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Shockwaves : Latin America and the Caribbean facing global trade turmoil

2022 TRADE AND INTEGRATION MONITOR

SHOCKWAVES

LATIN AMERICA AND THE CARIBBEAN FACING GLOBAL TRADE TURMOIL

Coordinated by
Paolo Giordano

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The Trade and Integration Monitor is an annual report that tracks Latin America and the Caribbean's integration into the global trading system. It draws on publicly available data from INTEGRA, the Inter-American Development Bank (IDB) information system on trade and integration.

The Trade and Integration Monitor is the outcome of a collaborative research effort between the IDB's Integration and Trade Sector (INT) and its Institute for the Integration of Latin America and the Caribbean (INTAL). The publication is overseen by Fabrizio Opertti, Sector Manager, and Ana Basco, Director of INTAL, with technical supervision from Mauricio Mesquita Moreira, Sector Economic Advisor.

This edition was coordinated by Paolo Giordano, INT Principal Economist, and written in collaboration with INTAL consultants Rosario Campos and Kathia Michalczewsky.

Jésica De Angelis participated in the research process, provided invaluable support during the drafting of the report, and helped analyze progress on regional integration agendas, as did Ricardo Rozemberg and Sofía Sternberg. Carolina Barco, Victoria Giordano, Aldana Benedetti, Ailén Ahumada, and Camila Talmón were all involved in data collection, while Juan Ignacio Rodríguez Gaudin contributed to the methodology for data processing. The team is grateful to Pablo García, Mauricio Mesquita Moreira, and Ricardo Rozemberg for their comments.

María Lidia Víquez Mora and Matthew Shearer provided support for the team during the production stage. The publication was designed by Word Express and translated into English by Victoria Patience.

The report draws on the most recent data published by the different sources and is current as of October 6, 2022.

Contents

Foreword

Following the rapid recovery from the Covid pandemic, trade in Latin America and the Caribbean and at the global level faced a new series of shocks. The conflict in Ukraine, the energy crisis in Europe, China's zero-Covid policy, and the tightening of monetary policies to reduce inflation, particularly in the United States, all led to high volatility in commodity markets, new disruptions to global logistics chains, and marked slowdown in world trade.

The growth in goods exports from Latin America and the Caribbean outperformed the world average, although this owed mainly to prices, particularly those of exports from South America. The countries of the region also faced increased energy and freight costs, which led to further growth in imports and a deterioration in trade balances. In contrast, trade in services continued to expand solidly, driven by the recovery in transport and international travel. The slowdown in global goods flows that started in early 2022 was also observed in Latin America and the Caribbean. The latest indicators point to a consolidation of this trend in the coming months.

The 2022 Trade and Integration Monitor examines how global shocks are impacting trade by analyzing Latin America and the Caribbean's performance and looking at the evolution of key variables at the subregional and country levels. It also analyzes the behavior of trade within the region's main integration schemes and puts forward a medium-term view of the strategic challenges facing Latin America and the Caribbean in the current context of growing turmoil and global fragmentation. This is the tenth edition of the annual report published by the Integration and Trade Sector at the Inter-American Development Bank to study the evolution of Latin America and the Caribbean's position in the global trading system.

The report concludes that the recurring global shocks that have impacted the region's trade performance are signs of a medium-term trend toward instability. Over the last 15 years, Latin America and the Caribbean's trade performance has shown less dynamism and greater volatility. A few exceptions aside, the region's economies have lost external competitiveness, particularly in the intraregional market. Against this backdrop, there is a need to breathe new life into international integration strategies, with an emphasis on regional integration.

Given the volatility of the external context, we hope that this edition of the *Trade and Integration Monitor* will provide countries in Latin America and the Caribbean with information that will be of use for identifying, designing, and implementing policies to revive the region's international competitiveness and lay the foundations for a new cycle of sustained economic growth.

Fabrizio Opertti
Manager, Integration and Trade Sector

List of Abbreviations

AC	Andean Community
AM	agricultural manufactures
BACI	Database for the Analysis of International Trade
BLS	Bureau of Labor Statistics
CADR	Central America and Dominican Republic
CARICOM	Caribbean Community
CEPII	Center for Prospective Studies and International Information
CET	common external tariff
CPB	Netherlands Bureau for Economic Policy Analysis
ECA	economic complementarity agreement
EU	European Union
F&E	fuels and energy
FTA	free trade agreement
FTZ	free trade zone
IMF	International Monetary Fund
IM	industrial manufactures
KIS	knowledge-intensive services
LA	Latin America
LAC	Latin America and the Caribbean
LATLI	Latin American Trade Leading Index
LATNI	Latin American Trade Nowcasting Index
MERCOSUR	Southern Common Market
MM	mining manufactures
MOR	MERCOSUR Origin Regime
n/a	not available
OPEC	Organization of the Petroleum Exporting Countries
p.a.	per annum
p.p.	percentage points
PA	Pacific Alliance
PMI	Purchasing Managers' Index
PP	primary products

PSA	partial scope agreement
SORs	specific origin requirements
UNCTAD	United Nations Conference on Trade and Development
US	United States
USITC	US International Trade Commission
WTO	World Trade Organization
y-o-y	year-on-year

Executive Summary

The 2022 edition of the Trade and Integration Monitor analyzes the factors underlying the recent evolution of trade flows from Latin America and the Caribbean (LAC), the impact of the series of shocks that have tempered the post-Covid rebound, and the risks present in the current context. As the report highlights, although the region's trade rallied more than the global average, the growth in export values was mainly explained by prices, and estimates suggest that a downward trend has now been consolidated.

