6% of preferences awarded to them;
- In the field of rules and disciplines, the region needs to standardize and simplify its standards and related enforcement, particularly with regard to health and technical standards and regulations;
- The regional market has a strategic value for its countries' internationalization and deeper mutual trade. Further, it is a learning area for foreign business, particularly SMEs. For such purpose, the stumbling blocks to free flow of goods, the bottlenecks which hinder competitiveness, physical infrastructure, trade and productive integration, should be removed for the purposes of added value production and fair distribution of trade benefits;
- In other words, the talks for tariff opening attained their goal already. Now, time has come to deal with trade and investment promotion, productive integration

and streamlining and simplification of standards and institutions, as drivers of South American integration.

V. TRADE IN SERVICES IN SOUTH AMERICA

1. Main trends in export of services

a) Share in the world trade in services

In the first decade of the millennium, based on UNCTAD data, exports of services from Latin American and Caribbean countries, measured by value, surged at an annual rate of 7.3%, compared with 9.35% for global exports. Sure enough, rather than narrowing, the gap has widened up, particularly because of the performance of Asian exports. These rates are consistent with the numbers provided by ECLAC[49] for 2000-2005, according to which regional exports heightened at an annual rate of 6.9% vs. 9.7% for global exports.

South America has a low profile in the world trade in services. Together, the ten countries stood for less than 2% of global trade in 2010, lower than that recorded in 1980-1982. As shown in Table V.1, South American share in world exports of services has fallen from 2.2% in 1980 to 1.8% in 2008-2010, no matter Brazil's superb performance. Brazil's share in regional exports rose twofold from 22% in 1980-1982 to 44% in 2008-2010.

TABLE V.1
South America: Exports of services, %

	1980/82	1988/90	1998/00	2008/10
World	100	100	100	100
South America	2.2	1.6	1.7	1.8
South America	100	100	100	100
Argentina	18.9	19.1	19.2	17.7
Bolivia				0.7
Brazil	21.8	26.4	32.4	44.0
Chile	12.4	12.5	15.9	14.7
Colombia	14.4	13.3	7.9	6.2
Ecuador		4.3	3.0	1.9
Paraguay		3.2	2.4	1.9
Peru	8.6	7.1	6.6	5.5
Uruguay	4.5	3.7	5.1	3.4
Venezuela	9.2	8.3	5.3	2.8

Source: UNCTAD.

Altogether, the region's relative lagging behind in production and export of services directly and indirectly affects its performance in exports of goods and, more generally, its global competitiveness. This is because production support services, such as financial, telecommunications, professional and other services are a key input for the industrial process and a significant portion of the ultimate price of final products[50].

b) Share of services in total exports of goods and services

In 1980-2010, that is, in the past 30 years, the share of global exports of services in total exports of goods and services climbed from 16.1% in 1980 to 19.9% in 2010. The

[49] ECLAC (2009): A López I Torre D Ramos "Las exportaciones de servicios de América Latina y su integración en las cadenas globales de valor", Santiago de Chile.
[50] ECLAC (2012): An Outlook of the LAC insertion, Santiago.

highest growth took place in 1980-1990 (19.2%). In the two subsequent decades, it would be slightly higher.[51]

However, a breakdown of data by developed and developing countries shows substantial differences. The share of exports of services in total exports of goods and services in developing countries jumped from 11.0% in 1980 to 15.0% in 2010. For their part, developed countries show a steady rise from 18.8% in 1980 to 21.0% in 1990, 21.3% in 2000 and 23.6% in 2010. This is partly because of the services performance and partly due to losing momentum of products in the exports from developed countries.

TABLE V.2
Share of services in total exports of goods and services, %

	1980	1990	2000	2010
World				
Goods	83.9	80.8	80.8	80.1
Services	16.1	19.2	19.2	19.9
Developed countries				
Goods	81.2	79.0	78.7	76.3
Services	18.8	21.0	21.3	23.6
Developing countries				
Goods	89.0	84.9	85.4	84.9
Services	11.0	15.1	14.5	15.0
South America				
Goods	87.9	86.9	86.1	87.7
Services	12.1	13.1	13.9	12.3

Source: UNCTAD

All of the ten South American countries have displayed over the past three decades an increasing share in exports of services in 1980 (12.1%), 1990 (13.1%), and 2000 (13.9%). Nevertheless, in the first decade of the millennium, upon the recovery of demand and prices of food, oil and minerals, the share dropped to 12.3%.

c) Share by country

South American countries can be split into three groups based on their performance over the past 30 years: countries which take a share in regional exports of services; countries which keep a relatively steady share and countries with a decreasing share.

The first group has one member only: Brazil. In 1980-1982, Brazil stood for 21.8% of exports of services in South America, leaping up to 44% in 2008-2010. Having said that, note that,

[51] Without shadow of a doubt, trade in services has lately grown at fast pace. Some data suggest, though, that it has been in line with increasing trade of goods. Therefore, the relative significance of services in global flows would have not changed too much over the part few decades, around 25% nowadays. Anyway, there is news of serious problems to reliably measure trade in services. Everything shows that available numbers underestimate the true value of this trade. While it would be contended that such troubles already existed, it could be also suggested that the emergence of new areas in trade in services –not necessarily captured in available statistics- could have widened up the gap between data and reality, in the words of the ECLAC.

viewed individually, in 2010 Brazil represented as low as 0.73% in world exports, a meager percentage if a high global profile is sought[52].

The second set is composed of countries that have kept over the past 30 years a relatively stable share. This is the case of Argentina and Chile. The latter pointed to a hike in 2000, with a subsequent slight slowdown.

The third group comprises the countries with losing share in exports of services, namely: Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela. Some drops are very marked. This is the case of Colombia, Ecuador, Peru and Venezuela, four Andean nations that have lost ground in the global export of services.

d) Changes in exported services

Generally, in the early eighties most of exported services from the region included transport and travel. In the nineties, following a trend in place in developed countries, "other services," that is technology-intensive and skill-intensive services, soared. They include, among others: engineering, architecture, design, information technology, finance and insurance, legal advice and accountancy.

Brazil, and Argentina to a lesser extent, has kept with the global trend as to the enlarged export of "other services." For its part, Chile seems to have taken another way, with a substantial expansion in the export of air and maritime transport services. Colombia, Peru and Uruguay have pointed to tourism.

Interesting differences are noteworthy within "other services," that is, "non-traditional services." Both Brazil and Argentina put the emphasis on business services[53]. In addition, Brazil plays a key role in the export of financial and insurance services. To the contrary, Argentina is weak in these items, yet has a high profile in the export of information technology. Chile and Peru have clout in export of insurance. Uruguay rather focuses on financial services and closely follows Argentina, in percentage terms, in the field of information technology[54].

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[52] Just that year, continental China, including Hong Kong and Macao, with no significance whatsoever in the export of services in the eighties, leapt to 8.2%, compared to 3.3% in global exports.

[53] Based on an EU report "business services comprise many different activities. They include, among others, most advanced advisory services, such as management advice; information technology; professional services, such as engineering and legal counsel; trade services, such as advertising or fairs and shows; other labour-intensive services, such as staffing, and operating services, such as cleaning and security." Based on the report, business services would yield, in the mid nineties, more value added (15.3%) compared to bank, insurance, transport and communications services altogether (12.1%). The value added provided to the economy by these services is approximately 72% higher than that of manufacturing and six fold higher than agriculture. ECC (1998) "Contribution of business services to competitiveness of industrial businesses," Brussels, November.

[54] Advertising is an item in marked expansion, with significant cross-border flows. Some countries have managed to be highly competitive in films, recording, publicity design, etc. Worldwide investments in advertising are estimated to grow by 5% in 2012 compared to last year, up to US$ 449 billion. Nevertheless, such growth is clearly led by the so-called emerging economies. In Argentina, it is expected to move up by 26%; 21% in Ukraine; 16% in Indonesia; 16% in China, and 12% Brazil. Estimates of Consultora Magna Global, El Empresario Nº 344, El País, February 24, 2012.

TABLE V.3
South America: Exports according to the type of service
2010, %

Country	Total export	Transport	Travel	Other services	IT	Finance	Insurance	Other services for companies	Other
Argentina	100	15.3	37.4	47.3	9.4	0.05	0.07	29.6	8.2
Bolivia	100	12.0	56.4	31.6	--	1.8	10.4	--	--
Brazil	100	14.6	19.1	66.3	0.7	7.5	1.5	56.9	0
Chile	100	59.9	15.2	24.9	0.8	0.4	2.6	17.3	3.8
Colombia	100	27.1	46.8	26.0	1.0	1.0	0	13.8	10.2
Ecuador	100	26.3	57.2	16.5	n/d	n/d	n/d	n/d	n/d
Paraguay	100	15.3	14.4	70.3	--	--	1.6	36.1	32.6(·)
Peru	100	21.6	57.5	20.9	0.5	1.5	4.2	8.4	6.3
Uruguay	100	17.9	60.0	22.1	7.2	4.9	0.3	7.2	2.2
Venezuela	100	32.4	35.8	31.7	0.5	0	0.1	9.0	22.1(··)

(·)Including royalties at 204%
(··)Including government services accounting for 13.4%
Source: UNCTAD
Note: "Services" breaks down as follows:

- Transport: all transport services rendered by residents of an economy for residents of another economy, involving haulage, transport of passengers, car rental and ancillary services.
- Travel: goods and services procured by travellers from an economy during visits of less than one year to said economy.
- Communications: postal, courier and telecommunications services.
- Building: works carried out by a company's staff in building and installation projects outside the company's place of origin.
- Insurance: supply of several types of insurance to non-residents by residing companies and vice versa. These services do not include the value of insurance premiums.
- Finance: brokerage and ancillary services.
- Information Technology: services related to software, data processing, news agencies and alike.
- Royalties and licenses: payment of franchises, royalties, licenses and other property rights.
- Other business services: supply or business services not included in other items, namely: legal counsel, accountancy, advertising, architecture, engineering, research and development, agriculture and rent and marketing-related services.
- Personal services, culture and entertainment: audiovisual, sports, education and health care.
- Government services not included in other items: a residual category that encompasses services such as administrative steps taken by embassies, consulates, agencies and military units.

Source: International Monetary Fund (IMF)

The case of Paraguay is noteworthy. Under the ALADI categorization, Paraguay is a smaller and less developed country. In 2010, it showed significant progress in "other services," as much as 70.3% of overall exports. Note also that the two main items in "other services" stood for business services (36% out of total services) and royalties and licenses (20.4% of total services).

Generally, in terms of export of services, regional trends are varied. Brazil focuses on the supply of business services[55]; Argentina exports business and information technology services; Chile is oriented to transport, business and insurance services; Colombia and Peru point to travel, insurance (Peru) and financial services. (However, in the latter item, it has had troubles since the 2002 financial crash).

[55] The BNDS has kept special financing facilities, promotion, for export of infrastructure, engineering and building services.

2. The cases of information technology and construction

a) The case of software and information technology

Several countries in the region have undergone some development in software and information technology services. This is the case in large, medium and small-sized countries and services taking precedence over goods. ECLAC data for 2006[56] suggest, though, that the region is far from exporting same amounts as those of Ireland (US$ 28 billion) or India (US$ 17.7 billion). The largest regional exporter, Brazil, sold abroad software and information technology for US$ 308 million.

Nevertheless, Brazil, Mexico, Argentina and Chile developed software and information technology services that yielded, in 2006, annual sales for US$ 9.9 billion in Brazil, US$ 2.87 billion in Mexico, US$ 1.55 billion in Argentina and up to US$ 1.35 billion in Chile. Reference is made to companies which serve their respective local markets. Therefore, export numbers are moderate anyway. Furthermore, small countries, such as Uruguay and Costa Rica, with exports at US$ 104 million and US$ 80 million, respectively, supply most services to the foreign market.

More updated numbers point to exports on the rise. In 2010, India ranked first in sales with US$ 50 billion (twofold the amount of 2006). In Latin America, software and information technology services of Brazil amounted to US$ 10.1 billion; US$ 4.2 billion in Mexico and US$ 3.1 billion in Argentina. This year, Argentinean exports of such services were higher than US$ 660 million, twofold the US$ 300 million recorded in 2006.

Some important attributes to impose information technology goods are the professional level and good English proficiency. According to experts, such as Fernando Racca, the chair of the Chamber of Software and Information Technology Businesses, and Fernanda Sutero, director of Microsoft for Argentina and Uruguay, the benefit of cheap labour which used to play a key role in bygone times, "already vanished. Therefore the present level of local exports cannot be attributed to such variable, but can be explained by the value added warranted by the local industry in its goods and services. Had it been for wages, today we would lose to Peru or Colombia, because while our man-hour costs US$ 35, theirs is at US$ 12."[57]

The region has a good forecast of production and export in this item and meets a significant portion of the software demand in the local market.

b) Engineering and construction

In construction services, until just a few years controlled by the Member States of the Organization for Economic Cooperation and Development (OECD), China's emergence has been very marked. In 2011, according to the classification by sales of Engineering News- Records in "The Tops 225 International Contractors," the first places were occupied by the United States, France and Germany, with China in the fourth place, clearly on the rise compared to its place in prior years.

As to foreign sales of the top 50 constructors, the European predominance is marked, mostly because intra-European sales are deemed as foreign. This is not the case inside the United States and China. The construction companies of seven European countries accounted for 59.8% of sales of the top 50 and 48% of the top four countries: France, Germany, Spain and Italy.

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[56] ECLAC (2009): "Exports of services..." op.cit.
[57] Science and Education: "Argentina is the third exporter of software." 9/27/2011, Argentina. ar.

