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Regional Economic Links in Latin America: lessons from Asia and challenges from the regional links of other BRICS

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Abstract

Since the early 1950s Latin American countries have made systematic efforts to foster regional transactions. Nevertheless, the indicators of relative importance of regional trade remain well below the corresponding figures in other regions. This paper argues that a process of integration should take into account the differences between what can be achieved by negotiating with closer neighbours and with geographically distant partners. Also, at present there is an increasing competition from Asian goods, which have negatively affected Latin American producers. Among the lessons from the recent Asian experience are the economic links among countries that have helped to improve competitiveness as well as to foster the degree of convergence of the GDP growth rates of the participating countries.

Keywords

Regional integration, productive complementarity, competitiveness and trade barriers.

I. Introduction[*]

Since the early 1950s Latin American countries have made systematic efforts to foster regional transactions. Notwithstanding this long tradition the indicators of relative importance of regional trade remain well below the corresponding figures in other regions.

One possible reason why things did not go as expected may be the efforts to deal in a homogeneous way with different actors. Regional preferences are not necessarily a homogeneous process. One can hardly expect that all countries in the region will adhere to the same level of political commitment with regard to regional integration. Geographical proximity determines the levels of integration that can be achieved. This means that for Latin America as a whole it should be expected that various forms of agreements will hold (other than free-trade), in accordance to ´variable geometry`: different sets of countries can jointly adopt different negotiating agendas, different perspectives with regard to productive complementarity and different mechanisms of monetary cooperation.

This is, of course, a proposition that is challenged by the Western European experience, where all the latecomers had to adhere to the same pre-existing institutions and rules. But it can be argued that even in Europe the process started with the original ´six` and only gradually there was a geographical spread. And even so some of the common issues, like the common currency, are not universally adopted, for geographic or other reasons.

If distance matters, it remains to discuss what can be actually expected from geographically distant partners and what can be achieved among geographically close economies.

In both cases the benefits stemming from preferential treatment are associated to diversifying the export composition, increasing the stability of foreign exchange revenues and improving the technological content of production. But the results vary as a function of the distance between the potential partners.

Take, for instance, the case of two geographically distant countries, such as Brazil and Mexico. The Automobile Agreement between these two countries has fostered bilateral trade at an unprecedented pace. This means that improving market access conditions is likely to provide new opportunities for bilateral trade. This does not mean, however, that one can expect to promote a significant convergence of productive processes in the two countries. The same thing applies for, say, preferential agreements between the US and Israel.

Geographical distance affects the likeliness of adopting, for instance, common external tariffs as well as increases the difficulties for the movement of parts and components between productive plants. And because there are no common external barriers, the net gains are probably higher than the risks of losses, given that the margin for trade diversion is low.

A different set of possibilities can be related to deepening regional commitment with neighbouring countries. As a matter of fact, the potential in this case is so much higher that one can question whether the purposes of the integration process comprise: a) essentially business facilitation; b) further steps towards fostering productive complementarity or even c) a means to reach not only economic, but also political, social and cultural joint objectives.

In Latin America the motives for promoting regional integration have changed over time. The emphasis in regional agreements as a policy tool has varied quite significantly, with a recent boom from the mid-1980s to the mid-1990s, but at present this has been challenged by a number of features of the international scenario.

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The weakening of multilateral negotiations and the multiplicity of bilateral agreements with countries in other regions might affect regional trade both via trade diversion and through investment decisions. International capital movement might affect exchange rates and output growth, hence influence trade. At the same time the need for new, broader negotiating agenda, from simply dealing with trade issues to taking into consideration topics not directly related to trade increases the difficulties in designing integration strategies. Even more so if the group of countries that aim at integrating their economies present markedly different characteristics.

There are at present more challenges than ever to the integration processes in the region. Regional integration is neither something automatically desirable nor a sufficient condition to promote economic and social development. The very lack of clarity in identifying for what purpose a country should enter (or remain in) an integration process not only may impair the negotiating process but also influences the degree of success that might be obtained from this mechanism.

To the above elements one should add that at present there is sharp and increasing competition from Asian goods, whose process of production involves the participation of several countries in that region, and which have affected Latin American producers both via an increasing share of the domestic markets as well as via the diversion of Latin American exports (mostly industrialized products) to traditional markets.

This paper deals with these elements in six sections. Following this introduction the second section shows that the rationale for promoting regional integration has changed over time in Latin America. This is followed by a third section where the benefits accruing from regional integration are evaluated. It is argued that there are actually differences between what can be achieved by negotiating with closer neighbours and with geographically distant partners. Distance matters. In the fourth section it is shown that tighter economic links among Asian countries have helped to improve their competitiveness as well as to improve the degree of convergence of the GDP growth rates of the participating countries. The fifth section discusses some peculiarities of the exports of manufactured goods. The Latin American experience is seen through the Brazilian experience with product and market diversification in the last thirty years, as compared to India and China. It is also shown that several Brazilian exports face tariff barriers that are higher than those adopted between each other BRIC and its neighbouring countries. The sixth and final section brings some final remarks.

II. The Changing Rationale for Regional Integration in the Americas

The idea of creating a common market to facilitate industrialisation in the region – by means of enlarging the domestic markets and therefore allowing for gains from productive plants of larger scale – has been present in the reasoning about regional integration by some think tanks such as UN/ECLAC (the UN/Economic Commission for Latin America and the Caribbean) since the late 1940s.

