
REGIONALIZATION IN LATIN AMERICA: TRADE, INVESTMENT, AND FIRM BEHAVIOR

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SUMMARY OF PRESENTATION

- Introduction
 - Historical background
 - Intra-regional trade flows
 - Intra-regional investment flows
 - The current situation
 - Conclusions
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INTRODUCTION

- Latin America has long history of regional integration attempts, but they have not been very successful
 - Hypothesis: lack of consistency between ends and means
 - Government agreements, without private-sector involvement, failed to achieve robust economic interactions
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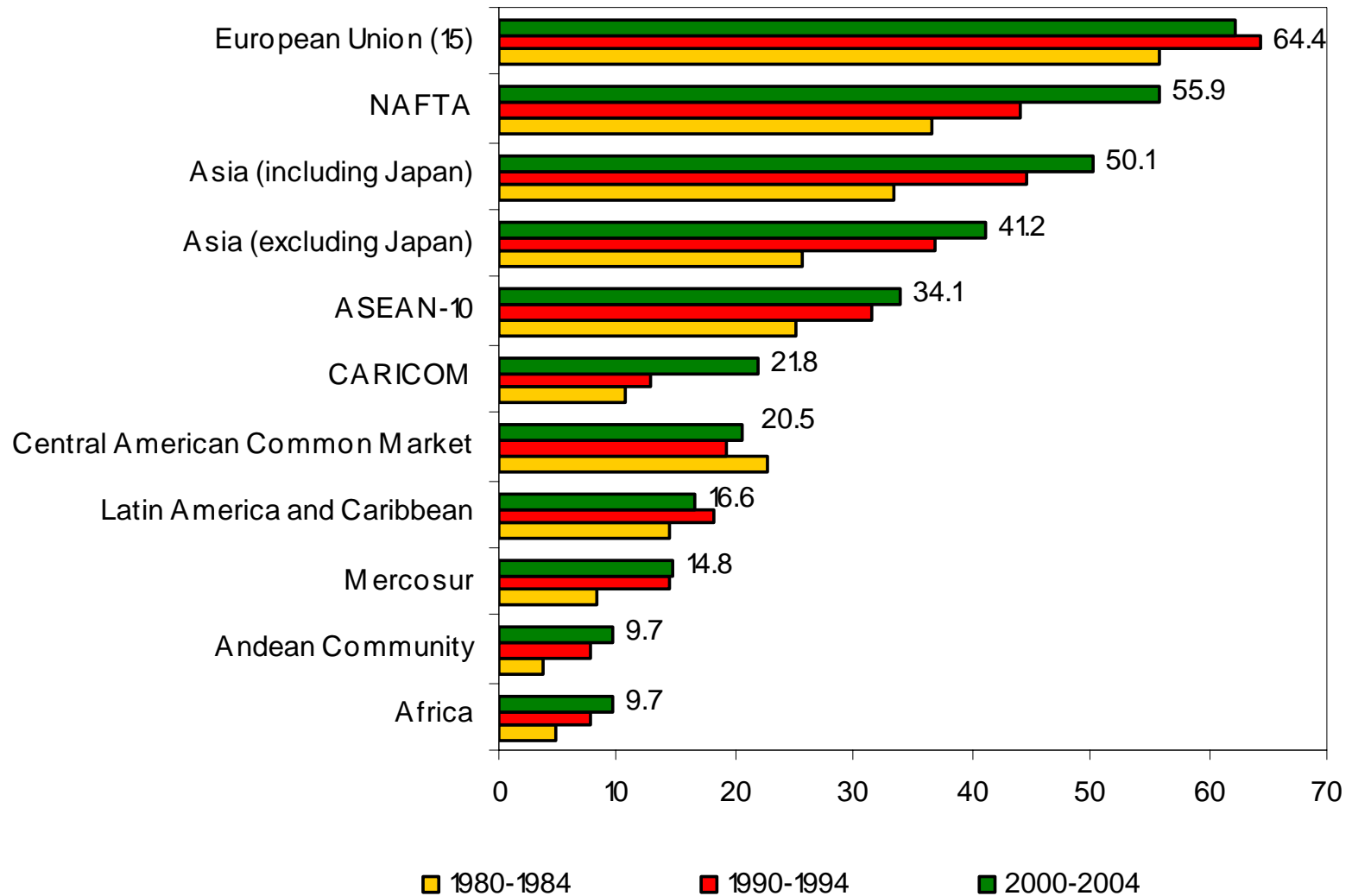
HISTORICAL BACKGROUND