TABLE V.4
Sales of the top 50 international construction companies in 2011
(US$ 1.000 MM, %)

Country	Amount	%	Country	Amount	%
U.S(7)	39.6	15.0	UK (2)	9.5	3.6
France (4)	39.4	14.9	Australia(2)	9.2	3.5
Germany (2)	33.7	12.8	Japan (3)	7.0	2.6
China(8)	33.0	12.5	Brazil (1)	5.8	2.2
Spain(8)	32.0	12.1	Netherlands (1)	5.5	2.1
Italy(5)	21.7	8.2	Greece (1)	5.2	2.0
Korea(4)	11.6	4.4			
Austria(1)	10.9	4.1	Total (50)	264.1	100.0

Source: ENR. The Top 225 international contractors

South America had a weak presence among the first ones. A Brazilian contractor only (Odebrecht, ranking 15th) would appear among the top 50. Local companies, particularly from developing countries, have encountered stumbling blocks to sell their construction services in very competitive local markets with difficult access and a strong demand.

As stated by ECLAC, funding is of the essence for export of construction services, but not so relevant with engineering services. The latter are just a fraction of overall costs of a building project.

Brazilian companies have directed their exports to countries of same or lesser development where the advantage of a trademark is not so strong. As a matter of fact, 10 years ago, in a 2002 paper, Motta Veiga (quoted by ECLAC) declared, based on a survey conducted among 30 companies in the sector, that Latin America represented an important market for 51% of the interviewees. For their part, North America and the European Union meant only 15% and 10%, respectively.

Some Brazilian contractors, with expertise in some segments such as building of hydroelectric plants, offshore oil platforms and roads, also have some presence in Africa and the Middle East. Part of the export of services from Brazilian companies is made under agreements with major transnational companies in the sector.

3. Import of services

There is the need to delve as well into the import of services by the region. Table V.5 shows the percentage share of transport, travel and other services. Since the latter item is making great strides in global trade and some of its constituent elements contribute to the overall economic productivity, the Table breaks down “other services,” including information technology, finance, insurance, business services and royalties.

TABLE V.5
South America: Import according to the type of services
2010, %

	Total imports	Transport	Travels	Other services	IT	Finance	Insurance	Business	Royal
Argentina	100	26.3	34.7	39.0	3.3	0.7	3.8	12.4	10.9
Brazil	100	18.1	26.2	55.6	5.6	2.7	2.4	33.3	4.6
Bolivia	100	40.4	27.2	32.5	1.7	0.2	12.7	9.2	1.7
Chile	100	56.4	16.2	27.4	0.6	3.9	4.3	10.4	4.2
Colombia	100	35.3	22.9	41.8	1.9	1.6	7.2	21.4	4.5
Ecuador	100	57.8	19.2	23.0	--	0.1	6.0	10.5	1.8
Paraguay	100	62.9	21.4	15.7	0.3	1.3	6.6	1.3	0.4
Peru	100	40.9	21.3	37.8	3.4	0.6	8.2	15.5	3.3
Uruguay	100	43.2	29.4	27.3	0.4	0.8	3.4	14.4	1.2
Venezuela	100	38.1	14.9	47.0	0.7	0.7	4.5	19.4	3.2

Source: UNCTAD

"Other services" take the majority percentage of imports in Brazil, Argentina, Colombia and Venezuela compared to transport in Chile, Peru and Uruguay, with Paraguay and Ecuador recording lower percentages.

As appears from the breakdown of "other services," the import of business services is most relevant in eight out of the 10 listed countries (except for Bolivia and Paraguay), followed by insurance (very high in Bolivia) and royalties (particularly Argentina). It should be noted also that Brazil, Peru and Argentina import a substantial amount of information technology services.

There is no in-depth information available about the origin of the import of services of each country in the region. However, there is evidence of the export of business services to the region from Brazil and Argentina; and insurance services from Peru and Chile. As for royalties, investments of a regional origin have made headway in South America, as well as intra-regional payments.

Notwithstanding, most imports of services in the region come directly or indirectly from developed countries (60%), and the rest from the own region (40%)[58].

4. The balance of services

The balance of services in South America is overdrawn. In 2010, the deficit was tantamount to 69.2% of exports and 40.9% of imports, in contrast with the balance of goods. In the first nine months of 2011, based on ALADI numbers, surplus of goods accounted for 4% of exports and 4.2% of imports.

[58] SELA. Report on regional integration 2008 – 2009. Document SP/CL/XXXV.O/Di No. 18-09

TABLE V.6
South America: Balance of services per country in 2010
(US$ MM)

Country	Exports	Imports	Balance	
Total	70.521	119.324	(48.803)	100 %
Brazil	31.821	62.628	(30.807)	63.1%
Venezuela	1.721	10.581	(8.860)	18.1%
Colombia	4.202	7.986	(3.784)	7.7%
Peru	3.956	5.993	(2.037)	4.2%
Ecuador	1.367	2.960	(1.593)	3.2%
Chile	10.797	11.816	(1.019)	2.1%
Argentina	13.214	14.066	(852)	1.7%
Other	3.443	3.564		121

Source: UNCTAD

In 2010, 63.1% of the deficit in services corresponded to Brazil; 18.1% to Venezuela. That is, 81.2% focused on two countries. Concomitantly, Uruguay's position in the balance of services was virtually even, whereas Paraguay yielded surplus. The case of Paraguay is interesting. Its favourable result can be explained for its exports of services to companies, royalties and licenses.

A breakdown of deficit according to the type of services displays the heavy weight carried by transport. It points to the relative weakness of regional maritime carriers and airliners, as well as the transport of passengers and cargo from and to the subregion in companies based outside the area. "Other services" stand for almost 45% of the overall deficit.

TABLE V.7
South America: Balance of services per sector in 2010
(current US$ MM)

Service	Exports	Imports		Result
Total	70.521	11.9324	(48.803)	100.0%
Transport	16.230	31.884	(15.654)	32.1%
Travels	18.348	28.316	(9.968)	20.4%
Other	32.803	54.556	(21.753)	44.5%
IT	1.718	4.323	(2.605)	5.3%
Finance	2.664	2.368	296	(0.6%)
Insurance	1.022	4.065	(3.043)	6.2%
Business services	25.050	27.870	(2.820)	5.8%
Royalties	632	5.575	(4.943)	10.1%

Source: UNCTAD

This means that the most energetic and particularly important item for productivity of the whole economy also contributes the most to the deficit in the balance of services. In descending order, the highest contribution to the deficit –under "other items- goes to royalties (10.1% out of total deficit), followed by insurance (6.2%), business services (5.8%) and information technology (5.3%).

In the case of insurance, involving South American companies in intra-regional trade, "reinsurance" of local companies should be borne in mind. Such operation is generally made through London or New York brokers. Business services were the main item for export in 2010 and third for import, in absolute numbers. The related outcome could be mostly attributed to Brazil, a strong exporter and importer.

5. Significance of business services for competitiveness

The foregoing information shows the significance of business services in the South American balance. Some positive effects stem from business services, including, as mentioned in an EU[59] paper, lower prices, higher quality and enhanced internationalization.

a) Lower prices

It is said that well developed markets of business services take pressure off corporate costs, thanks to better productivity, conversion of fixed costs into variable costs and demand of services giving rise to competition and lower prices.

b) Higher quality

The contribution of business services to industrial quality not only concerns specialization, but also some services enable companies to improve their own quality standards on procedures and products. Some business services, such as quality control, certification or design and engineering, help get better results in terms of quality and make a distinction among products. Some others, for instance, advertising, market research or fairs and shows, allow getting fundamental information on clients and competitors. Such information is helpful to work on the product weaknesses; better the quality; expand the difference and set business strategies to meet the market needs.

c) Enhanced internationalization

Good quality business services help companies that are recipients of these services get access to the foreign market, as follows:

i. Business services improve competitiveness of companies and train them for a better performance abroad. Furthermore, some specific services are necessary to define, plan and set an international strategy (management consultancy, fairs and shows, market research, and advertisement, among others). Such aid may be particularly essential for small or medium-sized enterprises which embark upon new markets.

ii. Business services make it easier to surmount some obstacles to trade. Many business services help jump legal, economic and cultural barriers both inside and outside the domestic market. Legal and regulatory hurdles abroad will be cleared only through the services provided by management consultants, information technology specialists, lawyers, translators and interpreters, among others.

In addition, services form an integral part of value chains. While the chain analysis is based on the manufacturing sector, two checks are necessary. On the one hand, the manufacturing value chain would be unviable in default of services. On the other hand, some value chains in the services sector should be explored in depth.[60] This is the case, for instance, of global logistic chains bolstered by lower transportation and communication costs.

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[59] BCC (1998): "Contribution of business services to competitiveness of industrial enterprises." Brussels, November.

[60] As stated by ECLAC (2009): "Exports of services..." op cit. "Some cases of CGV may be regarded as just services (this is the case of engineering or health services, for instance), whereas some others form part of wider chains of the manufacturing industry (for instance, clinical trials). Nevertheless, in the latter, reference can be made of CGV of services, as a number of activities can be carried out in several geographical locations. For instance, research into the biomedical and trade feasibility of a drug, as specified hereinafter, requires the conduct of clinical trials, and processing and analysis of their findings. This may or not be carry out by the firm that developed the study drug. While, there are not, so far (to the best of our knowledge), studies on CVG of services, we feel that their analysis should not differ substantially from the analysis of CGV of goods."

6. Talks on services

a) Global talks

The WTO General Agreement on Trade in Services (GATS) enables each party to choose the scope and pace of its commitment regarding liberalization of trade in services. It also has some safeguards and clauses on special and differential treatment. Therefore, to some extent, a developing country has the chance of experiencing service liberalization and revising its decision if no fruits are borne. The talks of the Doha Round did not end in 2011, as expected.

b) Regional talks

Talks on services liberalization in the region have been slower than talks on goods liberalization. There are several reasons for the gap: from the old view of services as less energetic than goods, clearly overcome some decades ago, to the complex nature of services which encompass many varied sectors, to the delayed preparation of statistics, thus hindering trade analysis.

i. Talks inside MERCOSUR[61]

In December 2005, the Montevideo Protocol on Trade in Services of MERCOSUR entered into force. It set a ten-year term for trade liberalization among the parties. Earlier, negotiation sessions had been held. The seven rounds held to that date had paved the way for a gradual increase of specific commitments from the parties in their respective lists. However, in the first five years of the effective term of the Protocol, and despite subsequent rounds, commitments to liberalization have been scanty.

Main troubles include distinct regulations, which ought to be standardized; lack of regulations in some countries; difficulties to consolidate the regulatory *status quo* in order to count on a sound negotiation basis. As a result, any regulations eventually approved in a country and involving restrictions for trade in services could exclude the parties. Add to this slow incorporation into domestic laws of MERCOSUR standards on services approved by the Common Market Council (CMC), and lukewarm participation of private interests in the rounds.

In 2010, MERCOSUR endorsed the Decision 54 “Deepening of liberalization of services.” Under article 5, striving to jump over some obstacles, this Decision orders the MERCOSUR Group of Services to produce a report on the status of trade in services in the region in the second Regular Meeting of the Common Market Group of 2012, including:

- Statistics of trade in services inside MERCOSUR;
- Main restrictions to intra-zone trade in sectors with an export interest for Member States;
- Analysis of negotiation modes;
- Relationship between trade disciplines and other instruments linked to investment;
- Progress made in the enforcement of mutual recognition agreements for temporary professional practice; and
- Performance status of the instruments related to trade in services.

[61] See Quijano. J.M. (2010): *El Mercosur 20 años después*, CEFIR, Montevideo.

ii. Talks inside CAN[62]

Andean countries have expressed their commitment to liberalization of services both in CAN and GATS and Free Trade Agreements of Colombia and Peru with the United States, Canada, European nations and several Asian countries. While the extent of the commitments may vary from one to another country, Member States have gone beyond the WTO talks in the regional negotiation.

"There is, however, some inconsistency in the commitments made by Andean countries in several forums. In some cases, there is more commitment to the concessions granted to third countries compared to regional partners. This mirrors the different levels of political undertaking as to liberalization of services and shows that lot of work is still to be done on convergence and cooperation among partners," the UNCTAD noted.

CAN Member States pledged to liberalize the markets of services in all sectors and in all of the four modes of supply under Decision 439[63]. The Decision 718, passed in 2009, extended the term until 31 December 2011 to liberalize the sectors pending for negotiation (finance and national open-signal TV) and receive Bolivia's proposals on the sectors in that country eventually subject to preferential treatment.

As opposed to MERCOSUR, the CAN process was relatively swift and deep. Even the Decision 439 included national preferential treatment for government procurement from CAN in the sector of services. Concomitantly, as mentioned above, Colombia and Peru followed suit with Chile and dealt with FTAs which contain a chapter on liberalization of services as *WTO plus.*

c) Bilateral talks

FTAs or bilateral regional trade agreements also entail the liberalization of services with regard to cross-border trade, as well as the incorporation and investment of foreign suppliers.

Liberalization of services makes a difference in country development. As stated by the UNCTAD[64] "Service subsectors such as banking and finance, transport and telecommunications, and medical, legal and accounting services, can play a strategic role in economic and social development. Strengthening domestic service sectors as a complement to industrial diversification is important for developing countries, not only because it may help to increase overall productivity through specialization at the firm level, but also because these sectors offer considerable employment opportunities due to their relatively high labour intensity, even at more advanced stages of their development. Foreign participation in service activities may be useful as a complement to the domestic provision of services, but accelerated and excessive liberalization of key sectors, or even across-the-board liberalization, under legally binding rules of an FTA has the potential to disrupt or hinder the process of establishing a national strategy for services."

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[62] UNCTAD (2010): "Assessment of services and trade in services in Andean countries. Bolivia, Colombia, Ecuador, Peru and Venezuela. UN, New York.