The recovery in the value of LAC's goods exports weakened as a result of lower prices and a gradual slowdown in real flows. In contrast, service exports continued on a growth path. Throughout 2022, the signs that the recovery is fading have become more pronounced and the projections for the second half of the year point to a consolidation of this trend in LAC exports.

- The historic slump in trade caused by the Covid pandemic gave way to a rebound that is waning sooner and faster than expected.
- The value of LAC goods exports grew by 20.6% year-on-year (y-o-y) in the first half of 2022, a deceleration compared to 27.9% in 2021.
- The slowdown is the result of smaller price increases, from 19.4% in 2021 to 14.6%in the first semester of 2022, and a tempering of the growth in export volumes compared to 2021 (from 6.7% to 5.3%), particularly in South America.
- The volume of shipments was higher than before the pandemic, but this was mainly due to Mexico's performance—several countries have yet to return to pre-Covid levels.
- Terms of trade fell 4.5%, trade balances declined, and imports grew 29.5%, driven by energy prices.
- In the first quarter of 2022, the region's service exports continued to expand (53.6%) due to the dynamism of traditional items.
- Growth in trade flows remains historically high due to a statistical carry-over effect. The latest indicators suggest that a downward trend will be consolidated in the coming months.

- The current context entails risks that are linked to the slowdown in external demand due to the foreseeable recessionary effect of restrictive monetary policies, the negative impact of the appreciation of the US dollar on commodity prices, and the slow recomposition of global logistics chains, among other factors.

Exports from the region to both intra- and extraregional destinations weakened. However, intraregional exports remained more dynamic than those to other destinations, and the intraregional trade coefficient grew slightly. This was also true within all the subregional integration blocs. A synthetic indicator for various dimensions of integration shows signs of progress since the pandemic.

- In the first half of 2022, the y-o-y increase in intraregional sales (33.5%) was greater than that of extraregional sales (18.5%), although both rates were lower than in 2021.
- The increase in exports to the United States played a decisive role in Latin America's performance, mainly as a result of shipments from Mexico. In South America, intraregional exports contributed the most to growth.
- Intraregional flows grew at higher rates than extraregional ones in the Pacific Alliance, the Andean Community, Central America and the Dominican Republic, and MERCOSUR. In contrast, a limited sample of data from the Caribbean countries suggests that sales from the bloc expanded, driven mainly by extraregional exports.
- At the regional level, the share of intraregional trade flows in total LAC trade grew, accounting for 15.8% of total exports, an increase of 1.4 percentage points in comparison with 2021.
- At the institutional level, there was newfound dynamism in domestic agendas seeking to leverage the digital economy. The external front saw progress in trade relationships with Asian countries.
- The aggregate integration indicator shows that LAC's progress was primarily concentrated in trade and physical integration, pointing to a need to move forward on institutional agendas.

From a medium-term perspective, since the Great Recession, world trade has been less dynamic and more unstable than in previous decades. In this context, Latin America's exports just outstripped the world average, a performance that was mainly driven by Mexico and Brazil. The main determinant of the region's fragile trade performance was a loss in competitiveness of the smaller economies, particularly in intraregional markets.

- From 2012 to 2021, world trade entered a phase of low growth and high volatility. The cumulative average increase in the value of trade was 2.0% per year, while for volumes it was 2.8%. There was also a sharp increase in episodes of both nominal and real trade contraction, which had been absent in the decade before the Great Recession.
- The slump in traded volumes was mainly explained by the slowdown in trade in industrial manufactures and the growth rate of imports from China.
- Real exports from Latin America expanded just above the world average, resulting in a slight increase in global market share.
- The increase in global market share was driven by Brazil, Mexico, and to a lesser extent Central America, but external competitiveness only increased in the former two countries.
- The decline in the competitiveness of the region's other economies was primarily concentrated in the most significant export sectors and the intraregional market.
- If the region is to prosper in a global context of increasing turmoil, fragmentation, and regionalization, it will need to prioritize and revitalize policies to shore up external competitiveness and support regional integration.

Chapter 1 of this report examines the main features of the slowdown in global and regional trade that has been observed since mid-2021 and the impact that successive shocks have had on world trade. Chapter 2 analyzes the region's aggregate trade performance by breaking down growth in prices and export volumes and assessing the likelihood of the change in trend being consolidated. It also looks at the specific features of export and import flows in goods and services in different countries and subregions. Chapter 3 analyzes the growth in extra- and intraregional trade, reviews the export performance of the main subregional integration blocs, and evaluates progress on integration in the region. Chapter 4 presents a medium-term analysis of global and regional trade measured at constant prices, breaking down the drivers of growth in regional exports. The conclusions explore the challenges facing the region's external sector at a time of ongoing instability and increasing fragmentation.

1 The Global Downturn

After recovering rapidly in 2021, world trade was hit by a series of shocks, particularly Russia's invasion of Ukraine, the zero-Covid policy in China, and the acceleration of monetary policy normalization, which resulted in a slowdown in global growth. The pace of growth in international trade slowed from 25.8% on average in 2021 to 17.5% y-o-y in the first half of 2022. While international prices were driven by the conflict in Ukraine and continued to prop up the value of trade, volumes declined rapidly. In this context of increased uncertainty, the value of Latin America's exports slowed from 27.7% to 20.7%. The region's trade performance began to show further signs of deterioration in the second half of 2022 due to weaker external demand and corrections to commodity prices.