- Attempts at integration go back to post-independence period (early 19th century)
 - Renewed interest in post-WWII period
 - 1960s-1970s: extension of import-substitution industrialization strategy
 - 1990s-present: “open regionalism”
 - Both featured sub-regional organizations
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INTRA-REGIONAL TRADE FLOWS

- Intra-regional trade is low in comparison to other regions
 - High points of intra-regional trade were in mid-1970s and mid-1990s
 - Intra-regional trade has been pro-cyclical
 - Composition of intra-regional exports has emphasized manufactured goods; imports have favored commodities
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INTRA-REGIONAL TRADE COEFFICIENTS



DESTINATION OF EXPORTS

(percent of total)

	Intra-group	Other LAC ^a	United States	European Union	Asia (including Japan)	Other Countries
Mercosur	12.9	15.4	18.3	23.0	15.7	14.8
Andean Community	10.5	16.8	46.6	11.0	9.6	5.5
CACM ^b	17.7	8.5	57.8	10.0	2.0	4.0
Caricom ^c	17.1	3.9	51.7	14.5	3.1	9.7
Total of the four ^d	12.7	14.8	32.1	17.7	12.1	10.7

Source: ECLAC, 2005 (p. 85) based on oficial country statistics.

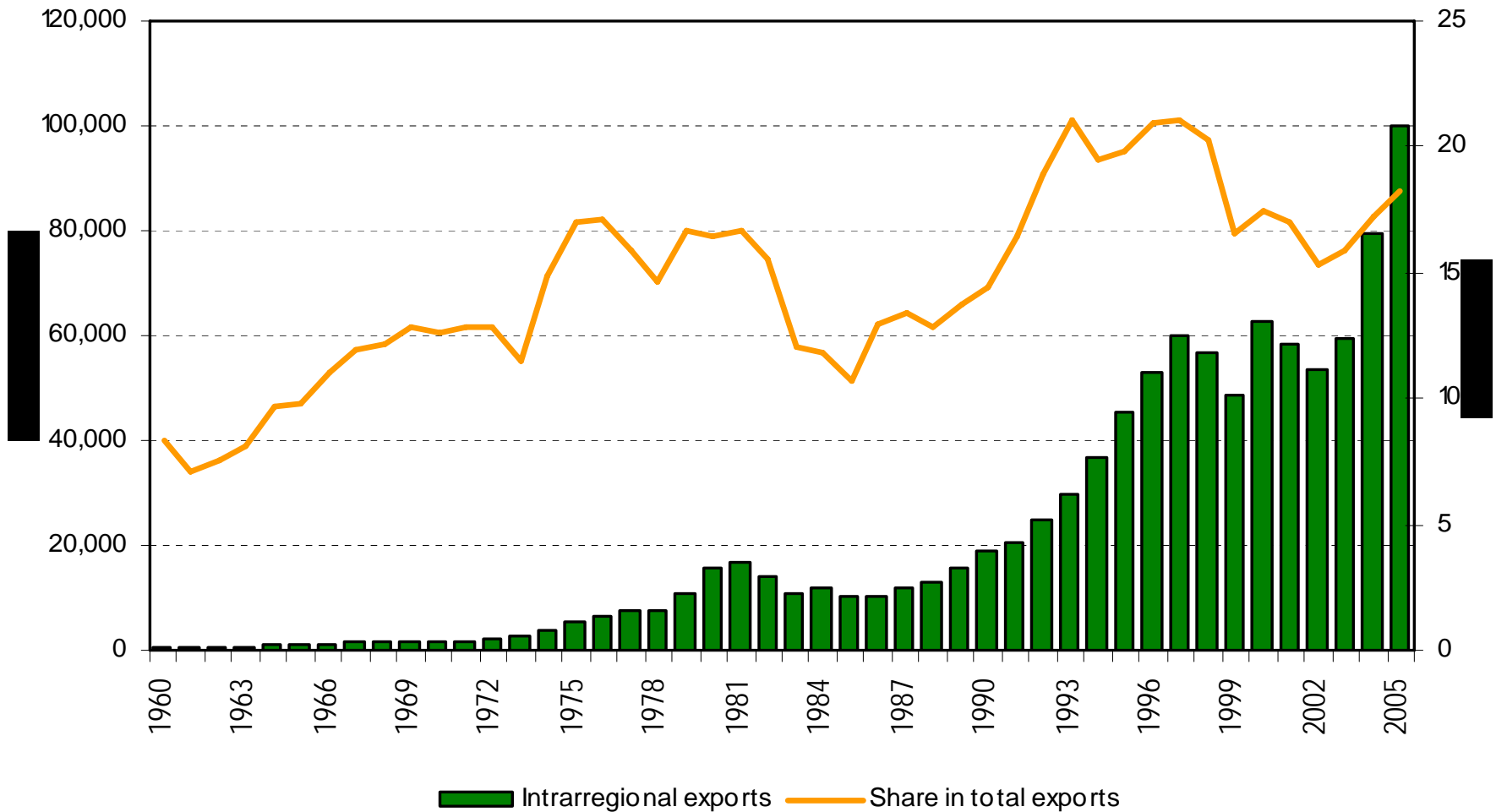
^a Latin America and the Caribbean.