[63] In 2006 the process to upgrade liberalization of trade in services among CAN Member States finished off upon the endorsement of Decision 659 which ratifies the area of free trade in services, as set forth in Decision 439. Such Decision laid a General Framework of Principles and Rules for Liberalization of Trade in Services in the Andean Community. Restrictive measures of individual Member States were specified in Decision 510 with the parties undertaking to remove them by the end of 2005. The term would be extended. Ending 2006 (Decision 659) future systems were set in each service sector to remove the restrictions.

[64] UNCTAD (2007): Trade and Development Report, UN, Geneva.

The Peruvian case, with an FTA with the United States in force and newer than the Chile-U.S FTA, will be taken as reference for the analysis of bilateral talks. Some particulars in the Peru-U.S FTA should be noted.

i. While the WTO contemplates four modes of service supply, this FTA gathers three modes in a chapter referred to services; the fourth mode is addressed in the chapter on investments. The excluded mode refers to the supply of a service in the territory of one party by means of covered investment. Added to investments, "it should be taken into account that the chapter on investments, unlike the chapter on services, includes principles such as the principle of indirect expropriation, the minimum principle of treatment, etc." This seems to restrict the State's leeway in these sectors because, among others, it means that any difference could be offset by the investor-State difference scheme. "This may limit the State's regulatory role in some services in the national interest."[65]

ii. Covenants apply to any measures adopted by a country which may influence cross-border trade in services. Under the Agreement, the term "measure" refers to any law, regulation, procedure, requirement or practice. In this case, such measures involve those applied to all services sectors, as an approach of negative list has been taken. Therefore, it encompasses the whole process of services supply: production, distribution and trade in services, as well as all the supply modes in such trade in services.

iii. As regards financial services, suppliers of financial services in the United States will have full freedom to establish subsidiaries, shared risk partnerships or bank branches and insurance companies. Managers may render management services to mutual and pension funds, including the funds being handled by Peru's privatized social security accounts.

iv. In the field of telecommunications, the abstention principle under which if market forces work accordingly, the regulator should refrain from interfering in the market. However, it is not clear who defines when the market works properly. Also, the prevailing operator of the mobile phone system is under an obligation to prevent anti-competitive practices (anti-competitive crossed subsidies and the use of data collected from competitors).

7. Conclusions

The following conclusions can be drawn from the above analysis:

- In the long term (three decades), exports of services have grown more than exports of goods;
- The growth is due, firstly, to exports of developed countries and, secondly, to exports of developing countries. Nevertheless, South America does not play a key role among the latter;
- In 2010, the growth rate of South American exports of services were 11 percentage points less than that of developed countries and almost three percentage points less than that of developing countries;
- In the analyzed three-decade term, substantial changes were recorded in exported services, particularly in business services;
- The share of Latin America in world markets is still scanty, in low- or moderate technology sectors and/or non-strategic sectors;

[65] Fairlie A. Queija S and Rasmussen M. (2006): "El TLC Perú-EEUU: un balance critico" LATN CISEPA, Internet.

- There is lack of clear expertise patterns, even though there is a hint of export profiles in some countries in the region;
- Except for some exceptions, local businesses face many troubles for their international insertion, at least concerning the attempt at coming in more value-added and more complex niches;
- Both transport and "other services" (including business services) have a high profile in imported services;
- South America has a loss-making balance of services; most of the deficit corresponds to Brazil;
- The region's wide gap in production and trade in services arrests the development of other sectors of the economy;
- Regional trade in services has been slow and limited, except for CAN and the FTAs of Chile, Colombia and Peru;
- Bilateral talks, taking for instance the Peru-US, have been very dynamic; and
- Speedy and excessive liberalization of key sectors, or even overall liberalization, by virtue of the legally binding covenants of an FTA, have a decisive influence on development and the domestic strategy of services.

VI. FOREIGN DIRECT INVESTMENT IN SOUTH AMERICA

1. Gross fixed capital formation (GFCF) and FDI

The purpose of this chapter is to analyze the recent evolution of FDI in South America. Two main reasons explain the inclusion of a chapter on FDI in a paper on the mechanisms and modalities to promote intra-regional trade: first, because trade negotiations in FTAs include negotiations on investment, and second, because FDI is source of trade both in the classical version (companies involved in exports and imports) and the most current version of exchange within one company (parent-subsidiary and between subsidiaries) which represents a very significant percentage of world trade today.

a) Investment rate compared

Before discussing the trends in FDI, it is advisable to analyse the flow of FDI of South American economies. All ten economies show a different behaviour when comparing the gross fixed capital formation (GFCF) and FDI to GDP, as shown in Table VI.1 below.

If we group the countries by region, MERCOSUR shows poorer results in the GFCF/GDP ratio: Brazil, Paraguay and Uruguay are well below 20% and Argentina barely passes the threshold.

TABLE VI.1
South America: Gross Fixed Capital Formation and Foreign Direct Investment
In % and US$ MM. Averages of 2009 and 2010

Country	GDP	GFCF	% GDP	FDI	% GDP
Argentina	339,482	73,028	21.5	4,274	1.25
Bolivia	18,470	3,056	16.5	415	2.24
Brazil	1,881,615	327,637	17.4	36,476	1.95
Chile	171,073	38,211	22.3	5,582	3.26
Colombia	261,741	58,936	22.5	2,126	0.8
Ecuador	54,989	13,901	25.3	242	0.4
Paraguay	16,299	2,574	15.8	312	1.9
Peru	143,812	36,347	25.3	6,146	4.27
Uruguay	35,783	6,731	18.8	1,961	5.48
Venezuela	284,510	70,297	24.7	(2,867)	(1.0)
Total	**3,207,774**	**630,718**	**19.7**	**54,667**	**1.7**
MERCOSUR	2,273,179	409,970	18.0	43,023	1.89
ANDEAN	934,595	220,748	23.6	11,644	1.24

Note: *The values for GDP, GFCF and FDI are averages for the years 2009 and 2010. MERCOSUR comprises Argentina, Brazil, Paraguay and Uruguay. ANDEAN includes Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela.*
Source: Prepared by the author based on ECLAC Statistical Yearbook (2011) for GDP and FDI, both in current dollars, and on UNCTAD data for GFCF.

Interestingly, the FDI/GDP ratio does not show a similar behaviour, in every case, to the above GFCF/GDP ratio. In fact, in MERCOSUR, Argentina shows the best GFCF/GDP ratio and the lowest FDI/GDP ratio of the subregional agreement. Brazil shows the opposite behaviour, with the best FDI/GDP ratio in MERCOSUR, but one of the lowest FBCF/GDP ratios of the bloc.

The six ANDEAN countries, with the exception of Bolivia, have a much higher GFCF/GDP ratio than MERCOSUR (5.6 percentage points higher) and a behaviour which resembles much more the dynamic economies in other parts of world. But it should be noted that this trend also proves that there is no similar behaviour between GFCF/GDP and FDI/GDP. The best figures for the first ratio (in Ecuador, Peru and Venezuela) represent both very low levels of FDI/GDP in Ecuador or even foreign disinvestment in Venezuela, and relatively high levels in Peru.

This is because a significant portion of FDI that entered South America in 2009-2010 was aimed at mining and exploitation of natural resources and the reasons that prompted this inflow (especially high international prices) are not necessarily the same reasons that encourage domestic private investment and public investment.

This seems to be the case in some countries (in Chile and Peru, for example), but in others, a relatively significant FDI income (as in Uruguay and Bolivia and to some extent in Brazil) does not seem to have been accompanied by a strong reaction of domestic private investment and public investment.

b) FDI in the region

Between 2007 and 2010, Latin America and the Caribbean received, in absolute numbers, a net inflow of FDI in the vicinity of US$ 115 billion each year. However, due to

the decline in total FDI (due to the fall of FDI into developed countries) the inflow to the region increased from 5% to 10% of the total FDI. The crisis in the U.S. and the EU did not stop the flow of FDI into the region, as shown in Table V.2.c of the Annex.

In the same period, more FDI was channelled to South America than to other destinations in LAC. The differences in growth rates of FDI among South America, Mexico, Central America and the Caribbean are related to their different patterns of specialization. In South America there is an upward trend of primary sectors in exports and FDI, while intensive assembly manufacturing activities and services in Mexico, with strong links with the United States, were most affected by the crisis and the weak recovery of the economy[66]. This explains, as seen in Tables VI.2 and VI.2.a, why net FDI inflows increased significantly from 2007 to 2010 in South America and decreased in other places in the region.

TABLE VI.2
LAC: Net FDI income
US$ MM and %. Financial centres are excluded.

	2007	%	2010	%
LAC	114,363	100	112,634	100
South America	71,227	62.3	83,517	75.6
Mexico	29,714	26.0	17,727	15.7
Central America	7,235	6.3	5,847	5.2
Caribbean	6,187	5.4	3,917	3.5

Source: idem.

TABLE VI.2.a
Global Net FDI income, by region
US$ billion and %

	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
World	1,771	100	1,114	100	1,112	100
Developed	1.018	57	566	51	527	47
Developing	630	36	478	43	525	47
LAC	134	8	90	7	113	10
Africa	72	4	59	5	50	4
Asia and Oceania	375	21	303	27	334	30

Source: Based on ECLAC Statistical Yearbook (2011): for GDP and FDI, both in current dollars, and with UNCTAD data for GFCF

The sectoral focus of FDI in South America deserves a comment. Its composition shows that sectors with higher FDI inflows were natural resources and services, with 43% and 30%, respectively. Mergers and acquisitions continued to be the main mechanism of foreign investment into the region[67].

As for the origin of FDI in LAC, it is noteworthy that the U.S. and Spain reduced their share while China, the Netherlands and the region itself increased theirs. In 2010, 10% of FDI in

[66] ECLAC (2010): "Panorama de la inserción...."
[67] The study on technology-intensive FDI complements the above information and shows that for LAC medium-low technology intensity is dominant in Brazil, Colombia, Peru and Chile, with very high incidence in these two countries where investment has a primarily mining profile, and it is less relevant only in Argentina, where the projected amounts aim predominantly at the medium-high intensity segment. (See Table V. 2b of the Annex).

LAC had regional origins and that percentage is attributable in part to the so-called trans-Latin companies (see Tables VI.3, VI.4, and VI.5 of the Annex)[68]

c) Trans-Latin companies

As shown in Table VI.6, from 2007 to 2010 there was a significant growth in absolute numbers of LAC investments abroad, mostly in South America, mainly Brazil and to a lesser extent, Chile and Colombia.

TABLE VI. 6
LAC: Net FDI outflow abroad
US$ MM and %

	2007		**2010**	
LAC	21,103	100	43,108	100
South America	12,540	59.4	30,292	70.3
Mexico	8,256	39.1	12,94	29.
Central America	389	1.8	119	0.3
Caribbean	507	2.4	n/d	

Forty-seven percent of mergers and acquisitions made by Latin American and Caribbean companies in 2010 targeted another country in the region. An analysis of the major mergers or acquisitions (over US$100 million) shows a leading role played by Brazil, which accounts for 60.1% of the total amount, followed by Mexico with 21.5% and Colombia with 18.3%.

The sectoral analysis shows that in 2010, 30% of FDI for the trans-Latin companies earmarked for mergers and acquisitions was aimed at services, and the leading country in this category is Colombia, with investments in the region (Chile, Panama and Guatemala). Mining is the second sector, with 24.9%, based on two projects, with Brazilian trans-Latin companies. Construction absorbs 11.5% thanks to a project of a Brazil-based trans-Latin company in Portugal. Foods receive 11.1%, which corresponds to Brazilian and Mexican companies in the U.S. Noteworthy is the low percentage of manufacturing (5.1% of investment).

Announced investments from trans-Latin companies in new plants mostly target the same region: 59% in 2010. This underscores the importance of trans-Latin companies as a source of investment in the region (see Table V.5. of the Annex). The highest amounts flowing into the region come from Mexico, in the area of telephony services (América Mobil) with investments in Brazil and Colombia, followed by Brazil, with a diversified investment across countries (in all intermediate countries of South America and Paraguay) and across sectors, as it targeted steel, oil, construction and services. There are no major projects in manufacturing. In the case of Chile, the entire investment in 2010 in the region was made in the commercial sector in four South American countries, suggesting an aggressive expansion of supply chains.

Therefore, the sectoral distribution of investments made or announced by trans-Latin companies through mergers, acquisitions or installation of new plants indicates that two sectors, services[69] and trade, absorb 75.7% of the total (see Table V.5 of the Annex).

[68] The analysis of the behaviour of the trans-Latin companies takes into account – following the methodology and information from ECLAC – net outflows of FDI abroad, major mergers and acquisitions where trans-Latin companies have participated, and investments over US$ 100 million.

2. The location for investment in services

The analysis of the compared "attractiveness" of different countries to locate services and serve customers on a regional or global scale considers various indicators. The Global Service Location Index - GSLI[70], prepared annually by AT Kearney, considers three variables: the financial environment (labour costs, taxes, regulations, etc.), the skills and training of the population, and the business environment (political and economic situation, protection of property rights, infrastructure, etc.).

Two years of the GSLI will be considered here: 2007 and 2010. Noteworthy is that in all years three Asian countries were at the top of the list: India, China and Malaysia. As for Latin American countries, three were among the top twenty in 2007 and four in 2010. Between these years, the ranking of Latin American countries recorded some variation: Mexico moved up from 10th to 6th place, but Chile dropped from 7th to 10th and Brazil from 5th to 12th. [71]

Among the twenty most attractive countries in the ranking, three in Latin America (Mexico, Chile and Costa Rica) get their highest score in the financial realm due to the low costs. Brazil, meanwhile, reached the highest score in skills and training of its population, well above Costa Rica, Chile and slightly above Mexico[72].

3. Investment and Productive Integration (PI)

a) Value chains and the productive integration

The formation of value chains generates better links between businesses, as well as specializations that increase overall productivity. They are also a way for SMEs to improve their standards and become integrated into these chains. The role of value chains is increasingly important globally and in highly dynamic areas such as Asia. They have led to the increase of trade of goods and services and have also improved the exchange of parts and components rather than finished products.