The Slowdown in Global Trade

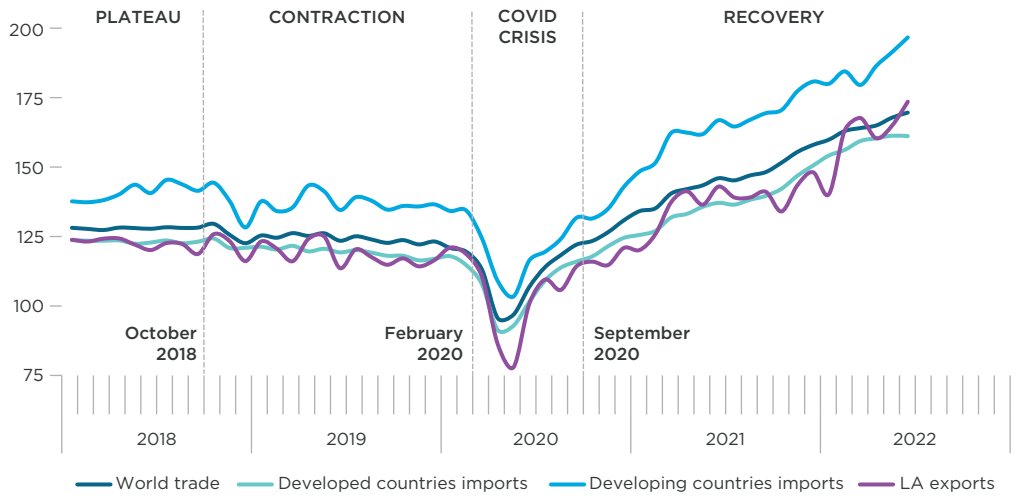
New shocks hit global trade.

The historic slump in trade caused by the pandemic gave way to a rebound that is waning sooner and faster than expected. Global trade in goods grew by 25.8% in 2021. Although growth was still higher than the average for the last decade,[1] it slowed to 17.5% y-o-y[2] in the first half of 2022 (Figures 1 and 2). The war in Eastern Europe, the ensuing energy crisis, and China's zero-Covid policy all constituted new sources of uncertainty in the first quarter of the year. Moreover, the growth prospects for the global economy—the recovery of which had been fragile in the aftermath of the pandemic—were reduced by the acceleration of monetary policy normalization in advanced economies. These new shocks prolonged supply chain disruptions and contributed to the slowdown in world trade. Rising international

[1] Chapter 4 presents a comprehensive medium-term analysis of global and regional exports.

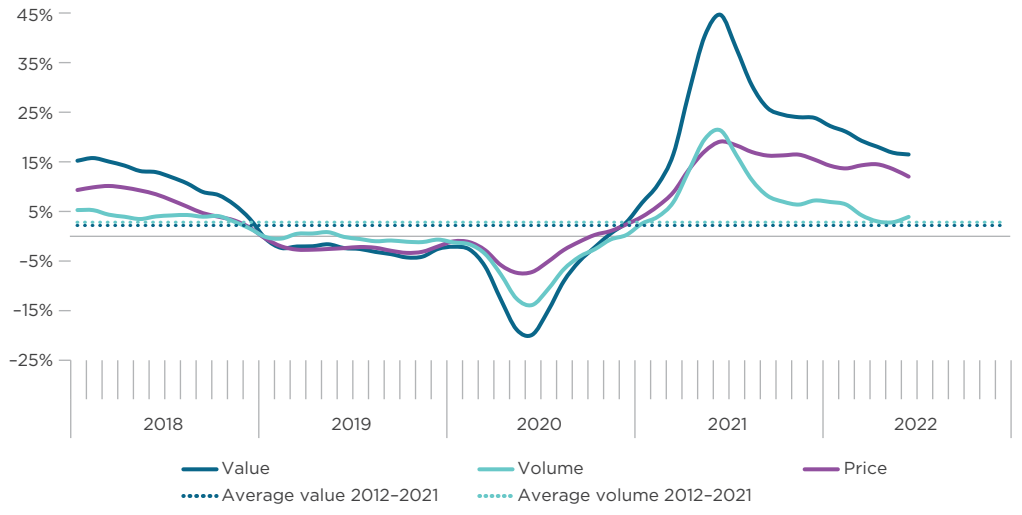
[2] Throughout this document, the growth rates reported are year-on-year rates unless otherwise specified. For the reader's convenience, "year-on-year" is omitted except when clarifying this is necessary to avoid errors in interpretation.

FIGURE 1 • VALUE OF WORLD TRADE IN GOODS
(Index 2010=100, 2018–2022)



Source: IDB Integration and Trade Sector with data from the Netherlands Bureau of Economic Policy Analysis (CPB) and authors' estimations.
Note: The value of global trade is the average of the seasonally adjusted series of global imports and exports. The value of exports from Latin America (LA) was estimated by the authors and does not include the Caribbean (see Methodological Annex 1).

FIGURE 2 • TRENDS IN WORLD TRADE IN GOODS
(Quarterly moving average of the year-on-year growth rate, percentages, 2018–2022)



Source: IDB Integration and Trade Sector with data from CPB.
Note: The value and volumes figures correspond to the average of global imports and exports.

prices played a critical role in sustaining growth in global trade. Although volumes continued to grow at significant rates, they decelerated significantly. Trade in services followed the same trend, but their growth rate was higher, evidence that the post-Covid rebound is ongoing (Box 1).