^b Totales utilizados para el cálculo del coeficiente incluyen exportaciones de maquila y zonas francas.

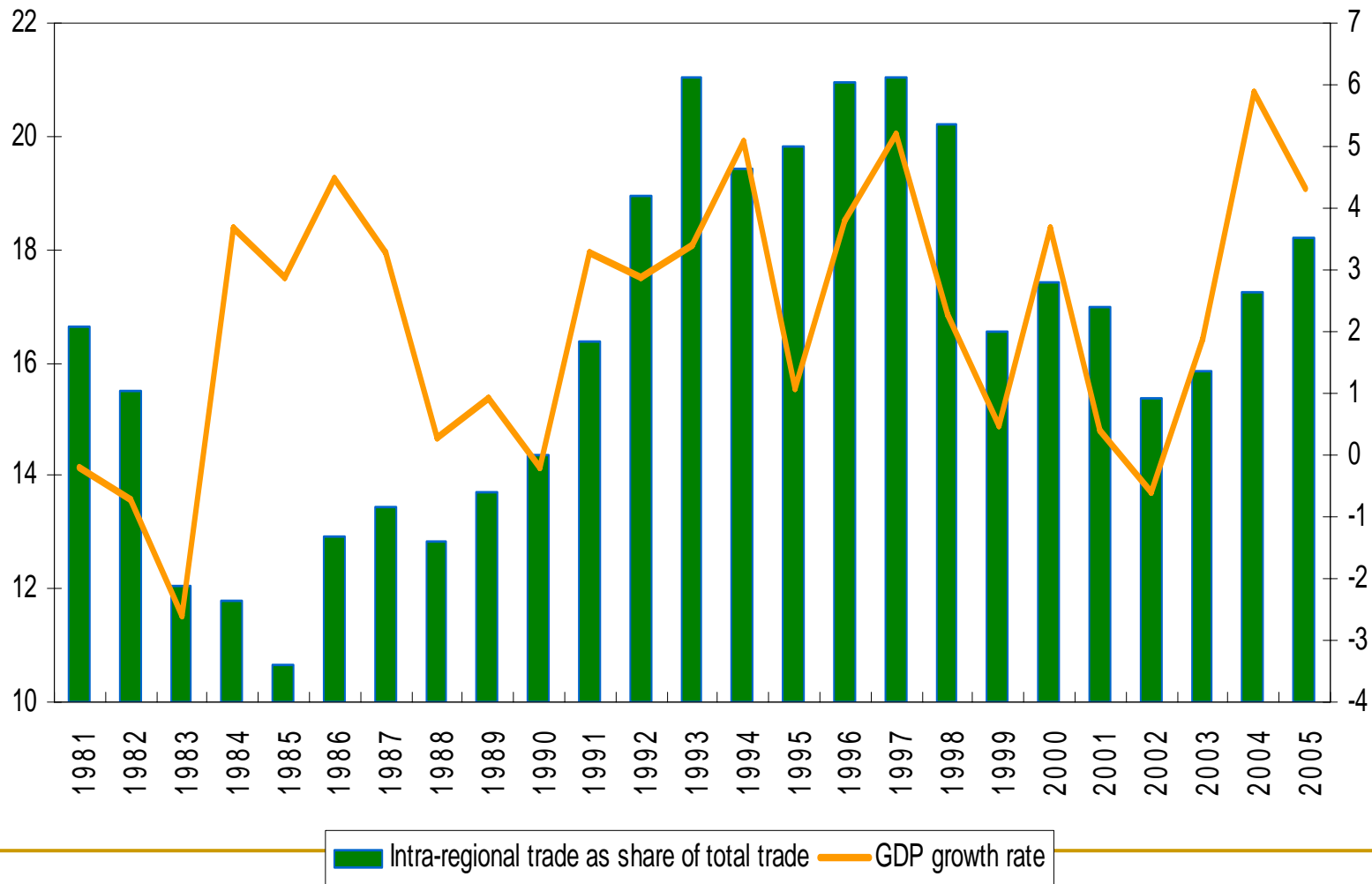
^c Includes information from 5 countries: Barbados, Guyana, Jamaica, Suriname, and Trinidad y Tobago (preliminary data for January-September).