The first steps towards this idea were taken in Central America, where already in the early 1950s the basis for what later became the CACM (Central American Common Market) was established. In the 1950s and 1960s the perspective of recurrent balance of payments disequilibria, reducing the access to imported capital goods, required for making viable the priority given to industrialisation, reinforced the demand for regional integration. Trade preferences should be granted gradually, so as not to disturb the (limited) access to capital goods. Moreover, those preferences should be granted to the highest possible number of countries in the region, with differential treatment given to smaller economies. This reasoning became the basis for the creation – in 1960 – of LAFTA.

The 1970s were a period of very low interest in regional integration in Latin America. Difficulties comprised the payment constraints following the first oil shock, limitations imposed by the decision process in LAFTA and – no less important – the fact that several countries in the region had military governments, not quite prone to make concessions that affect national sovereignty.

The second oil crisis plus the debt crisis imposed a shortage of foreign currencies to most Latin American countries. Reduced trade performance, coupled to idle capacity in some countries and excess demand in others led to regional integration gaining momentum in the political agenda of the region since the mid-1980s.

In this new era regional integration was seen as not only a means to widen domestic markets and allowing for scale gains, but it also proved a way out of crises: regional trade makes it possible in the short run to use installed capacity, and clearing schedules adopted by central banks in the region allowed for regional trade with less need of scarce foreign currencies. Furthermore, in the long run what makes integration sustainable is not the unlimited elimination of trade barriers, but rather the efforts to complement productive structures, so integration exercises should be seen as also a tool for the creation of common economic spaces. Lastly, because the renewed interest in regional integration took place at the same time that most economies adopted more liberal trade policies as a means to fight inflation, not only the integration processes should be designed in such a way to be compatible with multilateral opening (the so-called ‘open regionalism’, with regional agreements being ‘building blocks’ to multilateralism), but exports to neighbouring countries should be seen as a ‘learning process’, by which producers could gain experience that would later make them able to try and explore more sophisticated markets.

The 1990s – the ‘decade of the reforms’ in Latin America – added new arguments to those already listed. The economic reasoning in the 90s stressed competitiveness. There are additional benefits stemming from regional integration in that it allows for the reduction of unproductive rents related to lack of competitiveness, affects expectations of domestic and foreign investors, reduces transaction costs, increases productive efficiency, therefore contributing to price stability and facilitating the absorption of technical progress by stimulating less vertical productive processes, sub-contracting of smaller firms and the employment of qualified workers. The liberalisation of regional trade should also provide support to intra-industry specialisation, given that the products traded within the region tend to be more technology-intensive than the exports to the rest of the world. According to the new thinking, the benefits of integration go even further, by affecting positively the economic and institutional environment: joint infrastructure projects, as well as joint initiatives in areas such as education and development of capital markets have widespread effects.

There were, hence, in the 1950s, 1960s, 1980s and 1990s clearly identifiable arguments in favour of policies stimulating regional integration. In the new century, differently, new overall conditions impose a challenge in trying to identify clear arguments for integration.

First, the outcome of trade concessions is affected by the international movement of capital; hence trade liberalisation cannot be thought of independently of the policies towards the capital account. This is particularly relevant in a context such as the Latin American, where there has been little if any macroeconomic coordination.

Second, regional negotiations (the regional agenda) should go beyond the trade dimension: there is an increasing need to deal, for instance, with development financing and infrastructure themes, such as energy, environmental policies and water supply, not to speak of measures to improve financial cooperation. What is not clear, however, is which non-trade topics should be included in the negotiations. The perception of what is relevant and what is a sensible issue in this regard varies substantially among different economies.

Third, international negotiations are in every country an attribute of the executive power, the one with the means, structure and empowerment to carry out such negotiations. Reaching agreement between two countries is easier on areas related to the executive power than reaching convergence on subjects that concern the legislative and the judiciary. In part as a result of this difficulty having been perceived by several agents in recent years there has been an increasing demand by representatives of the legislative and judiciary powers to participate (ex-ante) in the negotiation process. At least in one case (Mercosur) there are a significant number of issues that have been agreed among partners but not effectively implemented, due to domestic normative barriers.

Be it as it may, the record of regional integration in Latin America in the years 2000s show relatively slow progress. There are mainly weak (or inexistent) institutions, especially with regard to efficient dispute settlements mechanisms, an overall absence of macroeconomic coordination, limited treatment of asymmetries and of non-trade disciplines, all of which provides relatively low credibility to the integration purposes.

This is due in part to the fact that regional integration takes place in parallel to an increasing number of extra-regional preferential agreements. It is also due to the fact that – given the ambitious negotiating agenda in several exercises, comprising themes that do not traditionally belong to integration processes, such as consumer rights, government procurement, competition policies and others – the domestic political environment in several countries is not compatible with the concessions required to foster integration processes.

Given these obstacles, what are the external conditions that might influence the outcome of integration exercises in the present decade? To start with, the high mobility of international capital, in a context where most countries have opened both their trade and capital accounts, is a major element affecting bilateral exchange rates, therefore determining trade flows and output growth, hence the expectations of potential investors as well.