Chains are interdependent systems with complex coordination mechanisms which, in order to function smoothly, need efficient solutions in logistics and infrastructure. Chains have flourished as a response to reduced transport costs and the rapid spread of communication technologies, which have enabled companies to move certain activities to subsidiaries and partners abroad and manage those activities. These changes in

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[69] In the area of services, as pointed out by ECLAC, there were major acquisitions in the field of telecommunications, especially in Brazil. Highlights include the purchase of 50% of Vivo (mobile phone joint venture of Portugal Telecom and Telefónica) which Telefónica of Spain did not yet own, for US$ 9.7 billion, the purchase of GVT by the French group Vivendi for US$ 1,777 million and the acquisition of SkyBrasil by DirecTV Latin America, a branch of US-based DirecTV Group, for US$ 604 million. Of the 13 mergers or acquisitions that exceeded US$ 1 billion, only one targeted the manufacturing sector, namely the acquisition of the beer brewing operations of Mexico's FEMSA by Heineken for over US$ 7.3 billion. These operations reflect a strategy based on the search of local services markets, and have been driven by several factors, including the active role of Mexico, Colombia, Chile and to a lesser extent Brazil as a source of regional FDI towards services (and commerce), but with a major role as recipient in this sector of FDI from the region. ECLAC (2010), "Foreign investment..." op. Cit.

[70] AT KEARNEY Global Management Consultant. Kearney Report.

[71] In 2007, Uruguay and Argentina, with equal score (5.47), well below other Latin American countries, rank 22nd and 23rd. Uruguay's main weakness is the skills and training of the population, and that of Argentina, below Brazil and Mexico in skills and training, has the worst record regarding business environment.

[72] Except for Brazil, the information is consistent with the results of a survey of 500 U.S. and European companies. Latin America is chosen primarily as a place to decentralize simple functions in search of low cost, and it is not seen as a suitable region to develop activities that require highly qualified workforce" Quoted by ECLAC.

production networks have brought about new opportunities for companies of developing countries to integrate themselves into the chains.[73] [74]

b) Value chain governance

Value chains help small and medium-sized enterprises enter a virtuous cycle of learning and innovation. But we must start by recognizing that not all chains are virtuous. Or, in other words, the different patterns of governance in the production chains do not ensure that integration into these chains may lead to virtuous cycles of learning and innovation.

As we all know, value chains develop different relationships among their links. It is usually believed that these relationships are determined by the handling of information and knowledge transfer between links and the current and potential development of suppliers. Each chain shows different degrees of asymmetry between their links. If the information handling and transfer are reserved for one of the links, or the transfer of such information is complicated, it increases the possibility of a high asymmetry.

This is also true if the development and the skills of providers, or part of them, are relatively scarce. At the extremes, a situation of low asymmetry (widespread handling of information and links with high expertise in their respective fields of action) is more likely to lead to a chain with balanced governance and equitable distribution of benefits and, conversely, in a situation of high asymmetry (a chain with a limited handling of information and heterogeneous expertise) may well lead to a centralized governance and unbalanced distribution of benefits. The former is a chain with relatively fragmented power and the latter would be a captive chain.

Chains may follow, therefore, different logics and models, where the influence of the pattern of relationship between businesses, characteristics of leadership and barriers to entry, influence the capture of portions of income within it. A chain may be a source of learning, innovation, profitability, expansion of the whole (core and suppliers) or may reproduce conditions of subordination, exacerbated, in the case of SMEs, by the fact that it is probably inserted in a monopsony[75].

Chains can be integrated horizontally and vertically, and the most common model is the one where the visible head of the chain is a large corporation or company (leader), which implements optimized business models and invest in new business systems and practices. This big corporation can outsource certain activities and entrust them to the best qualified national firms. In fact this is the most common, most successful model and in many activities – manufacturing of goods and provision of services – it is extremely difficult

[73] UNCTAD (2008): "Trade logistics and global value chains," Trade and Development Board.

[74] The estimated costs of international freight measured as a percentage of the value of imports have declined steadily over a period of 15 years (from over 9% to slightly under 6%) "Thanks to the container, the cost of transporting one tonne of goods by sea has decreased 50 times in a few years, while the Internet revolution has had a similar impact in the field of communications. The power of computing tools combined with the possibility of real-time communications with the world has enabled the creation of global supply chains across different countries. These supply chains comprise a large number of different operations (...) while they regulate, monitor and remotely manage the work of all suppliers and partners involved." See Pascal Lamy (2012): Change the way the world Measures Trade flows. Global Viewpoint, February.

[75] A leading company has a choice among different suppliers, but the supplier embedded in a chain – and specialized in what the chain demands – does not easily move to another chain. Maybe that explains the reluctance of some small and even medium-sized companies, expressed in business surveys in Uruguay, to join production chains. The conclusion is that the issue of chain governance – and safeguards that should be incorporated for SMEs to join them – should not be ignored in a productive integration programme.

for a national company in a developing country to enter a chain without the invitation and sponsorship of a large corporation.

But perhaps this is not the only model. The emergence of the trans-Latin, as well as large public and private companies in the countries of the region, could play a relevant role in the construction of chains. The Brazilian proposals within MERCOSUR, which are mentioned below, aim precisely at that goal.

c) Market Access

Many small and medium-sized companies could have taken more advantage of integration if access conditions had been guaranteed. The most serious problem, which has hindered a more dynamic and creative relationship between the companies of the Member States (especially in MERCOSUR, due to exposure to NTRs) has been precisely the uncertainty in access. The various non-tariff instruments, being used occasionally on the borders, have strongly affected the integration process.

One consequence is that employers do not make investments for export to a neighbouring market where access is not guaranteed. Another consequence is that a large company, which is a market leader, will seek suppliers in the same market that are not subject to the uncertain passage through customs and borders. The issue of access and difficulties brought about by this phenomenon should not be ignored in a programme of productive integration.

d) Proposals for productive integration:

In MERCOSUR

One of the major efforts during the second decade of MERCOSUR – in terms of institutional development, drafting of documents, convening of meetings and adoption of decisions and resolutions – was aimed at the productive integration (PI). In recent years, the focus on the active role of public policies in the productive development has gained in importance.

Brazil has proposed the Supplier Development Programme for the oil and gas sector, which aims at companies of MERCOSUR partners to be credited as suppliers of PETROBRAS after improving quality and price and achieving systemic competitiveness gains in the oil supply chain. Brazil proposed also the Supplemental Programme of the Automobile Production Chain with a very similar purpose: to strengthen links between MERCOSUR terminals and SME suppliers once they reach the quality standards of foreign terminals based in Brazil.

Initiatives regarding productive integration are undoubtedly connected with the treatment of asymmetries and the most notorious instrument created by MERCOSUR to overcome them: the Fund for the Structural Convergence of MERCOSUR (FOCEM).

In the Andean Community

The most ambitious project of Andean countries, at the first stage, was aimed at the industrial area, where it established certain rules for foreign capital[76]. It also established industrial sector programmes to promote the development of industries in a rational manner, but progress was made only in the areas of metallurgy, petrochemical and automobile industries. The Andean industrial project ran into difficulties: some inherent to the project and other constraints imposed by the debt crisis after 1982 and the paradigm shift since the early nineties. The common strategy of industrial development has weakened over time among the Andean countries.

The first serious blow to the Andean programme of industrial integration and tackling of asymmetries came from the debt crisis that emerged after 1982. A new, more "pro market" notion of development, with less interference by regulations, government incentives and the State, was finding its way, nonetheless. This more liberal vision – fuelled also perhaps by certain gaps, weaknesses and inefficiencies of the original Andean project – put emphasis on less public share, more privatization and trade liberalization without discrimination.

The various responses and different emphases in each country to this impact acted as centrifugal forces which, in essence, introduced substantial changes since the nineties, in the original Cartagena Agreement. The programme of integration and industrial complementation was shelved and – in the context of open regionalism – the Andean countries moved towards a free trade area, which was consolidated in 1993 for Bolivia, Colombia, Ecuador and Venezuela, and later Peru (1997).

The Latin American Centre for Rural Development (CLDR) has recently asked itself: "What kind of Andean integration could be useful for four countries with different strategies for development and integration into the global economy?" And it added: "The answer is to promote Andean value chains capable of generating subregional value added. The idea is to reduce drastically the costs of logistics and, more generally, of transactions, which exist in the flow of goods among our countries. To this end, issues such as fluid transport, information systems and common technical standards for goods and services are fundamental."

It is certainly an interesting bet, but one might ask if the crossroads among the four CAN members is compatible with the bet on Andean value chains and, if so, which type. Two members (Peru and Colombia) have chosen to sign FTAs with the U.S. and other developed and developing countries, while the other two (Ecuador and Bolivia) have affinities with the Bolivarian Alliance for the Peoples of the Americas – Peoples' Trade Agreement (ALBA-TCP). These are two very different views on international integration and the role of multinational corporations in value chains.

e) Requirements for a successful productive integration (PI)

Transnational, trans-Latin corporations, and some large public and private companies in the region could encourage – with appropriate stimuli – the formation of chains with suppliers from several countries in South America. This is only feasible if suppliers are efficient, operating with high levels of expertise and are part of high-quality logistics communication networks. This suggests that public policies for continuous

[76] "First, through Decision 24, a common set of rules was proposed on foreign investment, which limited the entry of capital and stipulated specifications on foreign property (which could not reach 100%), control over remittances of capital and profits and reinvestment of registered capital and the employment of foreigners, among others. Second, with Decision 220, which replaced Decision 24, treatment of member countries to foreign capital was made more flexible."

improvement training of entrepreneurs and business suppliers should assume a leading role.

But difficulties and limitations should not be minimized, including:

- A serious problem that has hindered a more dynamic and creative relationship between the companies of the member countries (especially in MERCOSUR, due to exposure to the NTRs) has been precisely, as previously stated, the uncertainty of access to markets.

- Legal uncertainty is another significant problem, especially in MERCOSUR. Often, not everything that is approved is implemented in the subregional agreements, whenever a Member State believes that compliance would affect it. Neither failure to incorporate nor non-compliance brings consequences for the offender.

- The relative backwardness of South America in the field of services, the weakening of the manufacturing sectors in the countries of the region and access limitations existing in the South American market, are some of the difficulties that should be addressed in the short and medium term.

4. Conclusions

The above analysis reveals the following conclusions

- In terms of FDI, LAC reception increased from 5% to 10% of global FDI from 2007 to 2010;
- The crisis in the U.S. and the EU did not stop the flow of FDI to LAC;
- In the same period, more FDI was channelled over to South America than to other destinations in LAC;
- The total FDI received in South America targeted natural resources and services;
- Mergers, acquisitions and investments where trans-Latin companies are involved in the region target trade and services;
- The "appeal" to invest in services ranks Brazil, Chile, Costa Rica and Mexico among the top (top twenty globally);
- The main "appeal" of Brazil is the skill and training of its workforce, and in other cases, the low relative cost;
- Investment in services (mobile telephony, financial) are aimed at domestic markets, although it could stimulate some intra-regional services market;
- Transnational, trans-Latin companies, and some large public and private companies in the region could encourage, with appropriate stimuli, the formation of chains with suppliers from several countries in South America;
- This requires providers to be efficient, operating with high levels of expertise and be part of high-quality logistics communication networks;
- Public policies for training and continuous improvement of entrepreneurs and business providers should play a leading role, and
- A successful programme of productive integration requires serious and solid progress towards full freedom of access to markets and towards legal certainty; it also requires rapid progress in overcoming the region's relative backwardness in the field of services.

VII. GOVERNMENT PROCUREMENT

1. Initial Reflections

Public policies in many countries tend to give preference to domestic companies for government procurement. The conditions can be diverse: from the obligation for the public sector to procure from national companies, the requirement that a percentage of purchases be made from national companies, to preferential prices up to a certain percentage rate. It is also common, and it has become an increasingly widespread policy, to grant preferences or quotas for SMEs in order to help them have a predictable sales outlook and reach a certain level of production.

There is currently a strong pressure at the level of FTA negotiations to liberalise these policies so that purchases, subject to open calls for tenders or suppliers from around the world, may be governed by the National Treatment to foreign suppliers.

The liberalization of government procurement would have a strong impact in several areas. The impact would affect the relations between national states and transnational corporations, the importance of services in international trade since majority of purchases are services, the asymmetries between countries and regions, and the development of national companies, whose scale is well below that of new entrants.

In addition to the guarantee of national treatment granted by Decision 439 for the public procurement of services from the Andean subregion, the FTAs of Chile, Colombia and Peru include a chapter on this subject. MERCOSUR also shows its own peculiarities in this area, as shown below.

2. Relevance of government procurement

a) Quantification of purchases

The importance of government procurement is widely recognized. In the late 1990s, the OECD estimated the overall size of government procurement, considering all levels, at approximately 82.3% of world exports. Services accounted for a substantial portion of government purchases (60%). Excluding defence-related expenditures, government purchases were equivalent to 7.1% of GDP or 30% of world exports. Of these figures, the OECD countries accounted for 86.1% and the remaining countries represented 13.9%.[77]

In 2010, various publications estimated that public procurement markets accounted for between 10% and 15% of GDP in developing countries[78]. According to UNCTAD, in 2010, the GDP of developing countries amounted to 20.5 trillion in current dollars. Therefore, the government procurement market of developing countries totalled that year between 2 and 3 trillion dollars.

According to the same source, world exports (developed and developing countries) of goods and services in 2010 totalled 18.9 trillion dollars. Thus, government purchases of developing countries accounted for, that year, between 11% and 16% of total exports of goods and services.

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[77] OECD (2012) "The Size of Government Procurement Markets". Offprint from OECD Journal on Budgeting Vol. 1, Num. 4 , 2002 y GATT "Communication from the European Communities and their member states" S/WPGR/W/39 12 July.