^d Excludes Chile and México.

TRENDS IN INTRA-REGIONAL TRADE



PRO-CYCLICAL PATTERN OF INTRA-REGIONAL TRADE



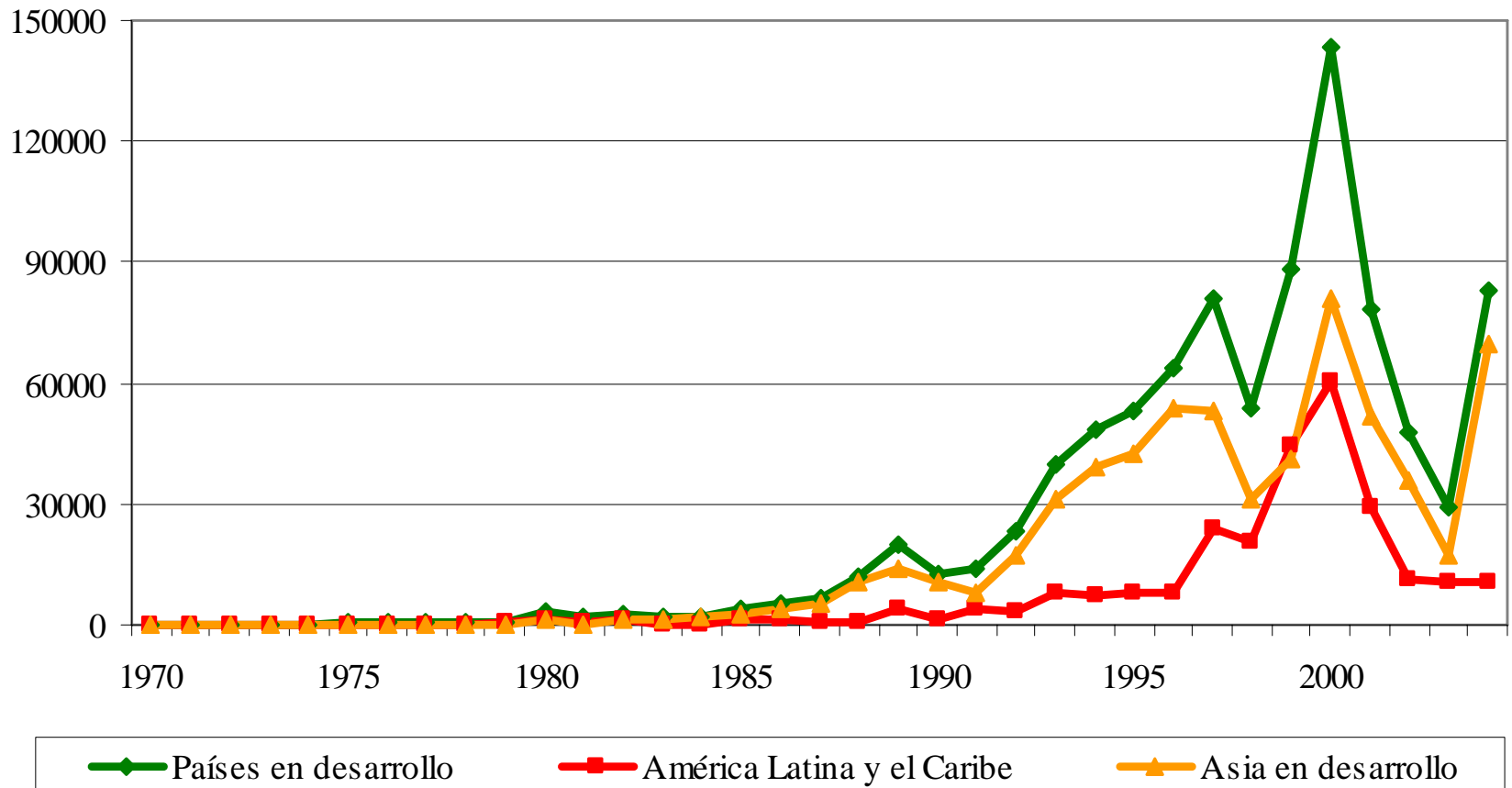
DESTINATION OF INTRA-REGIONAL EXPORTS

Exports	Region	USA	EU	Asia	Others	Total
Primary products	14.8 (12.7)	15.5 (13.3)	22.9 (19.7)	18.2 (15.6)	45.1 (38.8)	116.5 (100)
Industrial goods	47.4 (35.7)	33.3 (25.2)	22.6 (17.0)	16.0 (12.0)	13.4 (10.1)	132.8 (100)
Nat.resource based	15.4 (25.5)	14.1 (23.4)	12.3 (20.4)	10.2 (17.0)	8.2 (13.6)	60.2 (100)
Low technology	8.0 (38.9)	6.7 (32.3)	3.0 (14.5)	1.7 (8.1)	1.3 (6.1)	20.6 (100)
Medium technology	20.3 (49.3)	8.4 (20.3)	5.9 (14.3)	3.3 (8.2)	3.3 (8.0)	41.3 (100)