Second, infrastructure themes (energy, transportation and communication in particular) have to be considered, should Latin American policy-makers intend to sustain output growth rates and foster economic and social development. That brings about the related theme of long-term financing. These are issues that go well beyond the traditional agenda based on trade concessions.

Third, the weakening of the WTO, in parallel to the mushrooming of bilateral and plurilateral agreements imposes a challenge to regional preferences in that they increase the probability of trade diversion, negatively affecting regional trade. As a consequence, it reduces the margin for exploiting the potential these regional agreements might provide as a tool to foster economic development via changes in the productive structure.

Fourth, the emergence of new actors in the international scenario (like some Asian countries), in parallel to the weakening of some industrialized economies, raises the perspective of a new 'policentrism' in international economic and political relations. This increases the list of 'natural candidates' that Latin American countries should look for in their selection of potential partners for bilateral agreements. To the extent that recent agreements involve themes that go beyond purely trade subjects, the approximation with different partners at the same time might have damaging effects on a given group of countries participating in the same regional initiative.

Fifth, agreements negotiated by each country individually with third parties might deal with one same subject in different ways, leading to different rules than those prevailing within the regional agreements.

It is, therefore, less clear in the present decade, as compared to previous periods, what each group of countries can expect from regional preferential agreements. It is not an easy task within each country individually to identify the national motivation to adhere to a given integration exercise. It is even more difficult to reach consensus among economies with different perspectives with regard to their participation in the international scenario. This is one of the major shortcomings in designing the trajectories for integration exercises and hence one of the major obstacles to exploiting the potential changes in the economic structure that theory would allow us to expect from regional integration.

Depending on how they are designed regional agreements can be considered as an escape valve to a failing multilateral system. But they can also be 'building' or 'stumbling' blocks to the multilateral system. Betting on trade agreements as a means to live in a world with missing multilateral trade rules might be a risky option, as overall disciplines might be replaced by bilateral pressure. Perspectives of a failure of the Doha Round have already led to a booming of preferential trade agreements. The remaining question is, however, to what extent these agreements are sufficient conditions to foster trade.

Volatility of capital flows is indeed a matter for concern. In a situation where it has become clear that supervision at the financial centres are not as efficient as one would have thought and expected it to be, and even more, in a context where new players (such as sovereign funds) are having an increasingly important role, this poses a challenge to macroeconomic policies in developing economies. This seems to be an argument for monetary coordination, eventually with the formation of common funds to provide liquidity in emergency situations. A quite different role than, say, constituting regional development financing agencies, a dimension more closely linked to fostering 'regional economic spaces'.

What these different aspects lead to is an overall scenario where it has become increasingly challenging for policy-makers and negotiators to clearly identify the political targets and the actual means to reach them via regional agreements. One possible way out of this lack of clarity is the adoption of ´variable geometry` as a strategic approach. Next section discusses in a more systematic way what might be the benefits accruing from regional agreements and emphasizes the differences of these outcomes as a function of the geographical distance among the partner countries.

III. The benefits from regional agreements

The benefits often associated to regional agreements can be classified in three groups: a) those associated to trade flows and the effects on the productive structure; b) those associated to domestic policies c) those associated to the foreign policies of the participating countries.

The first group of effects – on trade and domestic production - comprise:

i) direct effects associated to foreign trade

 competition with products from neighbouring countries, traded under tariff preferences, induces producers in third countries to practice lower prices on the domestic markets of the participating countries. As a consequence there are terms of trade gains for the participating countries

ii) effects on the domestic production process

 ii.1 the enlarged market allows for the consolidation of firms of bigger size, eventually allowing for gains from scale; at the same time, increased competition reduces domestic prices

 ii.2 competition allows for the reduction of productive inefficiencies, inducing firms to focus on specific market segments

 ii.3 firms can decide the allocation of their productive activities as a function of factor costs; those countries with better infrastructure and qualified labour force are likely to gain a competitive edge. As a result there is a healthy competition among countries in order to increase competitiveness.

iii) effects on investment

 regional agreements improve the access to a broader market, with better productive rationalization and hence a higher potential to generate returns to investment. This stimulates investments by both external and domestic investors

The second group of effects – associated to domestic policies - comprise:

i) effects on domestic political reforms

signing external agreements can be a relevant tool for governments to implement domestic measures that would otherwise be politically difficult to adopt. Some examples are tariff reforms, policies towards foreign investors, the privatization of public firms and others. This obviously assumes that economic agents have a clear perception of long term gains in pertaining to an integration exercise that surpass the short term social costs

ii) effects from signalling the direction of economic and institutional policies

short term costs of adhering to a regional exercise might be seen as excessively high. Nevertheless, a country might opt to adhere to that exercise if it considers that in so doing it signals to potential investors with favourable perspectives, such as macroeconomic equilibrium and initiatives to foster competitiveness

The third group of effects – those linked to external policies – comprise:

i) ‘prophylactic` effects

belonging to a group of countries should allow for each country to increase its security in relation to various external shocks. Asymmetric shocks in terms of trade, for instance, can in principle be avoided or reduced when there are agreements among countries. The recent Asian experience with the provision of regional liquidity is one example.

ii) external negotiating capacity

once a set of countries reaches convergence in their positions about relevant subjects the very fact that they negotiate as a group give them not only higher visibility but also a stronger negotiating capacity. The Mercosur experience in a number of negotiations is one example.

iii) effects on security

belonging to a group of countries not only changes the trade and investment flows among them; it also creates inter-dependency among the participating countries. This should contribute to reduce the risks of trade and military conflicts, as they are more likely replaced by cooperation mechanisms.