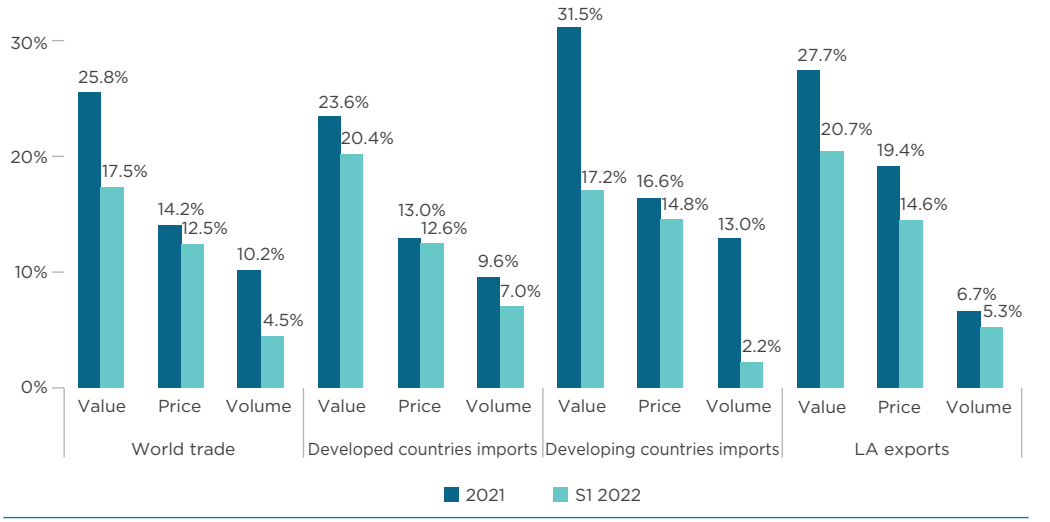
After increasing by an average of 14.2% in 2021, global trade prices slowed slightly to 12.5% in the first half of 2022 (Figure 3). Even so, while prices had explained just over half of the global trade performance in 2021, they accounted for 70% of the increase in the value of trade in the first half of 2022. In both periods, prices had a greater impact on the imports made by developing countries than those made by developed countries.

Prices accounted for most of the growth in trade.

In real terms, the volume of world trade grew by 4.5% in the first half of 2022 after recovering by 10.2% in 2021. Although growth cooled, it remained at almost twice the rate of the prepandemic years, averaging 2.7% annually between 2012 and 2021. This loss of momentum owed mainly to the slower growth in purchases from developing countries (2.2%), particularly China, which had driven the recovery in 2021 (13.0%).[3] The slowdown in the real imports made by developed

Trade volumes grew at a slower pace.

FIGURE 3 • VOLUMES AND PRICES OF WORLD TRADE IN GOODS
(Year-on-year growth rate, percentages, 2021 and S1 2022)



Source: IDB Integration and Trade Sector with data from CPB and estimations by the authors.
Note: The value of global trade is calculated as the average of global imports and exports. LA exports are the authors' estimations and do not include the Caribbean (see Methodological Annexes 1 and 2).

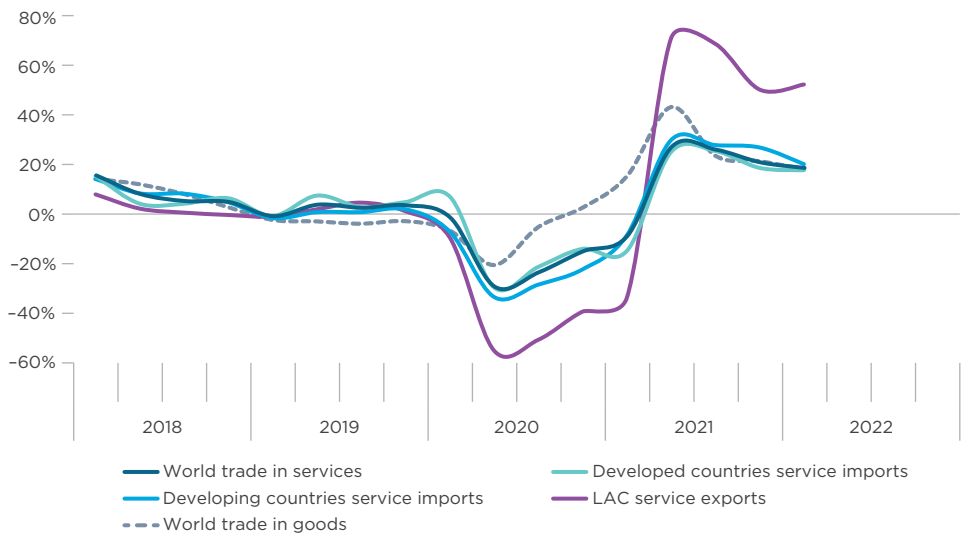
[3] In the first half of 2022, purchases from Asia (excluding China) slowed to 12.3% (after increasing by 20.7% in 2021), while those from China fell by 5.9% (after recovering by 8.3% in 2021).

BOX 1: THE RECOVERY OF GLOBAL TRADE IN SERVICES

In 2021, world trade in services recovered by 16.0% and climbed back above pre-Covid levels in the fourth quarter. This recovery was driven by services that can be provided digitally (IT, financial, and business services), along with transport, due to a rebound in trade in goods and higher shipping rates. The travel (tourism) sector regained dynamism but has not yet returned to prepandemic levels. Trade in services went on to grow by 19.4% in the first quarter of 2022, driven by imports from both developed countries (18.6%) and developing countries (20.8%) (see Figure). Data from a limited sample of countries shows that trade in services grew by 17.0% in the second quarter of 2022[a].

Service exports from LAC recovered by 26.8% in 2021 and continued to grow in the first quarter of 2022 at an exceptionally rapid pace (53.6%) that exceeded the world average.

TRENDS IN THE VALUE OF WORLD TRADE IN SERVICES
(Year-on-year growth rate, percentages, 2018–2022)



Source: IDB Integration and Trade Sector with data from the International Monetary Fund (IMF), WTO, and national sources.
Note: The value of world trade in goods is the average of global imports and exports. World trade in services is the value of world imports. Included are the services account components of the balance of payments (except construction services, government services, manufacturing services, and maintenance and repair services). The data for the first quarter of 2022 are preliminary estimations based on a sample of countries.