High technology	3.6 (33.8)	4.2 (39.6)	1.4 (13.3)	0.8 (7.1)	0.7 (6.3)	10.7 (100)
Others	0.7 (12.9)	2.2 (40.6)	1.3 (24.3)	0.0 (0.1)	1.2 (21.8)	5.4 (100)
Total	62.8 (24.7)	51.0 (20.0)	46.9 (18.4)	34.1 (13.4)	59.8 (23.5)	254.7 (100)

INTRA-REGIONAL INVESTMENT

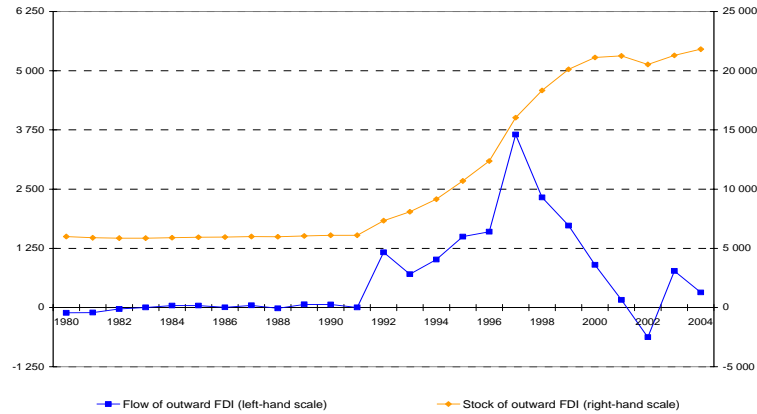
- Intra-regional investment in Latin America also lags other regions (not true earlier)
 - Lack of strong trade-investment links as in East Asia
 - New “trans-Latin” firms in major Latin American countries since 1990
 - Investments mainly limited to LA; in search of markets and materials; new sectors; tendency to sell out to TNCs
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TRENDS IN INTRA-REGIONAL INVESTMENT