[78] Azevedo CH. (2010): "Role of public procurement in budget execution". Ministry of Planning, Brazil.

b) U.S. Government purchases

The U.S. Government is the main consumer of goods and services in the world, spending about US$ 500,000 million annually in 2008. A great part of these goods and services are provided by small businesses and, in the case of the federal government, 23% (which can increase up to 39%) of purchases must come from this type of business, which accounts for purchases between US$ 110 billion and US$ 195 billion.

The Buy American Act urges agencies of the U.S. Federal Government to buy American products. This Act applies to all federal programmes, with preferences set forth in contracts. Its provisions create preferences that favour local firms. Specifically, it favours i) Mining products produced in the U.S. and ii) Products manufactured entirely in the U.S. The enforcement of this Act uses two criteria to define "domestic product." It must be produced in the U.S. or fulfil a minimum of 50% of local components, calculated on a cost basis.

Small businesses in the U.S. have the benefit of matching the price in bidding processes to between 6% and 12%, as appropriate. Several U.S. states have also additional preferential laws. Moreover, through the Small Business Act, the United States sets fixed percentages of public procurement for small businesses and specific population groups.

In the middle of the last decade, the following percentages were set: (i) 23% of the procurement for small businesses; (ii) 5% for small businesses whose owner is a woman; (iii) 5% for small businesses whose owner is an individual with social and economic disadvantages; (iv) 3% for small businesses located in historically underutilized business zones (HUBZone); and (v) 3% for small businesses whose owner is a war veteran or disabled. Thus, approximately 39% of the contracting made by federal entities may benefit small businesses[79].

When the U.S. signs an FTA, the grant includes the federal law but not the state law. For the benefit to include states, it requires specific negotiations with them and their commitment to join the FTA. Undoubtedly this is one of the relevant instruments of active public policies to encourage the economic activity and domestic firms.

3. Government procurement and FTAs

For this issue, we will take the case of the FTA signed between Peru and the United States, in force since 2009[80]. This FTA covered all (national and regional) purchases of Peru and federal purchases plus those of ten states in the U.S., which joined the FTA, while three others stated they did not have any restrictions in place on the participation of Peruvian companies in government procurement tenders. In the other states, Peruvian suppliers have no access to public procurement.

The FTA operates under the threshold regime. Public procurement below these thresholds, i.e. which are not covered by the FTA, remain reserved for the suppliers of each country. The agreed thresholds in the Treaty, in the case of the U.S., are as follows:

- Goods and services purchased by the federal government, US$ 203.000; those acquired by the states, US$ 554,000, and by public entities, US$ 250,000; and
- Public works contracts have a threshold, in all three cases, of US$ 7,800,000.

[79] Gómez A and Nieto VM (2006): "The public procurement market in Colombia: description and analysis." Planificación y Desarrollo Vol 37 No 1.
[80] Signed on 12 April 2006 and implemented as of 1 February 2009.

On the Peruvian side, the thresholds, below which U.S. companies may not participate in procurement of the central government and regional governments, were fixed at: US$ 193,000 for goods and services and US$ 7,407,000 for public works contracts. These are, therefore, very similar thresholds to those implemented in the U.S. for Peruvian companies.

Noteworthy is that, in the case of Peru, this chapter does not apply to government procurement programmes to favour micro and small-sized enterprises, contracts among public entities, the procurement of goods for food aid programmes, the acquisition of fabrics and garments made from alpaca and llama fibre, as well as purchases made by embassies, consulates and other diplomatic missions.

On the U.S. side, it does not apply to set-asides, on behalf of small businesses and minority businesses, nor to contracts for transportation services.

However, one of the most sensitive aspects in the chapter on procurement is the restriction of the use of set-offs. These are defined in the Treaty as those commitments that promote local development or improve the balance of payments accounts through local content requirements, licenses for the use of technology, investment, countertrade or similar requirements[81]. This severely limits the use of public procurement as an instrument of the State to boost the domestic industry, eliminates the use of all types of performance requirements and reinforces the similar clause approved in the investment chapter of the Treaty.

A critical assessment of the chapter on government procurement, made shortly after the signing of the Treaty states[82]:

First, while one party includes all levels of government purchases at national and regional levels, the other party includes only federal purchases and those of some states.

Second, the thresholds only protect small suppliers, but about 50% of state purchases (about US$ 2.5 billion to the date of signing of the Treaty) will be open for tender for Peruvian medium entrepreneurs (and some large companies), competing with U.S. suppliers, whose technology, scale, financial and logistical conditions show marked asymmetries in their favour.

Third, the commitments block the implementation of virtually any non-commercial mechanism that the State may seek to apply in public procurement, as “special compensatory conditions” are excluded.

4. MERCOSUR and its Procurement Protocol

The MERCOSUR Procurement Protocol shows several characteristics that make it different from the FTA between Peru and the U.S. This Protocol applies to public procurement that entities at all levels of federal and subfederal governments make for the purchase of goods and services, including public works, by any contractual means. But among exceptions, Argentina excluded provincial governments, and Brazil excluded state governments.

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[81] Thus, subsection 5 of Article 9.2 (General Principles), states the following: “A procuring entity may not seek, take account of, impose, or enforce offsets in the qualification and selection of suppliers, goods, or services, in the evaluation of tenders, or in the award of contracts, before or in the course of a covered procurement.”

[82] Fairlie A. Queija S and Rasmussen M. (2006): “El TLC Perú-EEUU: un balance critico” LATN CISEPA.

The Protocol also calls on the use of thresholds. Those established (and periodically reviewable by the MERCOSUR Trade Commission) are different for goods and services, but similar for public works. As for goods and services, thresholds are US$ 150,000 for Argentina, US$ 75,000 for Brazil and US$ 200,000 for Paraguay and Uruguay. As regards public works, the common threshold was set at US$ 3 million. In goods and services, therefore, asymmetries are accepted, which is not the case for public works.

Special mention deserves the public procurement market in Brazil. In 2009, the amount tendered, only by the Federal Government, amounted to 57,600 million Reais (approximately US$ 35 billion). To this we must add the purchases of states and municipalities and the Federation entities that must meet the same guidelines as for the federal government[83].

The Brazilian government purchases help develop or strengthen public policies and, in particular, promote the development of strategic sectors for the country. Certainly, a priority for both federal and state law has been to strengthen the micro and small-sized enterprises.

TABLE VII.1
Distribution of (Federal) Government Procurementin Brazil by company size
2010, %

Enterprise	2002	2005	2008	2010
Micro	4	4	13	20
Small	10	10	19	8
Micro and small	14	14	32	28
Others	86	86	69	72
Total	100	100	100	100

Source: Azevedo CH, op. cit.

The MERCOSUR Council meeting held in San Juan, Argentina, approved Decision CMC 23/10, which provides for review of the aforementioned Protocol. The review, to be made by the Public Procurement Group, should focus on those aspects of the already approved text that need to be modified in order to adapt it to current conditions in each of the member countries and ensure its prompt implementation.

In addition, the Brazilian government approved in July 2010 the Interim Measure No. 495, which introduces some modifications to its government procurement system. Under the new interim measure, on equal terms, as tiebreaker, preference will be given to goods and services in the following order: i) Produced in the country, ii) produced or rendered by Brazilian companies, and iii) produced by companies that invest in research and technology development in the country. With the new standard the concept of Brazilian company of national capital disappears as a priority in the event of a tie.

The margin of preference by product, service, group of products or groups of services, will be defined by the federal executive branch, with a limit of up to 25% above the price of foreign manufactured goods or services. Also, an additional margin of preference may be established for domestic manufactured goods and services resulting from national development and technological innovation in Brazil.

[83] ISEX (2010): Spanish embassy in Brazil: "Report on Public Procurement in Brazil", and Pena F. (2010) El Cronista, 17 August, Buenos Aires

The rule states that the margin of preference will be extended to goods and services from MERCOSUR members, upon ratification of the Protocol on Government Procurement, approved in 2006, and may be extended, in whole or in part, to goods and services originating in other countries with which Brazil signs agreements on government procurement.

Some of the comments that have been made to the MERCOSUR Protocol and the Interim Measure 495 of Brazil are:

- Brazil incorporates federal purchases into the Protocol but does not commit state purchases. In the case of smaller MERCOSUR partners, purchases of (neighbouring) Brazilian states are a more accessible area of competence;
- Differential thresholds for the purchase of goods and services aim at recognizing asymmetries but are insufficient. Thresholds for public works, of particular interest to Brazil, are not differentiated;
- Interim Measure 495 establishes that the margin of preference shall be extended to the other members of MERCOSUR and other countries with which Brazil agrees unilaterally a system of government procurement, which undermines the preference extended to other partners; and
- The other three partners could fail to ratify the MERCOSUR Procurement Protocol if it does not explicitly include the asymmetries in the size of the economies and the size and scale of businesses of each party.

5. Government procurement in the subregion

In some countries in the region, government purchases are made without coordination or planning, which often leads to squandering of funds. The lack of planning and procurement policies has occasionally led to discretion and waste of public funds by public contracting institutions.

It is increasingly essential to innovate procurement through streamlined, transparent, efficient and technologically up-to-date procedures, which may help save funds and facilitate oversight by contracting entities, suppliers of works, goods and services, and the general public.

One of the relevant issues in the discussion of the liberalization of government procurement is the possible impact on asymmetries. Clearly, the diversification and volume of export supply of the larger, more developed countries could end up overtaking smaller and less developed economies, whose exportable supply is more limited. Production scales are indeed critical are determinants of price offers of the former.

In Chapter III of this study, reference was made to the utilization of preferences granted among member countries of ALADI. As it turned out, after decades of mutually granted preferences, Brazil used 36% of them and the small countries of the region used under 6%. In this regard, it was noted that different scales of exportable supply were crucial. A fully liberalised procurement system at a global scale would replicate a similar asymmetric distribution, favouring the U.S., the EU and some emerging countries like China and India.

6. Conclusions

From the above analysis the following conclusions can be drawn:

- Government procurement accounts for a significant percentage (between 10% and 15%) of the GDP of a developing country;

- Thresholds only protect the smaller suppliers, but about 50% of state purchases (about US$ 2.5 billion) are in open competition with U.S. suppliers, who have conditions of technology, scale, financial resources and logistics of marked asymmetries in their favour;
- Decision 439 of the CAN grants national treatment in government procurement processes for services from this subregion;
- Commitments made between Peru and the U.S. thwart the application of non-commercial mechanisms that the State may seek to apply on their purchases, as "special compensatory conditions" are excluded;
- As regards the MERCOSUR Protocol and the Interim Measure 495, Brazil incorporates federal purchases into the Protocol but does not involve purchases of states. In the case of smaller MERCOSUR partners, purchases of (neighbouring) states are a more accessible area of competence;
- Differential thresholds for the procurement of goods and services aim at recognizing the asymmetries, but are insufficient and there is no differential thresholds for public works;
- Interim Measure 495 establishes that the margin of preference shall be extended to the other members of MERCOSUR and other countries with which Brazil agrees unilaterally a government procurement system, which, if carried out, would erode the preference extended to other partners;
- It does not seem advisable to enter into treaties or protocols to liberalise government procurement if these do not explicitly include asymmetries in the size of economies and the size and scale of businesses of each party;
- The liberalization of purchases produce effects similar to the distribution of the use of tariff preferences, worsening the asymmetries; and
- Government procurement should be a matter of the utmost importance in the analysis, debate and, if possible, agreement among the countries of South America.

VIII. TRADE CIRCUITS IN SOUTH AMERICA

1. Main circuits

The study of the main South American trade circuits presents several interesting aspects.

First, the study confirms that the most relevant circuit corresponds to trade within MERCOSUR, the largest subregional agreement in the region, from the point of view of the study of both subregional and bilateral circuits. The weight of circuits between CAN and MERCOSUR and between Chile and MERCOSUR is also remarkable.

a) Circuit changes

Over the past twenty years, as shown in Table VIII.1, the share of the intra-MERCOSUR circuit grew throughout the '90s, slowed down after the crisis that started in Argentina in 2001 and retook the growth road since halfway through the first decade of the millennium, with a strong acceleration in 2009 and 2010, when it reached a participation level similar to that of 1999. The other two circuits with similar trends in their shares are MERCOSUR-Chile and MERCOSUR-CAN. In 2010, the intra-MERCOSUR, MERCOSUR-Chile and MERCOSUR-CAN circuits accounted for roughly 76% of trade within South America.

The intra-CAN circuit follows a different evolution because its share has been declining since 1995. Venezuela's withdrawal from CAN and the orientation of some of its partners

(Peru and Colombia) toward agreements outside the region have intensified the drop in its share over recent years. It is worth noting that in 2007-2010, the share of MERCOSUR-Venezuela circuit was of the order of 6%, but CAN–Venezuela's is markedly declining, largely due to the bilateral conflict between Colombia and Venezuela.

The comparison between both subregional circuits shows an increase in MERCOSUR's reciprocal trade flows, whereas CAN's have declined.

TABLE VIII.1
South America: Changes in the share of trade circuits
1990-2010, %

Circuit	1990	1999	2007	2010
Intra-MERCOSUR	33,9	44,1	29,0	44,8
Intra-CAN	10,4	11,6	10,0	8,0
CAN- MER	18,9	13,3	12,9	16,1
MER-Chile	13,5	12,4	7,8	15,0
CAN-Chile	6,4	4,9	5,0	6,1
MER-VEN			6,0	5,8
CAN- VEN			8,0	3,6
Chile-VEN			1,0	0,6

Source: "El comercio intrarregional de la ALADI en los años noventa" Study 126, April 2000, for years 1990, 1995 and 1999; "El comercio intrarregional por circuitos" ALADI Electronic Bulletin, February 2008, for year 2007; prepared by the author based on data from ALADI for 2010

b) Fifteen main bilateral circuits

The fifteen main bilateral circuits in South America demonstrate the relevance of MERCOSUR and, in particular, of Brazil, as shown in Table VIII.2.