In view of this listing of potential consequences of regional integration processes, it remains to identify the differences between what can be expected from an approximation of geographically distant and neighbouring economies.

From the perspective of geographically distant countries it seems more likely that the economic convergence will take place via preferential trade agreements rather than via common trade barriers: notwithstanding other reasons, suffice it to mention the difficulty to control the observation of rules of origin in distant markets.

If so, one can expect that for distant partners one might more likely obtain the set of effects identified above as the first set of benefits stemming from trade flows, and more specifically items (i) and (ii) in that group. The third set of effects, on investment, is little more than a possibility, depending upon the format of the agreement and the relative importance of the participating economies.

Distant countries could also benefit from the effects of regional agreements on the reform of domestic policies and possibly also on policy signalling. Once again, this would be a function of their importance in the international scenario, as well as the relative weight of regional in total trade.

Finally, in spite of the distance among the negotiation countries, some benefits might accrue from cooperation in monetary and financial issues.

In summary, distant economies can aim at the benefits from more intense trade flows, from an increase in the degrees of freedom to adopt some domestic policies and from financial cooperation. But it seems that expectations can hardly go far beyond this.

As different from these, the whole list of benefits presented above can be expected to apply in the case of neighbouring countries. There is margin for promoting a much stronger degree of integration among the participating countries.

Closer countries can expect, hence, to achieve a more complex set of direct and indirect benefits from integration efforts. As a matter of fact, as the next section will show, there is a case for advocating the deepening of regional productive complementarity, on the basis of recent experience elsewhere. This, of course, is assumed to be feasible among countries that are geographically close.

IV. Productive Complementarity

Productive complementarity among neighbour countries can be an important tool in fostering competitiveness. A comparison between the recent experiences of Latin America and Asia is illustrative.

Asia (East Asia, mostly) is a rich example of intense regional trade with only a few formal trade agreements, and emphasis on a ´mostly business only` approach, without political dimensions.

Asian trade is led by a few big economies. This allows for an analytical scheme stressing the trade relations between the big (´hub`) economies and the smaller (´spoke`) countries in each region. We consider as Asian hubs China, Japan, India and South Korea, and evaluate its trade with 12 ´spoke` countries[1]. In Latin America the ´hubs` are Argentina, Brazil and Mexico, and 14 ´spoke` countries were considered[2].

In Asia there is clearly a ´regional multiplier`: the smaller economies export ´producer goods`[3] to the bigger economies and import ´final goods` from them. There is, hence, a virtuous cycle where both types of countries gain.

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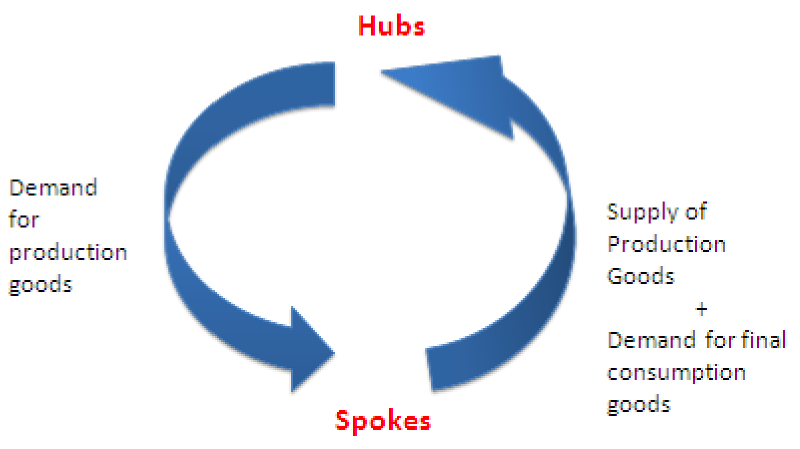
1 More detailed analysis can be found in R.Baumann (2010), Regional Trade and Growth in Asia and Latin America: the importance of Productive Complementarity, **CEPAL, Brasilia Office**, LC/BRS/R238, available in *www.cepal.org/brasil*. The Asian ´spokes` are: Bangladesh, Indonesia, Hong Kong SAR China, Malaysia, Mongolia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, China, Thailand and Vietnam.