[a] Based on data from a sample of 14 countries (including the US, China, Japan, the Republic of Korea, and several European countries) that together accounted for 38% of global services imports in 2019–2021. Performances varied by sector: travel continued to grow (84.9%) while knowledge-intensive services contracted (-1.3%).

countries was less pronounced in the first half of 2022 compared to the average for 2021 (7.0% and 9.6%, respectively).

As a result, the value of developing countries' external purchases slowed more than those of any other group in the first half of 2022 (17.2%) after having recovered by 31.5% in 2021. In contrast, imports made by developed countries, which had rallied by an average of 23.6% during 2021, slowed only slightly in the first half of 2022, reaching 20.4%.

Imports from developing countries slowed more than those from developed countries.

In this context, the value of goods exports from Latin America (LA)[4] increased slightly more than world trade: 27.7% in 2021 and 20.7% in the first half of 2022 (Figure 3). LA's export volumes grew more than world export volumes (5.3% vs. 4.5%, respectively), although both trended downward. External sales were mainly driven by prices during both these periods. In the first half of 2022, rising export prices accounted for almost 70% of the growth in LA trade, which was also the case for world trade.[5] It is thus worth analyzing the dynamics of commodity prices to assess the region's trade prospects.

Exports from the region grew faster than world exports.

The Commodity Price Shock

After increasing steadily from mid-2020 due to the recovery that followed the pandemic, commodity prices soared again following Russia's invasion of Ukraine. In March 2022, the conflict pushed commodity prices above the precrisis highs of 2008. The overall index rose 52.3% in 2021 (Figure 4), driven by energy (99.7%), which increased in response to the recoveries in global demand and economic activity.[6] The conflict in Ukraine caused a new shock due to Russia's role as the world's largest gas exporter, second-largest oil exporter, and major global fertilizer supplier, while both Russia and Ukraine are significant producers of wheat, sunflower, and maize. In the first half of 2022, the overall commodity price index grew 49.9% y-o-y, with energy up by 99.3% and fertilizers up by 109.5%. Meanwhile, nonenergy products grew at a substantially lower rate (14.9%), and the increase for food and beverages (22.9%) was markedly greater than for agricultural commodities (6.8%) and metals (2.3%).

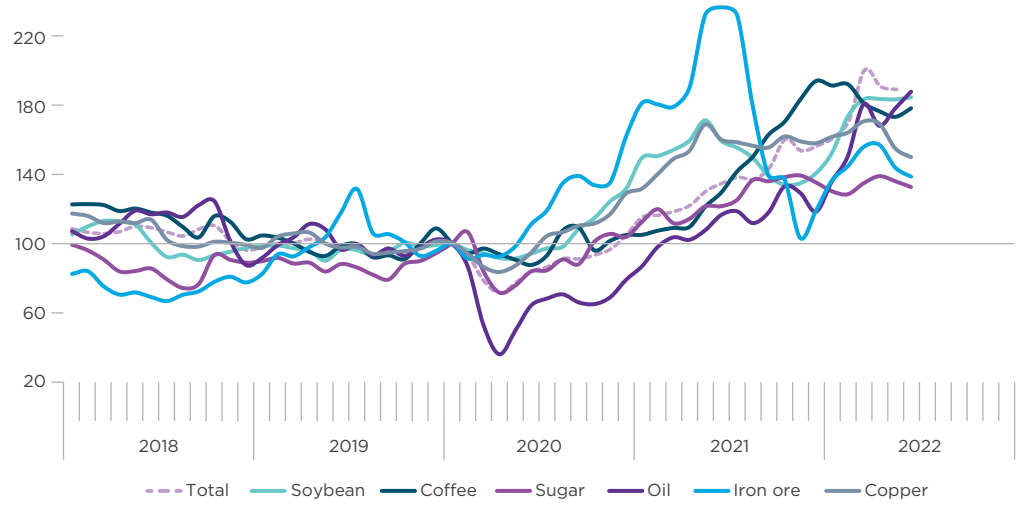
The uptrend in commodity prices strengthened due to the war.

[4] The Caribbean is not included due to the lack of up-to-date, disaggregated data.

[5] According to a sample of 10 LA countries that accounted for 91.8% of the region's exports in 2021.

[6] According to the IMF All Commodity Price Index, the IMF Non-Fuel Price Index, and the IMF Fuel (Energy) Index. The indicator that excludes energy increased by 26.3% in 2021.

FIGURE 4 • PRICES OF THE MAIN EXPORT PRODUCTS FROM LATIN AMERICA AND THE CARIBBEAN
(Index 2010=100, 2018–2022)



Source: IDB Integration and Trade Sector with data from Bloomberg (products) and IMF (total index).

However, after peaking at the beginning of the war, the price increase then slowed. Although prices remain at historically high levels and are likely to be elevated for the duration of the conflict, by July 2022, the overall index was 4.1% below the high point of March 2022. While energy remained at comparatively high levels (in July it was 3.6% above March 2022 levels), nonenergy products fell 15.3% between April and July 2022. This downward trend is explained by monetary tightening in advanced economies, the appreciation of the US dollar, and the slowdown in external demand (Box 2).

There were downward corrections in some markets.

Oil prices increased 62.6% on average in 2021[7] as a result of recovering demand and supply shortages caused by the moderate pace at which OPEC countries withdrew production limits and the slow production increase in non-OPEC countries. In the first half of 2022, oil prices rose by 69.1% due to Russia's role in the oil market. They peaked in July 2022 and then entered a downward phase. In response to these falling prices and anticipating lower demand due to the slowdown in the world economy, OPEC+ agreed to lower production as of October 2022, which may shore up prices in the coming months.