The weight of the Argentina-Brazil circuit is very high, followed in terms of significance by Brazil-Chile and Argentina-Chile. Concerning the main ten trade circuits, Brazil participates in eight of them, Chile in three, Argentina in two and Peru in two.

TABLE VIII.2
South America: Main bilateral trade circuits
US$ billions in 2010 and %

Circuit	Amount	%
Argentina-Brazil	33.008	33,5
Brazil- Chile	8.429	8,6
Argentina -Chile	5.471	5,6
Brazil-Venezuela	3.965	4,0
Brazil- Bolivia	3.646	3,7
Brazil-Colombia	3.256	3,3
Brazil-Peru	2.980	3,0
Brazil- Uruguay	2.960	3,0
Chile- Peru	2.522	2,6
Brazil- Paraguay	2.199	2,2
Ecuador- Peru	2.144	2,2
Argentina-Uruguay	2.124	2,1
Chile-Colombia	1.784	1,8
Argentina- PAR	1.692	1,7
Colombia-VEN	1.644	1,7
Rest	20.671	21,0

Source: Prepared by the author based on data from ALADI

2. Argentina-Brazil circuit

a) Trade Balance and cyclic Instability

Argentina's and Brazil's trade balance show significant fluctuations. Bilateral trade flows grow until 2000, record a strong decline after 2001 Argentinean crisis, and show a substantial increase in 2003-2011. Starting from this year, Argentina's protectionist measures, taken since early 2012, will probably provoke certain deceleration.

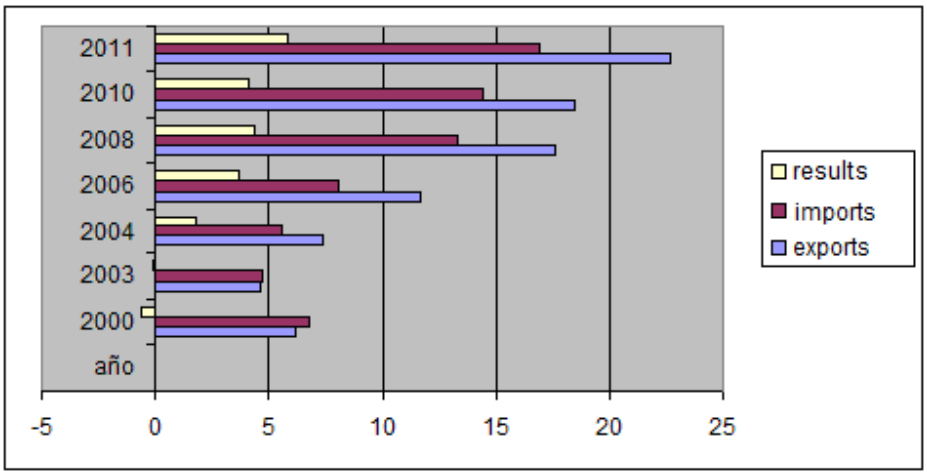
TABLE VIII.3
Brazil-Argentina trade balance
US$ billions

Year	Exports	Imports	Balance
2000	6.2	6.8	(0.6)
2003	4.6	4.7	(0.1)
2004	7.4	5.6	1.8
2006	11.7	8.1	3.7
2008	17.6	13.3	4.3
2010	18.5	14.4	4.1
2011	22.7	16.9	5.8

Source: Base don data of the Federation of the Industries of the State of Sao Paulo (FIESP), Brazil

The following Chart is more illustrative:

CHART 1
Brazil-Argentina trade balance



Brazil has registered trade surplus with respect to Argentina every year since 2004, with surpluses following an increasing trend. This Brazilian surplus has resulted, among other things, in Argentina intensifying, since early 2012, import contention measures and practices, which had been hinted already. Taking into account years 2004, 2006, 2008, 2010 and 2011, all of which were deficit years for Argentina in terms of bilateral trade, the ratio between cumulative deficit and cumulative imports from Brazil has been at 21.69 %.

Reports by the FIESP[84] indicate that terms for releasing non-automatic import licenses have been extended. Delays are significant concerning footwear, machinery, tires, auto parts, wooden furniture, textiles, copper wires, home appliances, etc. In some cases, delays exceed 250 days.

As regards the food sector, the FIESP points out that since early 2011, delays have been occurring in relation to health certificates for perishable products such as chocolate, cheese, bakery products, etc. In early 2012, "80 applications for health certificates are still pending (...) some of them have more than 300 days."

However, the possibility for Brazil to complain to the WTO due to the Argentinean measures is remote. Affairs related to foreign trade fall within the competence of the Ministry for Development, Industry and Foreign Trade, but the opinions of the Ministries of Finance and Foreign Affairs are also heard. Apparently, these three ministries agree on the inconvenience of bringing conflicts with other countries to the WTO.[85]

Argentina-Brazil trade circuit cyclically exhibits forward and backward steps that give rise to substantial instability both in the bilateral relationship and in the exchange of both partners with South American neighbours.

b) Characteristics of bilateral trade

Bilateral trade corresponds mostly to manufacture. According to estimates by the FIESP, 90% of exports from Brazil and 81% of Argentinean exports consist of manufactured goods. No other circuit in South America exhibits similar characteristics.

Now, when the main products exported from Brazil to Argentina are observed, four of the five main products in 2011 correspond to the automotive industry and account for 34% of bilateral exports. In the case of exports from Argentina to Brazil, in turn, three of the five main exported products correspond to the automotive industry and represent 39% of exports to the neighbour country.

The weight of automotive industry in bilateral trade is evident and responds to distribution agreements of terminal areas – all of them of foreign capital in both markets – even though Argentinean and Brazilian capitals are present in terms of auto parts.

[84] FIESP (Federation of the Industries of the State of Sao Paulo) (2012), Web site, foreign trade, January.
[85] L. O. Baptista Abogados Asociados, from Sao Paulo, interview with *Clarin* of BA, 12 January 2012

CHART 2
EXPORTS FROM BRAZIL TO ARGENTINA

Manufactured products:	90%
Semi-manufactured products:	2%
Basic products:	8%

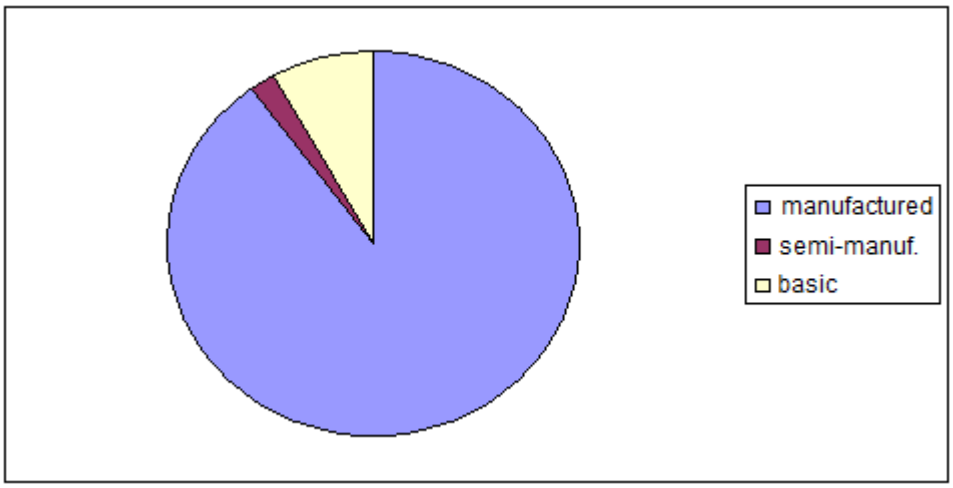


CHART 3
EXPORTS FROM ARGENTINA TO BRAZIL

Manufactured products:	81%
Semi-manufactured products:	3%
Basic products:	16%

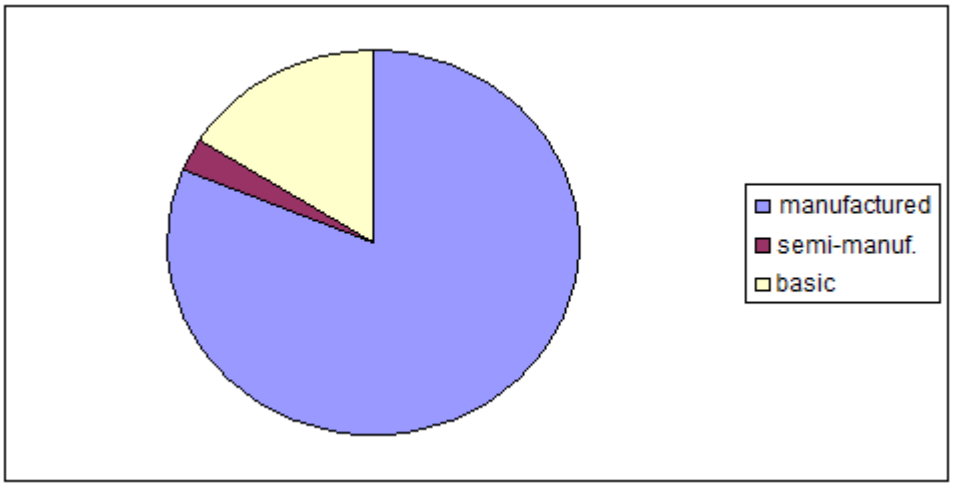


TABLE VIII.4
Brazil and Argentina: Main exports in %

Brazil to Argentina	**%**	**Argentina to Brazil**	**%**
Passenger autos	16	Passenger autos	25
Parts and pieces	10	Load vehicles	10
Iron ore	6	Wheat	9
Load vehicles	5	Naphtha	6
Engines	3	Parts and pieces	4
Total	40	Total	54

Source: FIESP, ibidem

3. Chile-Peru circuit

a) Trade balance

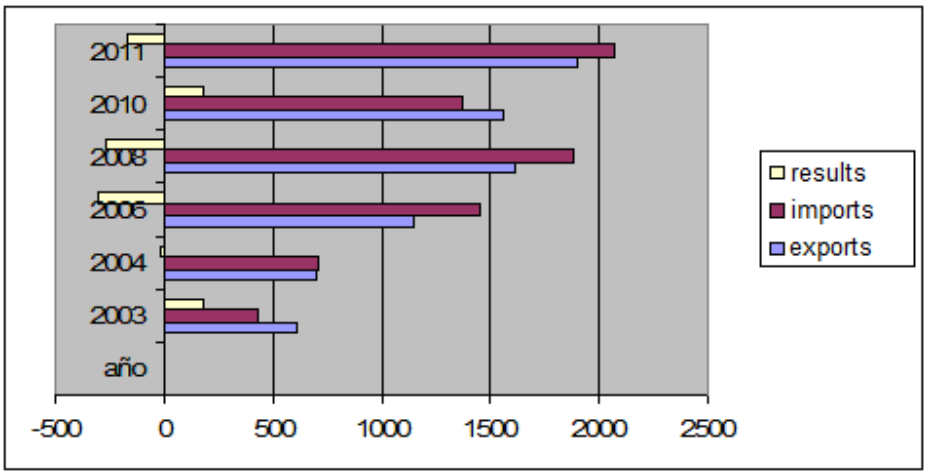
In the period 2003-2011, trade balance registered surpluses: twice in Chile and four times in Peru. Taking into account the deficit years for Chile in terms of bilateral trade (2004-2011), the ratio between cumulative deficit and cumulative imports from Peru (Da/Ma) is at 12.36%, a percentage far below that of the Argentina –Brazil circuit.

TABLE VIII.5
Chile-Peru trade balance
US$ billions in 2003-2011

Year	Exports	Imports	Balance
2003	614	435	179
2004	696	711	(15)
2006	1.152	1.456	(304)
2008	1.617	1.886	(269)
2010	1.556	1.375	181
2011	1.902	2.071	(169)

Source: CAN, Lima

CHART 4
Chile-Peru trade balance



b) Exported products

The analysis of the main exported products between both countries shows that Chilean exports are more diversified than Peruvian exports. The ten main products exported from Chile to Peru accounted for 22.2% of the total in 2011. The ten main products exported from Peru to Chile represent 75.4%. (See Table VIII.6 in Annex)

Peru mainly exports primary goods, especially copper and molybdenum ores, petroleum, fish flour and oil.

TABLE VIII.7
Main products exported from Peru to Chile
US$ billions and %

From Peru to Chile	Amount	%
Copper ore and concentrate	625.6	30.2
Molybdenum ore and concentrate	319.7	15.4
Petroleum oils	216.7	10.5
Sulphuric acid	104.4	5.0
Other fuel oils	80.3	3.9
Petroleum ether	59.8	2.9
Fish oil	56.5	2.7
Fish flour sp	42.1	2.0
Fish flour p	29.1	1.4
Vehicles, more than 10 passengers	26.8	1.3
Total	1.561	75.4

Source: CAN, Lima

Studying Chilean exports to Peru is particularly interesting when a comparison with exports to other destinations is made. The following table shows the three major destinations of Chilean exports:

- Asia (China, Japan and India), which in 2011 accounted for 35% of Chile's exports and is highly concentrated on minerals. In the case of Japan, in addition to minerals and salmon and trout (which represent 83.5% of exports), processed food exports also have certain relevance;

- The United States, which in 2011 represented 11% of sales; exports of minerals, fresh fruits, salmon and trout (67.1% of total exports) are also important. Notwithstanding, this market is fairly relevant in terms of processed and forest products and lumber; and,

- South America (Brazil, Argentina, Peru), which accounted for 9.2% of total exports in 2011; in this case, exports of chemicals and metal products, machinery and equipment are the most relevant. It is worth noting, however, that Brazil is a major buyer of mineral from Chile (in percentage terms below Asia, but over the U.S.) and a relatively weaker buyer (always in percentage terms) of chemicals and metal products, machinery and equipment than Peru and Argentina.