2 Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

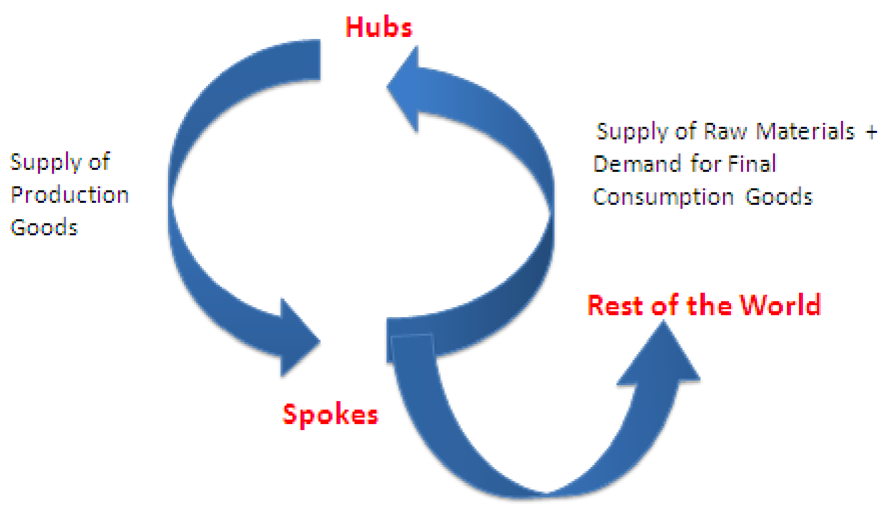
3 The set of producer goods comprise not only capital goods, but also parts, components and raw material, that is, those goods that are consumed in the process of production. This obtains from an ´ad hoc` list of 1919 5-digit products, as shown in Baumann (2010), op.cit.

The Regional Multiplier in Asia



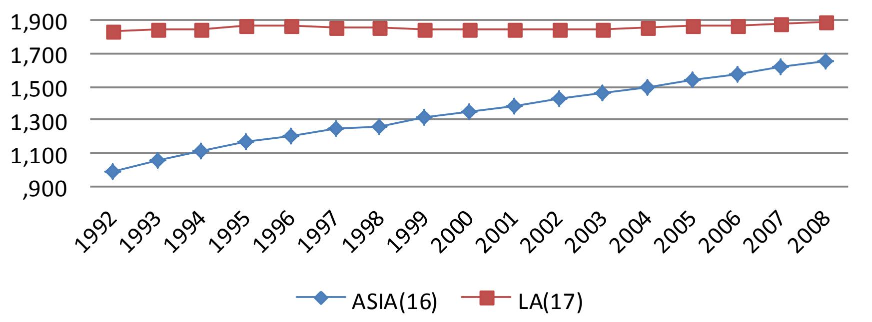
In Latin America regional trade has taken place in a ´wrong direction`: the ´hub` countries export ´production goods` to the ´spoke` countries and import primary products from them. The ´spoke` countries, on their turn, divert a significant share of their demand for imports of final goods toward suppliers elsewhere. This is hardly a dynamic relationship.

The Lack of a Regional Multiplier in Latin America



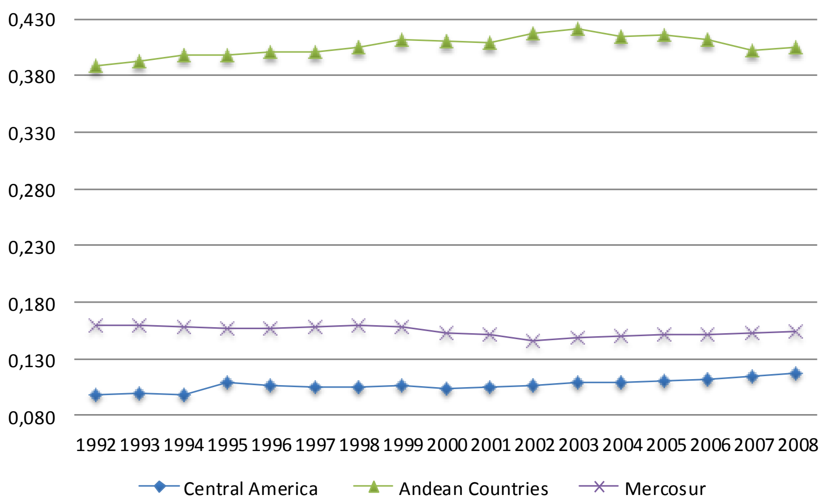
Trade in Asia is far more integrated than in Latin America and the (high) share of ´production goods` in regional trade[4] has had an impact on regional growth. In the last two decades GDP growth in Asia has become far more homogeneous than in the early 1990s, according to Graph 1.

Graph 1 - Asia & Latin America - Entropy Index of GDP (constant prices) - 1992 - 2008



At the same time, as shown in Graph 2, for Central America, the Andeans and Mercosur we obtain a very low degree of homogeneity, with almost no changes throughout the whole period.

Graph 2 - Central America, Andean Countries & Mercosur - Relative Entropy Indexes of GDP in constant US$ dollars - 1992-2008



These results are even more impressive when we take into account the fact that during most of this period several leading economies in Asia have increased their gross production at a very rapid pace – in some cases at two-digits per cent per year – and the region as a whole has suffered significant terms of trade losses.

In Latin America, on the other hand, there were correspondingly impressive terms of trade gains (mostly in South America) and the overall GDP growth took place at very low rates: in principle a set of favourable circumstances to reduce the economic distance among the various economies. Yet the

[4] To be shown in Section V.

limited degree of interaction among economies has contributed to freeze the economic distance between the bigger and the smaller economies.

The Asian recent experience is an example and a challenge to competing producers. It is also an opportunity that might help Latin American countries to identify an economic reason why to foster regional trade so as to direct the regional negotiating process.