Oil prices remained high.

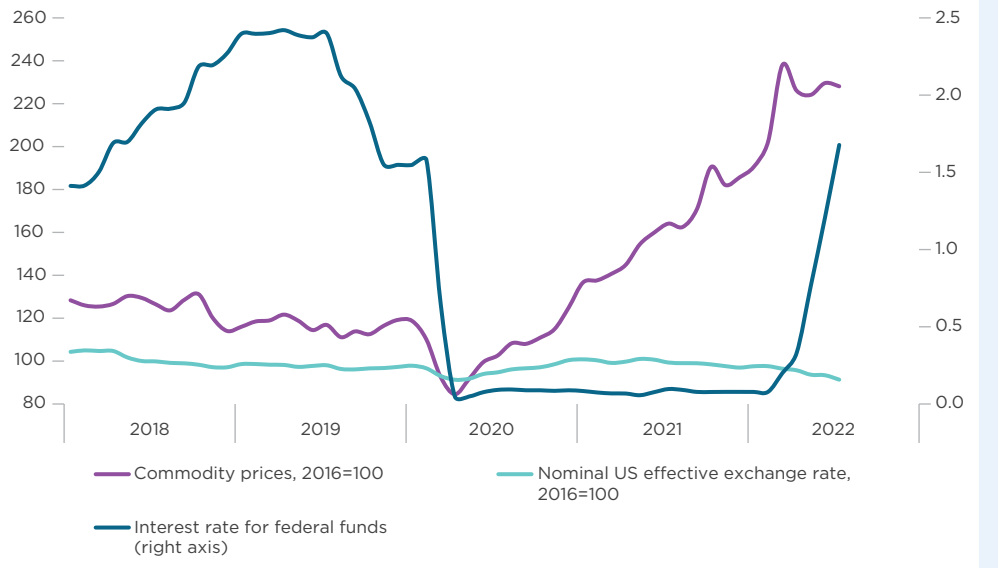
[7] This is the average of Brent Blend, WTI, and Dubai Crude.

BOX 2: THE RISKS FACING COMMODITY PRICES

The last edition of the Trade and Integration Monitor described the factors driving commodity prices in 2020 and mid-2021, noting that they appeared to be linked to transitory factors. The bullish phase was expected to end as expansionary policies in developed countries began to slow. However, Russia's invasion of Ukraine triggered a new price shock. In March 2022, the overall commodities index was thus 18.9% above the high point of July 2008, before the outbreak of the international financial crisis. Likewise, the US dollar has appreciated since the beginning of the war, reflecting the faster increase in the US interest rate compared to those of other developed economies, as well as the country's stronger prospects for economic growth and a safe-haven effect in response to the deterioration of the global context.

The effect of the war on commodity prices accelerated the global inflationary pressures that had already emerged in response to expansionary monetary policies and disruptions to supply. The rise in the price of oil and gas drove production and transport costs higher, which had a knock-on effect on every sector of the global economy. The US Federal Reserve initially attributed the rise in US inflation to temporary circumstances. However, annual inflation has been above 6% every month since October 2021 and was 8.3% y-o-y in August 2022. Meanwhile, inflation in August reached 9.1% in the Eurozone and 9.9% in the United Kingdom. The persistence of inflation prompted the Fed to speed up monetary normalization: in June 2022, it increased the interest rate by 0.75 percentage points, then raised it again in July and September to reach 3% y-o-y. Likewise, in July 2022, the European Central Bank raised its benchmark interest rate

EFFECTIVE US EXCHANGE RATE, COMMODITY PRICES, AND INTEREST RATE FOR FEDERAL FUNDS
(Indexes 2016=100 and percentage rate, 2018–2022)



Source: IDB Integration and Trade Sector with data from the US Federal Reserve and the IMF.
Note: US dollar exchange rate for a wide-ranging basket of currencies. A negative/positive slope indicates an appreciation/depreciation of the dollar.

(continued on next page)

BOX 2: THE RISKS FACING COMMODITY PRICES *(cont.)*

from 0% to 0.5% for the first time in 11 years and then accelerated the rate hike by an additional 75 basis points in September.

Despite being widely anticipated, the normalization of monetary policy in advanced economies—including interest rate hikes and the reversal of monetary stimuli—poses risks for LAC countries. Developed countries will need to fine-tune their policies to reduce inflation without pushing their economies into recession. Moreover, higher interest rates in the US are generally associated with a stronger dollar and lower commodity prices. While exchange rate depreciation could stimulate exports denominated in local currency, in many countries of the region, this will be overshadowed by shrinking export commodity values. The appreciation of the dollar thus brings risks associated with a reduction in exports, higher financing costs, corrections to asset prices, and capital outflows. In short, the slowdown in global economic activity may bring about lower external demand for the region and a downturn in its export values.

Metal prices slowed.

The metals index rose by 24.5% on average during 2021 but only increased by 2.3% in the first half of 2022, with each of the leading products performing differently.[8] Copper prices increased by 51.4% in 2021 due to the strong rebound in demand from China, the largest global buyer. Although the price increase slowed to 7.4% in the first half of 2022, it is still above the historic high of 2011. In contrast, iron ore prices, which had increased by 49.5% on average in 2021, plummeted in the second half of the year due to temporary restrictions on steel production and the slowdown in construction in China. Although prices have recovered since the beginning of 2022, the increase has not brought them back to 2021 levels (–26.9% in the first half of 2022).

Prices of agricultural products increased at a slower pace.