TABLE VIII.8
Chilean exports per goods and destinations
2011 and in %

GOODS	Total	Brazil	Argentina	Peru	China	India	Japan	USA
Mining	59.7	57.9	11.1	2.8	87.1	95.4	70.0	43.4
Non-mining	36.7	41.7	85.8	97.4	7.6	2.7	29.2	56.4
Fresh fruits	5.1	3.3	2.9	NA	0.8	NA	0.6	17.3
Salmon and trout	3.5	6.4	2.7		1.9		13.5	6.4
Wine	2.1	2.0			0.5		1.1	3.0
Processed food	6.2	2.6	7.9	12.0	1.9	NA	6.5	6.4
Chemicals	5.6	12.0	20.4	22.2				
Metal products, machinery and equipment	2.2	5.1	23.2	16.4				
Basic metals	3.2	7.6			2.1			
Forest products and wooden furniture							5.8	
% in total exports	100	5.4	1.5	2.3	22.0	2.3	11.0	10.9

Source: DIRECON, Santiago

The weight of chemicals in Chile's exports to Peru is very relevant and represents the main group of exported products. In 2011, chemicals to that destination amounted to US$ 423 million, or 22% of exports to Peru. Emphasis should be made also on exports of processed food (in percentage terms, Peru is the most important destination for this product) and metal products, machinery and equipment.

Chile has signed FTAs with a large number of countries, but the analysis of products exported to several destinations does not suggest that these agreements have

substantially modified the primary content of exports and that they might reduce the historical significance of mineral exports.

4. CAN-MERCOSUR circuit

a) Brief background

Relations between CAN and MERCOSUR go back a long way. In 1998, both subregions signed a framework agreement for the creation of a free trade zone. Back then, it was established that the initial negotiations should take place in two stages: first, to negotiate an agreement on fixed tariff preferences and, second, to approve a free trade agreement.

Three economic complementation agreements (ECA) set the legal bases of the relation between both subregions: ECA 36 signed between Bolivia and MERCOSUR; ECA 58 signed between Peru and MERCOSUR; and, finally, ECA 59, according to which Colombia, Ecuador and Venezuela, plus the four full member countries of MERCOSUR, committed to create a free trade zone that aims at the expansion and diversification of trade and, for this purpose, at lifting tariff and non-tariff restrictions.

In 2005, Brazil's administration, given the persistent surplus in its trade of goods with its Andean neighbours, promoted that studies were conducted in CAN countries, to research on the particularities of reciprocal trade and obstacles to access, to boost Andean exports to the Brazilian market.

In 2010, Decision 732 of CAN promoted the creation of a mixed committee to define areas and mechanisms to facilitate a deeper relationship with MERCOSUR.

Both regions have aimed at a more dynamic and deeper relationship, but the outcomes have been precarious so far.

b) Exports between both subregions

CAN-MERCOSUR circuit's share has been declining, compared to the South American circuits in previous years, and shows a decrease starting from 2009, as seen in Table VIII.9.

CAN–MERCOSUR exchange has been reactivated in the region, in a period of difficulties to export to other markets, in part as a consequence of the crisis in the U.S. and the EU.

The share of exports of goods from CAN to MERCOSUR have increased in terms of total exports, above all in 2010 and 2011, and the same happens with exports to Chile and China. The case of Venezuela is interesting: the share showed a marked increase up until 2009, but it significantly drops in the two subsequent years, as a consequence of political differences between Venezuela and Colombia, which adversely impacted the reciprocal trade. In the same period, the U.S., Canada and Mexico reduced their share in CAN's exports and the same happened with the EU. (See Table VIII.10 in the Annex)

TABLE VIII.9
CAN: Exports of goods per destination
US$ billions and %

Region/country	2009	%	2010	%	2011	%
MERCOSUR	3.578	4.6	5.517	5.6	7.462	5.7
Venezuela	5.449	7.0	3.174	3.2	4.335	3.3
Chile	2.328	3.0	3.187	3.2	5.130	3.9
U.S. and Canada	24.785	31.8	32.734	33.2	42.645	32.6
Mexico	865	1.1	1.034	1.0	1.272	1.0
China	5.194	6.6	7.864	8.0	9.294	7.1
Japan	2.206	2.7	3.330	3.2	3.541	2.7
India	568	0.7	567	0.6	881	0.6
EU (27)	11.124	14.3	13.861	14.0	20.040	15.3
Others	22.000	28.2	27.614	28.0	36.359	27.8
Total	78.016	100	98.621	100	130.789(p)	100

Source: Prepared by the author based on CAN's statistical data

In the case of MERCOSUR, exports to CAN have had a relatively stable share between 2003 and 2011, while that of Chile dropped. The most dramatic change occurs in extra-regional actors U.S., Canada and Mexico, which received 27.7% of exports from MERCOSUR in 2003, and absorbed just 12.0% in 2011 and exports to the EU, during the same years, dropped from 21.6% to 16.4%.

The place of these two primarily important actors as destination for MERCOSUR's exports was occupied by China (which went from 6.9% in 2003 up to 15.3% in 2011), India in a lesser degree and "other" destinations (from 30.5% up to 43.5%); this last is clearly indicative of the diversification of MERCOSUR's exports over recent years. Both phenomena, the strong increase of China and "others" as destinations of South American exports, basically respond to the increase and diversification of Brazilian exports.

TABLE VIII.11
MERCOSUR: Exports of goods per destination
US$ billions and %

Region/country	2009	%	2010	%	2011	%
CAN	7.841	3.7	10.98	3.7	11.691	3.6
Venezuela	3.947	1.8	5.642	2.0	6.052	1.8
Chile	8.470	4.0	9.379	3.4	9.811	3.0
U.S. and Canada	21.499	10.1	26.947	9.7	34.519	10.5
Mexico	3.764	1.8	5.205	1.9	4.931	1.5
China	24.248	11.4	37.089	13.4	50.292	15.3
Japan	4.801	2.2	8.047	2.9	10.254	3.1
India	4.142	1.9	4.912	1.8	4.184	1.3
EU(*)	39.730	18.6	47.560	17.1	54.025	16.4
Others	94.998	44.5	122.169	44.1	143.196	43.5
Total	213.480	100	277.027	100	329.187	100

(*)Germany, Belgium, Spain, France, Italy, the Netherlands, UK
Source: Prepared by the author based on statistical data of ALAD

A more balanced trade between both subregions, both in terms of the exchange value added and in quantitative results of the balance, which in both cases favour MERCOSUR and, in particular, Brazil and Argentina, would offer significant prospects for both parties in the upcoming years.

5. Conclusions

The previous analysis allows us to come to the following conclusions:

a) Argentina-Brazil bilateral circuit predominantly contains manufacture, with the automotive industry playing a significant role. That bilateral exchange is highly relevant for Argentina, but its significance is relatively lower for Brazil, which has more diversified exports. The circuit has been characterized by the recurrence of non-tariff restrictions and the Brazilian surplus.

b) Chile-Peru bilateral circuit mostly corresponds to primary or semi-manufactured goods, although chemicals, metal products, machinery and equipment stand out among Chilean exports. The relevance of trade with the counterpart is lower, in both cases, in terms of overall exports; in the specific case of Chile, export diversification is greater than that of Peru. Resorting to non-tariff restrictions is not frequent, and the trade balance has shown alternate surpluses over the past decade.

c) CAN-MERCOSUR circuit shows that exchange has predominance in the manufacture sector in the case of MERCOSUR's exports and in primary or semi-manufactured products in CAN's exports. Surplus has been on the side of MERCOSUR. Bilateral exchange for CAN has a higher relative weight – the share of exports to MERCOSUR has grown as a percentage of total exports – than for MERCOSUR. Exports of MERCOSUR to CAN have been characterized by a low and relatively stagnated participation. Non-tariff restrictions emerge cyclically between both subregions.

IX. CONCLUSIONS AND RECOMMENDATIONS

These conclusions and recommendations are intended for trade relations, involving both goods and services and associated foreign direct investment (FDI) flows among South American countries, to move towards the consolidation of regional integration. This work is limited to South America, but South American integration should also consider for each case perhaps specific approaches to the Central American and Caribbean integration processes, including Mexico. This requires identifying areas and modalities of negotiations aimed at a progressive articulation and convergence of these processes.

Export Promotion

Export promotion to which several South American countries resort has been positive because it multiplies the number of destination markets for exports and, to certain extent, the number of products exported. With respect to the type of product exported, the impact of promotion appears to be more notorious in exports of differentiated goods and in scarce homogeneous goods. The result of promotion is seen in small and medium-sized companies, which are those with more difficulties and less experience in terms of exports. Furthermore, when companies are accompanied in the exporting process, better results are obtained than when isolated actions are taken.

Institutions engaged in export promotion have proven to be useful in South America, although in most countries of the region these institutions are new and have not been diversified abroad.

However, it would be advisable that:

- Public policies should be oriented toward strengthening these institutions with further resources and personnel in those cases that show clear signs of weakness.

- Institutions focus their efforts on exporting small and medium-sized companies and accompany companies throughout the export process; and,

- Promotion institutions cooperate among themselves, especially in the opening of offices abroad with shared costs, which could start with offices in those countries of the region with which trade is expected to increase.

Distribution of trade benefits

It is essential to pay attention to the distribution of benefits derived from the trade of goods. The results show that in the first decade of the millennium, South American countries with the highest economic and trade development accrue trade surpluses with the other countries on the markets of which they preferably place their manufactures. Those countries are the ones that have taken advantage of tariff preferences granted among South American countries, which has led asymmetries among them to increase.

It is evident that to attain the objective of deepening integration and trade within South America, a better distribution of benefits and a better utilization of preferences granted are required. In this regard, for exportable offer of smaller or least developed countries to be increased, the following would be advisable:

- More secure access to markets;
- Special programmes to promote exportable offer of least developed countries;
- Cooperation programmes and technical assistance in favour of the least developed countries, which are destined to be better able to benefit from reciprocal trade.

Regional Trade Instability

Anticyclical macroeconomic policies applied in times of global financial crises in South American countries have led to exchange overvaluation that have resulted in stimuli to imports and lack of stimulus for exports with value added.

The economic policy based on exchange overvaluation has become the most relevant tool of some South American governments to fight domestic inflationary pressures, whereas inflation control has become the main objective of macroeconomic policies.

A policy intended to promote trade within South America makes it necessary to deepen cooperation and harmonization in the macroeconomic field, mainly in terms of monetary, exchange and fiscal policies, applied in several South American countries over recent years.

Rules and disciplines in trade of goods

The region has not simplified its rules, but, on the contrary, has segmented rules and disciplines that might move it away progressively from a common project. However, it is obvious that the increasing heterogeneity as to rules and disciplines responds, to a large extent, to national needs and interests. Notwithstanding, an effort intended to simplify rules would be convenient to facilitate and increase reciprocal trade and mutual investments in a more equitable manner.

In this regard, it would be advisable to:

- Simplify origin regimes, starting with the procedure that could admit, in a large and growing percentage of tariff items, the certification by the own exporter who should be subjected to random inspections and, if false information is detected, to severe trade retaliations.

- Admit arbitration procedures for the settlement of controversies and to agree on a regional rule, partly inspired in Economic Complementation Agreements signed within the framework of ALADI. Furthermore, the settlement of disputes should be focused on arbitration procedures within the regional scope, which should be comprised of three stages: dialogue between parties; analysis and suggestions by an administrative office; and, if the conflict permits, calling upon arbiters;

- Admit the WTO system for tariff valuation; and

- Admit free trade zones to export outside the free zone.

Non-tariff restrictions

This kind of restrictions is a clear expression of size and structural asymmetries. It is evident that access difficulties to regional markets are structural. It is clear that access difficulties to regional markets are much more significant for members with smaller economies than for larger economies and that protection costs associated with the implementation of these barriers are higher as the country applying them is smaller. Likewise, those restrictions result in uncertain access to the extended market and, therefore, they mean a barrier also for investments that could be made in smaller domestic markets with the aim of selling on the regional market, thus preventing exportable offer from least developed countries from increasing.

Having a realistic and commensurate programme for the reduction and elimination of this kind of restrictions is particularly relevant. In this regard, suggestions made in ALADI Study 185 (ALADI, 2007) are especially pertinent, due to both their prudent implications and foreseen times.

Likewise, it would be advisable to explore, based on the new instruments used on financial markets, other forms of collaboration such as the so-called living wills, which implies forecasting scenarios, scheduling responses and having resources available for assistance.

Trade in services

South America backlog in terms of trade in services is notorious and expresses in a deficit service balance. The most dynamic service sector (the so-called "other services") and the one that is especially relevant for the productivity of the economy as a whole is also the one that contributes the most to service balance deficit.

Decision 54 of MERCOSUR ("Deepening of Service Liberalization") approved in 2010, includes several proposals to promote trade in services among partners, which could be extended to other South American countries.

Concerning diagnosis:
- Proper and properly broken down statistics on trade in services are required;
- It is necessary to determine the main restrictions that hinder reciprocal trade in sectors of export interest to the parties; and
- Negotiation modalities that have prevailed among parties should be reviewed and analyzed.

Concerning future actions, the following recommendations are in order:
- Move towards tertiary formation by service specialization in several countries;
- Government's service purchases (and purchase programmes for small and medium-sized companies) should be very relevant tools for service expansion;
- Special significance should be granted to purchases promoting development of "Other services", in particular information technology and services to businesses; and
- A joint reassurance programme among several South American countries could mitigate the impact of that sector on the service balance.

Recommendations as to future negotiations include moving towards a concentration of positions to promote universal service liberalization, in terms of both regional and bilateral negotiations with more developed countries outside the region.