As shown in Section II, between the 1950s and the 1990s there were some clearly identifiable economic arguments that justified the efforts to foster regional economic relations. Since the early 2000s, however, Latin American economies became more open to trade and to capital movements. Global financial movements have affected exchange rates to an extent that has proved to be beyond the reach of domestic policies, and having strong impacts on regional trade. The region has shown hardly any significant initiative to promote monetary and financial cooperation.

At the same time, the region as a whole has shown low dynamism in the exports of non-primary products and a strong reliance upon the regional market for the exports of manufactures, but has been experiencing strong competition from the imports of industrial goods produced elsewhere.

A good deal of these imported manufactures is produced in several countries, according to a model of global value chains. Yet in Latin America one hardly finds a significant concern with promoting productive complementarity so as to improve competitiveness. The next section discusses the issue of exports of manufactures.

V. Exports of Manufactures

Fostering manufactured exports is not an easy task. The international market for manufactures has its most dynamic poles for both production and consumption centred in three regions: East Asia, North America and Western Europe.

East Asia has been in the last decades the most dynamic exporter and comprises a number of developing economies, like Latin America. In what follows we consider this region as a competing supplier and analyse the Latin America experience with focus on the Brazilian experience.

Brazil presents the double characteristic of being a potential ´hub` in Latin America, at the same time that it belongs to the BRICS, the group of emerging economies considered to have significant potential, thanks to their geographical, demographic and economic sizes.

These five economies have, with different intensities, exploited trade relations with their neighbouring countries. East Asian countries in particular are well known to have developed joint productive capacity, the source of a ´regional multiplier` that has helped to increase the degree of homogeneity of GDP growth rates in the region, thus consolidating the competitiveness of one of the BRICS, China. As a consequence, the other economies in this group have experienced an increasing inflow of Asian products, by and large an outcome of this regional productive complementarity in East Asia.

This complementarity can be explained not only by specific political decisions, but it is also based on the actual competitive advantages of those countries, coupled to differentiated trade preferences. This raises the fear that regional trade preferences might provoke trade diversion, negatively affecting the competitiveness of products originating from other regions.

In such an environment even significant increases in competitiveness in the export sector might not be sufficient to overcome the differentiated conditions imposed by lower transportation costs – given the geographical proximity of the countries within a region – and by the trade preferences granted on a regional basis.

What challenges such a scenario imposes to an economy such as the Brazilian, which has experienced a significant inflow of imported products, but which at the same time presents a quite limited degree of productive integration with neighbour countries, an alternative that might contribute to reduce production costs?

The BRICS are natural candidates for more intense market exploitation by Brazilian exporters, given their until recently exceptional dynamism. This could contribute to reduce trade disequilibria in some sectors, such as manufacturing. But this strategy relies upon the actual access to these markets.

Economic convergence among the BRICS is not easy, due to a number of factors.

There are marked differences in trade performance among these countries. Compare, for instance, manufactured exports by Brazil, China and India in the last three decades. Two dimensions are relevant for the analysis: the geographical destination of exports and the type of products[5].

When two points in time are considered traded goods can be classified as[6] i) Continued – those products that were exported in both periods; or ii) New – those products exported only in the second period (newly added items to the export bill)[7]. Table 1 shows the indicators for Brazil.

Table 1 - Brazil – Growth (%) of Manufactured Exports				
	1983-1985 / 1993-1995		**1993-1995 / 2007-2009**	
	Continued	**New**	**Continued**	**New**
Latin America	37,5	4,3	33,7	0,0
USA	14,9	2,9	14,2	0,2
European Union	13,9	5,3	25,2	0,7
China + Japan	0,0	4,1	3,5	0,6
Developing Countries	35,9	4,6	37,7	0,0

Source: Baumann/Ceratti, op.cit.

Brazil has relied upon the regional market as well as on developing economies for ¾ of the growth of its manufactured exports in the last three decades: it is hardly competitive in the main markets, so they account for only a limited percentage of the growth of manufactured exports.

5 More detailed analysis is presented in R.Baumann, R.Ceratti (2012), Trade Among BRICS: Still a Bumping Road from a Brazilian Perspective, to be published in Revista de Economia Política.

6 Following Simon J. Evenett, Anthony J. Venables (2002), Export Growth By Developing Countries: Market Entry and Bilateral Trade, mimeo, in www.nottingham.ac.uk/shared/shared_levents/conferences/2002_june_everett.pdf

7 Needless to say, this paper sets aside those (´Dead`) products that were exported only in the first period.

Different outcomes are found in the same indicators for India and China, as shown in Tables 2 and 3:

Table 2 - India – Growth (%) of Manufactured Exports				
	1983-1985 / 1993-1995		1993-1995 / 2007-2009	
	Continued	New	Continued	New
South Asia	3,5	0,5	2,4	0,6
USA	19,0	0,8	14,8	0,4
European Union	25,6	2,2	22,9	0,7
Asia Total	27,0	2,7	20,7	0,5
Developing Countries	7,8	1,7	10,4	0,7

Source: Baumann/Ceratti, op.cit.

As explained in Baumann/Ceratti (2012), these estimates were made at the 5-digit level of product classification, from the UN/COMTRADE Database. There were no data available for the first period for China; hence the following table shows only data for the second period.

Table 3 - China – Growth (%) of Manufactured Exports		
	1993-1995 / 2007-2009	
	Continued	New
East Asia	15,6	0,0
USA	17,8	0,1
European Union	20,9	0,4
Asia Total	33,4	0,0
Developing Countries	9,2	0,1

Source: Baumann/Ceratti, op.cit.