The agricultural commodity price index[9] increased by 15.4% on average in 2021 but slowed to 6.8% in the first half of 2022. The war in Ukraine, weather conditions, and fertilizer prices are some of the factors that had an impact on these markets. Soybean prices were particularly affected, increasing 43.9% on average during 2021. Although these were boosted in 2022 by the conflict in Ukraine, the increase was lower in the first half of the year (12.2%). Meanwhile, international coffee prices rose 43.3% on average in 2021 and 60.6% y-o-y in the first half of 2022, although most of this increase came in the second half of 2021, when prices approached the highs of 2011. The rise was largely explained by weather conditions in Brazil's main

[8] According to the IMF Base Metals Price Index.
[9] According to the IMF Agricultural Raw Materials Index.

coffee-producing regions, which reduced their supply. Finally, international sugar prices recovered throughout 2021, rising 38.6% on average. Although prices increased 14.4% in the first half of 2022, they remain below their 2011 peak.

Risks and Prospects

New risks emerged in several areas.

Although world trade and exports from the region continued to grow at high rates in the first half of 2022, new risk factors have emerged. It is expected that these will continue to affect trade in the coming months.[10] China's external demand, which was affected by the impact of zero-Covid restrictions on factories and ports, grew relatively less as a result of the downturn in private consumption and real estate investment. In countries that reopened faster after the pandemic, consumer demand gradually turned more toward services and less toward goods (which are more intensive in international trade), in contrast to the situation during the pandemic.[11] Meanwhile, the energy crisis worsened in Europe due to the continent's dependence on Russia, which has increased expectations of recession. Ongoing disruptions to global value chains and higher transport costs also pose risks to the global trading system. Although the World Trade Organization (WTO) projects a 3.5% increase in global trade volumes in 2022, the forecast for 2023 has been revised downward (1.0%) due to greater uncertainty, on the heels of the jump in energy prices, the spread of inflationary pressures, and the ongoing war.[12]

Several leading indicators for foreign trade and trade operators' perceptions provide an overview of what lies ahead for world trade. The Purchasing Managers' Index (PMI) for global manufacturing,[13] a survey-based indicator of operators' perceptions and expectations that seeks to anticipate how the global economy will behave, entered a downward trend in mid-2021 that has not yet been reversed (Figure 5). After peaking in May 2021, the value of the global manufacturing PMI decreased in the following months, although it remained above 50, the critical threshold for growth in the sector. The war in Ukraine and the lockdowns resulting from

Expectations of growth in global manufacturing weakened.

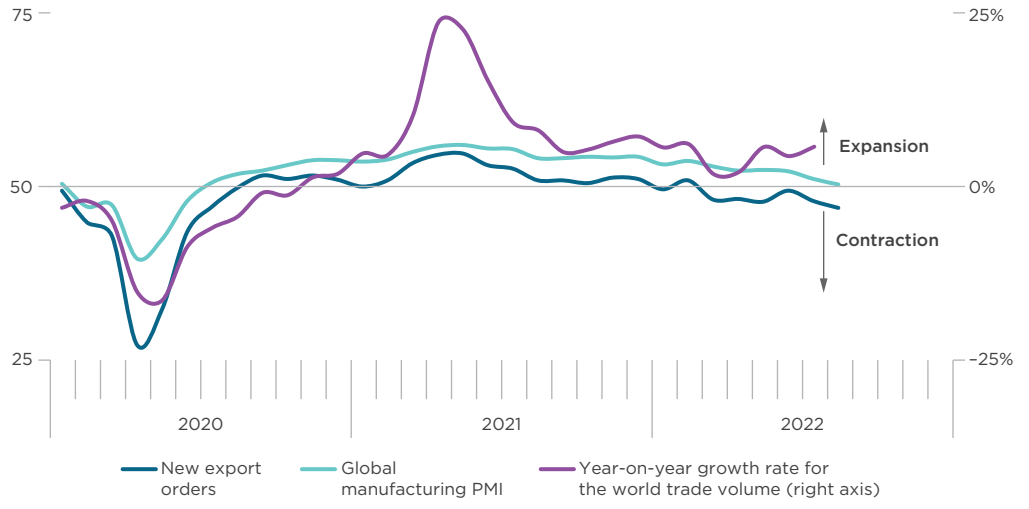
[10] Chapter 3 contains a more detailed overview of how demand from LAC's main trading partners has evolved.

[11] See OECD (2022).

[12] See WTO (2022e).

[13] The PMI is made up of five variables: new orders, output, employment, suppliers' delivery times, and stocks of purchases. A reading above 50 indicates an improvement or increase from the previous month. A reading below 50 indicates a deterioration or decline in comparison with the previous month. The more the index diverges from 50, the greater the rate of change.

FIGURE 5 • PURCHASING MANAGERS' INDEX FOR THE GLOBAL MANUFACTURING SECTOR, NEW EXPORT ORDERS SUBINDEX, AND VOLUME OF WORLD TRADE
(Indices and percentages, 2020–2022)



Source: IDB Integration and Trade Sector with data from IHS Markit and CPB.

China's zero-Covid policy impacted business confidence, and in August 2022, the indicator reached a value of 50.3, its lowest point in 26 months.[14]

The new export orders indicator moved below the critical threshold.