Foreign Direct Investment and trade

FDI composition shows that sectors that received the largest part of FDI in South America in 2007-2010 were natural resources and services. Concerning origin, it is worth noting that the U.S. and Spain reduced their share as China, the Netherlands and Latin America itself increased it, with the so-called trans-Latin companies standing out. The sector distribution of investment made or announced by trans-Latin firms (mergers, acquisitions or installation of new plants) shows that two sectors, i.e. service and trade, absorb three quarters of services.

FDI that receive South American countries from the rest of the world is mainly earmarked for natural resources and services: mergers, acquisitions and investment with the participation of trans-Latin firms in the region are aimed at services and trade; the main destination of extra-regional investments in natural resources is the rest of the world; and investments in services (cell phones, financial services) are oriented towards domestic markets, although they could stimulate intra-regional service trade.

Our recommendations in this area include:

- Public policies for the training and continuous *improvement* of entrepreneurs and service providers should play a predominant role;
- A programme intended to improve access to and legal security in markets to overcome the relative backlog of the region in terms of services;
- In spite of the opposition to the *performance requirements* at the WTO, negotiation with foreign investors is always an open possibility, unless the host country has ruled out that possibility by means of an FTA; and
- Agree on joint negotiations per pairs of countries or at the subregional level, which provides much more opportunities to negotiate *performance requirements* than individual negotiations.

Productive Integration

A dynamic process of productive integration will have a strong impact on trade inside South America. In this regard, we would recommend to:

- Promote and create low asymmetry chains – with a disseminated management of information and high expert links in their respective fields of action – with balanced government and equitable distribution of benefits; and
- Apply public policies concerning training and continuous *improvement* of both entrepreneurs and providers.

Having said this, difficulties and limitations, including those mentioned below, should not be underestimated:

- A serious problem that has stopped the relationship from being more dynamic and creative among businesses of Member States (both in MERCOSUR and CAN) has been precisely, as reiterated, the uncertain access to markets.
- Legal uncertainty is another significant problem. South America relative backlog in terms of services and the weakening of its manufacture sectors also represent difficulties that should be faced in the short term.

Investment and performance requirements

An especially relevant issue is that of *performance requirements*, which, in general, developing countries used to introduce in contracts with foreign investors, with the clear purpose of reducing imbalances in the balance of payments; but also to promote exports towards markets where foreign investors had or could have access.

Notwithstanding, restrictions are imposed on requirements, both at the multilateral and FTA level, which governments could propose to foreign investors.

In this regard, our recommendations are as follows:

- Agreements with countries outside the area, which expressly ban demanding *performance requirements, should not be signed; and*
- National programmes to promote foreign investment, which are in force in several countries of the region, should be linked with the acceptance of *performance requirements* concerning trade and technology transfer.

Liberalization of government procurement

Today, multilateral (WTO) and bilateral (FTA) negotiations are subjected to strong pressures to liberalize government purchases, which could be restricted by the National Treatment to foreign suppliers.

A fully liberalized purchase system at global scale would reproduce a similar asymmetric distribution in benefit of the big exporting powers, mainly the U.S. and the EU, and of some emerging countries like China and India.

A central issue in this regard refers to the relationship between SMEs and government procurement, the situation of which would be undermined in an agreement of FTAs' characteristics, in spite of the existence of thresholds.

Initiatives like MERCOSUR Government Purchase Protocol and Brazil's Interim Measure 495 show certain limitations that should further motivate analysis and reflection.

In this regard, the following would be advisable:

- Treaties or protocols that liberalize government purchases should not be signed if asymmetries in the size of national economies and in the size and scale of businesses of each party are not considered; and,
- Government purchases should be a top priority issue in the analysis, debate and, if possible, agreements among South American countries.

SELA's role

Upon mandate of SELA Member States, this study is part of a set of analyses that will also include Central American and Caribbean States, in particular those making up the Caribbean Community.

Both studies are aimed at analyzing those elements that hinder trade integration and complementarity among countries belonging to the three subregions, on the one hand, and determining mechanisms and modalities to promote this trade in goods and services, as well as direct investment flows intended to expand and deepen trade, on the other.

These documents will be presented by the Permanent Secretariat of SELA to the Latin American Council at its XXXVIII Regular Meeting, to be held in October 2012. They are expected to serve as the basis of a third study that SELA would conduct on trade flows of goods, services and investment among all SELA Member States.

ANNEXES

CHAPTER II
Table II.1
Trade Opening (Trade/GDP)

Country	1990	2007
Argentina	12,4	47,0
Bolivia	33,0	61,2
Brazil	10,3	24,3
Chile	46,0	69,2
Colombia	25,5	40,9
Ecuador	39,5	54,7
Paraguay	77,9	143,6
Peru	21,3	46,5
Uruguay	31,8	53,4
Venezuela	52,2	56,4

Source: ECLAC (2008): "Indicadores de comercio exterior y política comercial mediciones de posición dinamismo comercial"

CHAPTER IV
Table IV.2
Global exports per technological intensity, 1995-2010

	1995 world	2010 world	1995 developing	2010 developing
Total exports of goods	100	100	100	100
Primary (w/o oil)	17,0	17,2	15,7	18,1
Manufacture	83,0	82,8	84,3	81,9
Labour-intensive, low skilled	15,3	11,5	13,5	8,4
Low technologically intensive	7,8	8,6	9,2	9,0
Medium technological intensity	28,0	26,9	27,0	25,6
High technological intensity	29,2	33,3	32,1	36,6

Source: UNCTAD

TABLE IV.3
Surplus in trade in goods of Argentina and Brazil with South America
2010 US$ billions and %

Country	Argentina			Brazil		
	Export	Import	Balance	Export	Import	Balance
Argentina				18.589	14.933	3.656
Bolivia	607	350	257	1.234	2382	(1.148)
Brazil	14.419	17.658	(3.239)			
Colombia	1.301	149	1.152	2.217	1.171	1.046
Chile	4.489	885	3.604	4.289	4.264	25
Ecuador	501	163	338	985	60	925
Paraguay	1.154	436	718	2.553	634	1.919
Peru	1.120	121	999	2.034	944	1.090
Uruguay	1.551	586	965	1.539	1.647	(108)
Venezuela	1.423	21	1.402	3.869	913	2.956
Total	26.565	20.369	6.196	37.309	26.948	10.361
Total w/o Brazil	12.146	2.911	9.235			

Source: UNCTAD

TABLE IV.5
South America: Exports per type of product
(%)

Products	1995	2005	2009
Foodstuff	29.14	22.68	28.56
Agricultural and livestock raw materials	5.6	3.22	3.14
Fuels	16.13	25.10	20.75
Minerals	15.25	16.40	19.55
Manufacture	33.30	31.27	26.62
· chemicals	5.67		5.96
· transportation material and equipment	10.0		8.42
Others	17.69		10.21

Source: UNCTAD

TABLE IV.7
South America: Manufacture exports per destination
%. 2008/2010 average

Country	LAC	U.S.	EU	Asia	Rest
Argentina	75.0	6.4	10.2	2.4	6.0
Bolivia	45.3	30.9	19.4	2.2	2.3
Brazil	44.8	15.6	18.1	6.8	14.7
Chile	64.5	9.4	10.8	7.0	8.4
Colombia	70.1	11.7	6.7	5.4	6.2
Ecuador	89.5	5.5	1.6	0.5	2.9
Paraguay	76.9	3.1	9.0	4.0	7.0
Peru	59.6	28.2	7.6	1.7	2.8
Uruguay	66.4	3.6	11.2	6.2	12.6
Venezuela	47.5	20.3	17.4	5.9	8.9

Source: ECLAC (2011) "Perspectivas de la economía de ALC"

TABLE IV.8
South America: Changes in manufacture export profiles
Selected countries

	Argentina	Brazil	Colombia	Uruguay	Venezuela
TRANSPORTATION MATERIALS					
Increasing	X		X		X
Stable					
Decreasing		X		X	
CHEMICALS					
Increasing	X			X	
Stable		X	X		
Decreasing					X
OTHER INDUSTRIES					
Increasing					
Stable					
Decreasing	X	X	X	X	X

Source: See previous table

TABLE IV.9
Share of each country in negotiated trade and in the total imports from South America

Country	2000 neg	2000 total	2008 neg	2008 total	2011 total(*)
Argentina	26.4	21.3	23.9	18.4	20.2
Bolivia	2.7	2.6	1.7	2.4	3.2
Brazil	37.4	30.3	26.4	21.8	25.2
Colombia	2.4	6.7	3.9	5.9	7.1
Chile	15.5	14.0	20.8	16.8	14.6
Ecuador	1.1	3.4	2.7	5.9	5.3
Paraguay	4.1	3.3	5.7	3.8	4.4
Peru	2.1	6.7	4.9	7.8	8.1
Uruguay	4.2	4.6	3.8	3.9	4.1
Venezuela	4.1	7.0	6.1	13.3	7.2
	100	100	100	100	100

(*)January-September

CHAPTER VI
Table VI.2.b
Distribution of FDI amounts projected for each country based on technological intensity (%)

Technological intensity	Argentina	Brazil	Chile	Colombia	Peru	LAC
High	6	6	--	2	--	5
Medium-high	45	30	3	30	10	28
Medium-low	18	52	95	54	81	55
Low	31	11	1	13	9	11
Total	199	99	99	99	100	99

Source: ECLAC based on investment announcements in IDI Markets, Financial Times

TABLE VI.2.c
LAC: FDI origin (%)

Region/country	2006-2010 (avg.) %	2010 %
U.S.	25	17
The Netherlands	5	13
Spain	10	4
Caribbean Financial Centres	10	7
Canada	5	4
China	-	9
UK	4	4
Japan	2	3
Latin America	8	10

Source: Based on ECLAC's statistical data

TABLE VI.3
Main acquisitions of more than US$ 100 million by Latin American countries
2010. US$ billions

Country		Outside the region	%		Inside the region	%
BRAZIL	Destination			Destination		
Mining	UK and Portugal	3.692	39,6	Peru	419	71.9
Steel and iron	Canada	1.607	17,2			
Construction	Portugal	1.894	20,3			
Food	U.S.	1.260	13,5			
Oil	U.S.	530	5,7			
Manufacture	U.S.	350	3,7			
Services				Mexico	164	28.1
Total		9.333	100,0		583	100.0
COLOMBIA						
Services				Panamá, Guatemala and Chile	3.024	100.0
Total					3024	100.0
MEXICO						
Services	U.S. and Norway	1.880	72,2			
Trade				Chile	604	63.6
Food	U.S.	575	22,1			
Manufacture	U.S.	150	5,7	Ecuador	345	36.4
Total		2.605	100		949	100.0

Source: Based on ECLAC's statistical data

TABLE VI.4
Main investments exceeding US$ 100 million from countries in the region
2010. (US$ billions and %)

Country	Destination	Amount	%
BRAZIL			
Steel and iron	Argentina, Colombia, Chile and Peru	974	66.8
Oil	Colombia	283	19.4
Construction	Paraguay	100	6.8
Services	Colombia	100	6.8
Total		1.457	100.0
MEXICO			
Services Telephone	Brazil and Colombia	1.561	100.0
Total		1.561	100.0
CHILE			
Trade	Brazil, Peru, Argentina and Colombia	1.136	100.0
Total		1.136	100.0

Source: ibidem.

TABLE VI.5
LAC: Sector distribution of mergers, acquisitions and investments in new plants per trans-Latin firms in the region
2010. US$ billions and %

Sector	Amount	%	No. Of projects	Origin
Services	4.849	55.7	7	Colombia, Mexico and Brazil
Trade	1.740	20.0	5	Chile and Mexico
Steel and iron	974	11.2	4	Brazil
Mining	419	4.8	1	Brazil
Manufacture	345	4.0	1	Mexico
Oil	283	3.2	1	Brazil
Construction	100	1.1	1	Brazil

Source: ibidem.

CHAPTER VIII
Table VIII. 6
Main products exported between Chile and Peru
US$ billions and %

From Chile to Peru	Amount	%	From Peru to Chile	Millions	%
Non-alcoholic preparations for beverages	60.8	3.2	Copper ore and concentrates	625.6	30.2
Fuel oils	56.0	2.9	Molybdenum ore and concentrate	319.7	15..4
Gasoline for vehicles (90)	55.0	2.9	Petroleum oils	216.7	10.5
Copper ore and concentrates	51.0	2.7	Sulphuric acid	104.4	5.0
Ammonium nitrate	41.4	2.2	Other fuel oils	80.3	3.9
Pressed paper	35.9	1.9	Petroleum ether	59.8	2.9
Wooden chemical paste	34.5	1.8	Fish oil	56.5	2.7
Cartons	32.6	1.7	Fish flour sp	42.1	2.0
Iron bars	28.4	1.5	Fish flour p	29.1	1.4
Gasoline for vehicles (97)	26.4	1.4	Vehicles, more than 10 passengers	26.8	1.3
TOTAL	422	22.2	TOTAL	1.561	75.4

Source: Prepared by the author based on CAN's statistical data

TABLE VIII.10
CAN: Trade in goods per destination and origin
US$ billions and %

Region/country	2009	%	2010	%	2011	%
MERCOSUR	12.432	8.1	16.515	8.5	21.029	8.2
Venezuela	7.422	4.9	4.537	2.3	6.684	2.6
Chile	4.610	3.0	6.350	3.2	9.098	3.5
U.S. and Canada	43.755	28.7	56.062	28.7	71.727	28.3
Mexico	4.671	3.1	7.041	3.6	10.065	3.9
China	14.284	9.4	21.369	10.9	28.076	11.0
Japan	4.930	3.2	6.932	3.5	7777	3.0
India	1519	1.0	1992	1.0	2.780	1.1
UE	20.858	13.7	25.617	13.1	35.373	13.8
OTHERS	38.016	24.9	49.206	25.2	64.612	24.5
TOTAL	152.648	100	195.414	100	255.146(p)	100

Source: Prepared by the author based on CAN's statistical data

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