What these tables suggest is that Brazil has opted during no less than fifty years (starting in the mid-1960s with the first incentives to exporters) for emphasis in the regional market for its exports of manufactures. It has over time achieved quite low participation in the most competitive markets and limited product diversification.

India and China, differently, have started their export promotion activities in the late 1990s, being latecomers in the industrial export activity. Yet their trajectory is remarkably different from the Brazilian, in that they explored the most competitive markets since the very beginning and have achieved more significant presence in those markets.

There are also differences in the relations between the BRICS and their neighbouring countries. As Table 4 shows, these regional trade links are far more intense in the case of China.

Table 4 - BRICS – Relative Importance (%) of Regional Trade				
	Exports		Imports	
	2005	2010	2005	2010
Brazil	17,9	18,6	14,6	14,3
Russia	13,4	14,9	18,2	12,7
India	4,4	4,0	0,7	0,4
China	39,1	34,4	40,1	34,5
S.Africa	10,1	11,3	2,1	4,1

Source: processed from primary data on UN/COMTRADE database

These indicators refer to total trade flows. A more relevant appraisal – as far as competitiveness is concerned - is associated to those items related to the productive process. Taking into consideration all the ´producer goods` traded, that is, the set of capital goods, parts, components and raw-material, it turns out that the regional trade in these items is far more important in China, as shown in the Table 5.

Table 5 - BRICS – Relative Importance (%) of Regional Trade in ´Producer Goods`				
	Exports		Imports	
	2005	2010	2005	2010
Brazil	28,2	38,0	9,5	9,3
Russia	31,9	15,8	11,9	9,4
India	6,9	6,8	1,3	0,7
China	22,3	20,4	49,2	44,2
S.Africa	20,2	8,1	1,1	0,9

Source: processed from primary data on UN/COMTRADE database

There are four standards among these five countries, as far as regional trade in ´producer goods` in concerned.

According to Table 5, Russia has reduced substantially its trade in these products with its neighbours. For India and South Africa the regional market for producer goods is rather unimportant and has actually reduced its weight between 2005 and 2010.

For Brazil the regional market is increasingly important as a destination for its exports of producer goods, but relatively irrelevant for its imports of these products. China presents – once again – a peculiar standard, as its neighbours account for almost half of its imports of producer goods. There is an intense degree of productive complementarity, which fosters the competitiveness of Chinese exports.

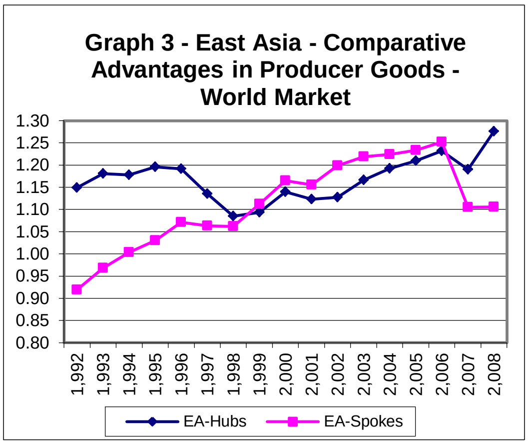
This high complementarity in East Asia between China and its neighbours is due in part to the comparative advantages these countries have in the production of manufactures. Table 6 shows the estimates of Balassa´s index of comparative advantages for the five BRICS, for each (one-digit) SITC Chapter.

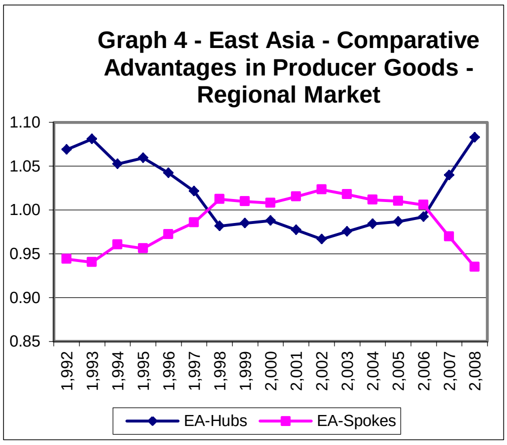
Table 6 - BRICS - Indexes of Revealed Comparative Advantage 2010					
Chapter	Brazil	Russia	India	China	S.Africa
0	3,99	0,29	1,22	0,45	1,16
1	1,84	0,22	0,58	0,15	2,16
2	6,46	0,77	1,70	0,18	4,43
3	0,75	4,79	1,28	0,13	0,75
4	1,50	0,28	0,65	0,05	0,39
5	0,55	0,36	0,95	0,49	0,63
6	0,90	0,87	2,16	1,20	2,62
7	0,48	0,08	0,42	1,42	0,54
8	0,22	0,06	1,13	2,19	0,22
9	0,18	2,19	0,40	0,02	0,07

Source: processed from primary data on UN/COMTRADE database

It is clear that – as different from the other four countries – China has most of its comparative advantages concentrated on chapters 6 to 8, which correspond to the strict definition of manufactures. Most of other BRICS are competitive in natural resources-intensive products[8].