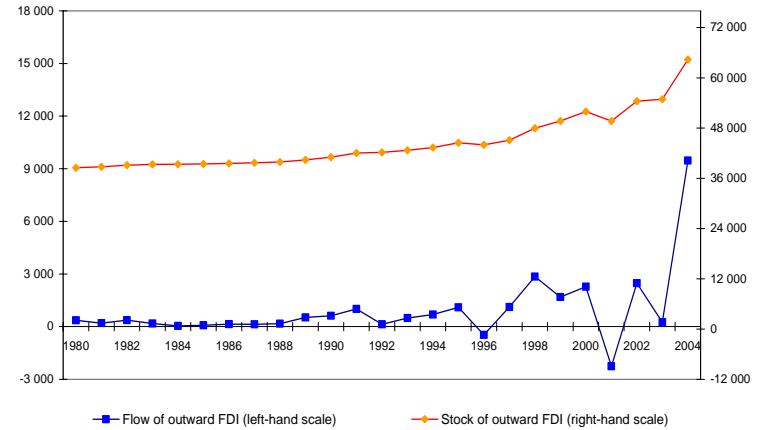


OUTWARD FDI STOCKS AND FLOWS

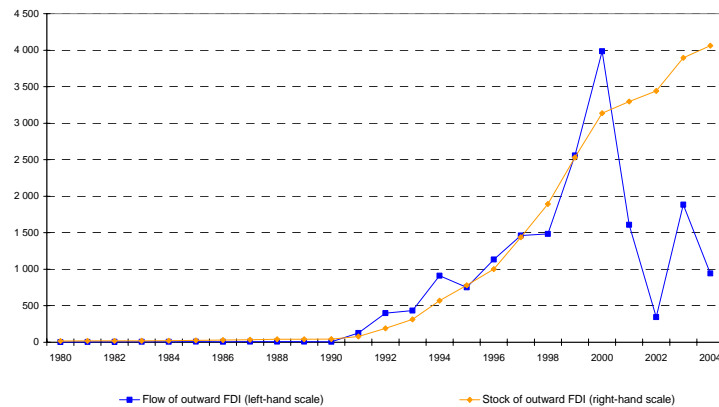
ARGENTINA



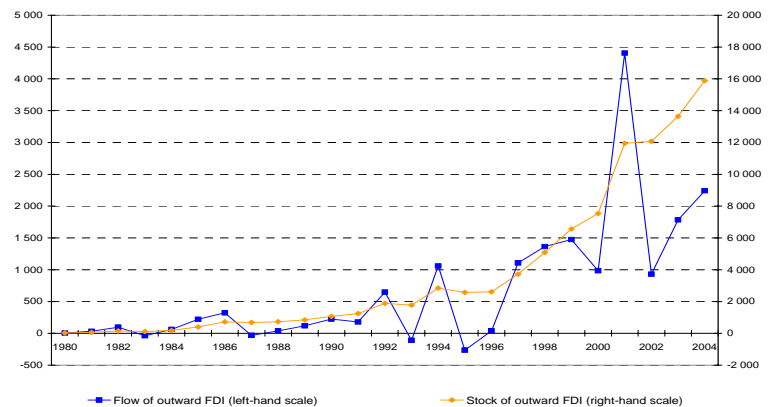
BRAZIL



CHILE



MEXICO



COUNTRY EXPERIENCES (1)

- Argentina: longest history (early 1900s), but high volatility; natural-resource based; few remaining
 - Brazil: more recent, but much stronger and more diversified; many firms have invested outside of LA region; natural resources, but also transport, steel, engineering
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COUNTRY EXPERIENCES (2)

- Mexico: situation similar to that of Brazil, but greater concentration in LA and US; services, construction materials, mining, food; only “true” TNC = Cemex (UNCTAD)
 - Chile: latest to begin investing abroad, based on early reforms; heavily based in services and mostly confined to LA; also trend toward selling out to TNCs in recent years
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CURRENT SITUATION IN REGIONAL INTEGRATION

- Intra-regional trade and investment expanding as growth rates have risen
 - Some governments want to change rules
 - Hemispheric integration momentum has stalled; replaced by bilateral and small-group agreements
 - Recognition of need for new joint policy initiatives (e.g., infrastructure, macro harmonization), but little progress
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CONCLUSIONS (1)

- Why is regional integration so weak in LA?
 - Lack of private-sector involvement in economic initiatives, as in East Asia
 - This became especially problematic after privatization
 - Governments can provide incentives, but private firms make decisions on trade and investment
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CONCLUSIONS (2)

- Lack of a “political project” behind government agreements as in Europe
 - Although there is shared commitment to democracy and conflict avoidance, countries unwilling to sacrifice sovereignty for good of the region as a whole
 - This unwillingness is even more evident at hemispheric level
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CONCLUSIONS (3)

- Does Latin America have lessons to offer?
 - Ironically, as Asian countries move toward government-led integration, it becomes more obvious that this approach has not been very successful in LA
 - Asian countries must be extremely careful not to destroy the intra-regional dynamic – based on private-sector initiative – that has been an important source of growth
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