The same is true for China´s neighbours: the smaller economies in East Asia are also competitive in producer goods, both in the regional as well as in the global market. They are often more competitive than the bigger economies in that region. Graphs 3 and 4 show the trajectories, since the early 1990s.





Source: processed from primary data on UN/COMTRADE database

This high share of ´producer goods` in regional trade is not exclusively explained by comparative advantages of the participating countries. Complementary dynamism in East Asia is also helped by differentiated tariff preferences.

These different conditions for market access have affected the exports from other BRICS. For instance, Brazilian products are relatively penalized in their access to the Chinese market by being charged higher import tariffs than their competitors from East Asian smaller economies. Also, Chinese products pay lower tariffs than their Brazilian competitors in the markets of smaller East Asian countries. Tables 7 and 8 illustrate this point.

8 Even the manufactures in chapter 6, where India and South Africa obtain high indexes.

Table 7 - Number of Products on which other BRICS charge tariffs equal to or higher than the tariffs charged on Brazilian products			
BRIC	**Partner**	**Equal Tariffs**	**Higher tariffs on Brazilian products**
China	Indonesia	163	831
	Japan	1380	
	Malaysia	168	903
	Mongolia	63	
	Philippines	126	605
	Singapore	156	972
	Thailand	179	971
India	Maldives		2
	Pakistan	101	26
	Sri Lanka	64	214
Russia	Armenia	187	
	Azerbaijan	102	
	Kazakhstan	215	
	Tajikistan	68	
	Turkmenistan	73	
	Ukraine	737	
	Uzbekistan	275	
South Africa	Angola	99	68
	Botswana	1	3
	Lesotho		7
	Madagascar	188	
	Malawi	152	174
	Mauritius	163	220
	Mozambique	172	165
	Namibia	8	7
	Seychelles	44	29
	Swaziland	10	2
	Zambia	220	227
	Zimbabwe	196	278

Source: Baumann/Ceratti (2012), op.cit.

Table 8 - Number of Products on which each BRIC´s neighbour charges equal or higher tariffs on Brazilian products in comparison to the tariffs charged on the products of the corresponding BRIC			
Country	**BRIC**	**Equal Tariff**	**Higher Tariff**
Indonesia	China	75	353
Japan		813	
Philippines		543	
Singapore		876	
Sri Lanka	India	62	60
Belarus	Russia	40	267
Kazakhstan		75	266
Tajikistan			5
Ukraine		362	
Madagascar	South Africa	18	78
Malawi		19	25
Mauritius		263	21
Mozambique		42	623
Namibia		45	176

Source: Baumann/Ceratti (2012), op.cit.

This preferential treatment has been found to affect the performance of Brazilian exports to these markets between 2005 and 2010: quantitative exercise (see Baumann/Ceratti (2012)) has shown that the growth of Brazilian exports to each other BRIC is positively associated to Brazilian comparative advantages (the actual level of the index of comparative advantages, its increase between the two years, and its difference to the comparative advantages of the BRICS´s neighbours), and negatively associated to the difference between the tariffs charged on Brazilian products and those charged on the products from each BRIC´S neighbour.

This means that the increased preference margins granted on regional trade has contributed to facilitate productive complementarity and hence led to more homogeneous GDP growth. But at the same time has induced a ´trade diversion` of some sort, negatively affecting the competitiveness of Brazilian manufactured products to those markets.

This raises (at least) two political issues: a) it will soon be necessary to make trade policies part of the agenda among BRICS, so far a very sensitive issue and b) there is a clear need to stimulate productive complementarity among Latin American countries, so as to face external competition in a more competitive way.

VI. Final Remarks

This article has shown that there is a simultaneity between low records achieved by regional integration process in Latin America in recent years and the lack of clarity with regard to sound economic motives to foster this process.

It has argued that one possible reason is that efforts have been made to deal at once and acording to the same conditions with different situations. Some kind of ´variable geometry` approach, taking into account what can be achieved via negotiations with different potential partners might provide more substantive results.

This was done by showing in a taxonomic perspective the outcomes that can be expected from negotiations with different partners, according to their geographic distance.

This article has put emphasis on the benefits that can accrue from deepening the integration process with neighbouring economies, using as a reference the impressive results obtained in recent years in East Asia. Productive complementarity allows for higher competitiveness at the same time that increased the convergence of GDP growth rates of the countries in that region.

It was shown also that this complementarity has been achieved thanks to competitive advantages of the participating economies but also due to preferential tariff treatment to the neighbouring countries.

From a Latin America perspective this is a challenge and an example. Latin American producers of manufactures have being losing market share both domestically and in traditional export markets, and need to react somehow. At the same time the East Asian experience in promoting productive complementarity might be seen as an example for groups of (geographically close) Latin American countries. This dimension should be included more explicitly and intensely in the regional negotiating agenda.

At the same time, from the perspective of exploiting the dynamic Asian markets the indications of trade diversion are suggestive of the need to include trade policy issues in the negotiating agenda, for instance, of the BRICS. To the extent that the BRICS intensify their regional links this issue will, of course, gain importance.

It is time for Latin American economies to re-define their approach to regional integration on a new basis, taking into account a number of recent features in the international scenario. This article has contributed by raising a number of relevant issues that have so far been less considered in the traditional negotiating processes.