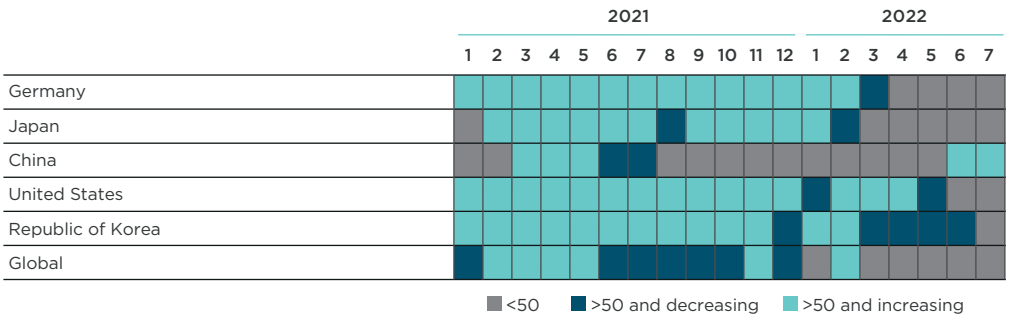
The new export orders subindex, which anticipates how international trade will perform, has been on a downward trend since mid-2021 and has been below 50 since January 2022 (Figure 6) as a result of declines in China, the Eurozone, and Japan. The subindex for China has been below 50 since August 2021 and contracted significantly in April 2022 due to Covid outbreaks, which impacted transport and logistics. However, it climbed back above 50 in mid-2022. The indicator for the US followed an upward path and reached a relative high point in April 2022, before falling in May and settling below 50 in June and July. In Germany, the indicator fell below 50 in April 2022 and remained there for the following three months. In Japan, it has been below 50 since March 2022. A widespread decline was evident in the second quarter: the indicators for every country except China fell below 50 in July.

The WTO Goods Trade Barometer, a composite leading indicator that anticipates how trade flows will develop, provides a broader perspective (Figure 7).[15]

[14] See IHS Markit (2022).

[15] The Goods Trade Barometer is designed to gauge momentum and identify turning points in world trade growth in real time. Readings of 100 indicates trade expansion in line with medium-term trends. Readings greater than 105 suggest above-trend growth while those below 105 indicate the opposite.

FIGURE 6 • NEW EXPORT ORDERS
(PMI manufacturing subindex, global and selected countries, January 2021–July 2022)

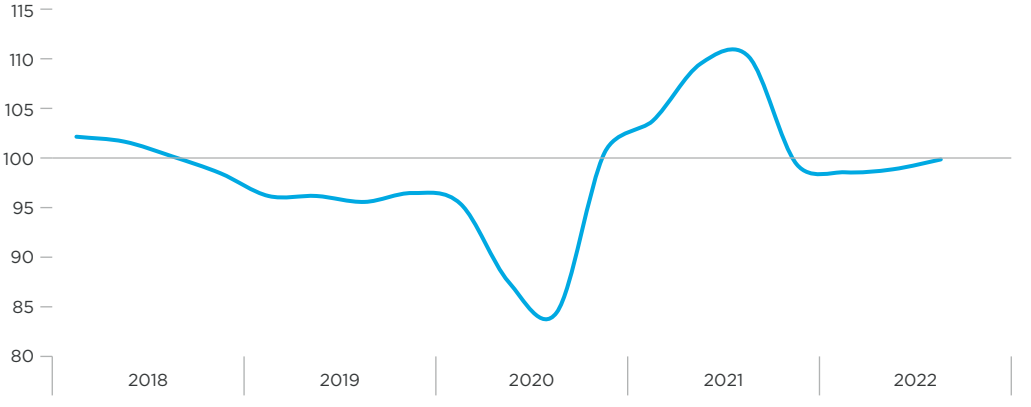


Source: IDB Integration and Trade Sector with data from IHS Markit.

After peaking at 110.4 in August 2021, clearly pointing to an uptrend, the index began to decelerate. In November 2021, it stood at 99.5 due to disruptions to production and supply in critical sectors such as automobiles and semiconductors.[16] In February, May, and August 2022, the indicator rebounded slightly (reaching values of 98.7, 99.0, and 100.0, respectively).[17] However, it continued to hover at around 100, suggesting

Trade is expected to weaken in the coming months.

FIGURE 7 • WTO GOODS TRADE BAROMETER
(Index, February 2018–August 2022)



Source: IDB Integration and Trade Sector with data from WTO.
Note: The index and its components measure the deviation in the medium-term trend, which is standardized at 100.

[16] See WTO (2021).
[17] See WTO (2022b, 2022c, 2022d).

that the earlier bullish phase is ending. The last observation of the subindices gave mixed signals: export orders lost momentum, the rebound in electronic components and auto parts faded, agricultural commodities rallied slightly, air cargo traffic lost momentum, and sea container traffic increased suddenly when Chinese ports were reopened. Given this highly uncertain context, world trade is likely to continue to slow in the coming months.

In sum, while global trade continued to grow at historically high rates in the first half of 2022, the post-Covid trade recovery has rapidly weakened. The global economy's prospects were affected by the acceleration of monetary policy normalization to curb inflation. The war in Ukraine and China's zero-Covid policy also had a significant impact, creating further disruptions to global supply chains and trade and increasing inflationary pressures. Looking ahead, geopolitical tensions, the slowing of external demand, risks of stagflation, the appreciation of the US dollar, and increased financial volatility all contribute to an environment of growing risks to the trade performance of the region. A detailed analysis of the trade outlook is presented in the following chapters.

2 The Impact on Trade in the Region

Exports of goods from Latin America and the Caribbean continued to grow in the first half of 2022, albeit at a slower pace than was observed throughout 2021. The region's external sales outperformed the world average in both nominal and real terms. The expansion was mainly explained by price improvements, especially in South America. However, higher import growth led to a deterioration in trade balances. The improvement in the terms of trade observed in 2021 was reversed in the first half of 2022 following sharp increases in the prices of external purchases, which were driven by energy and freight costs. Service exports continued to recover and climbed back above prepandemic levels. Looking ahead, a change in the uptrend in goods exports is expected as a result of the increased risks associated with the cooling of external demand and the reversal of export prices.

The Performance by Country

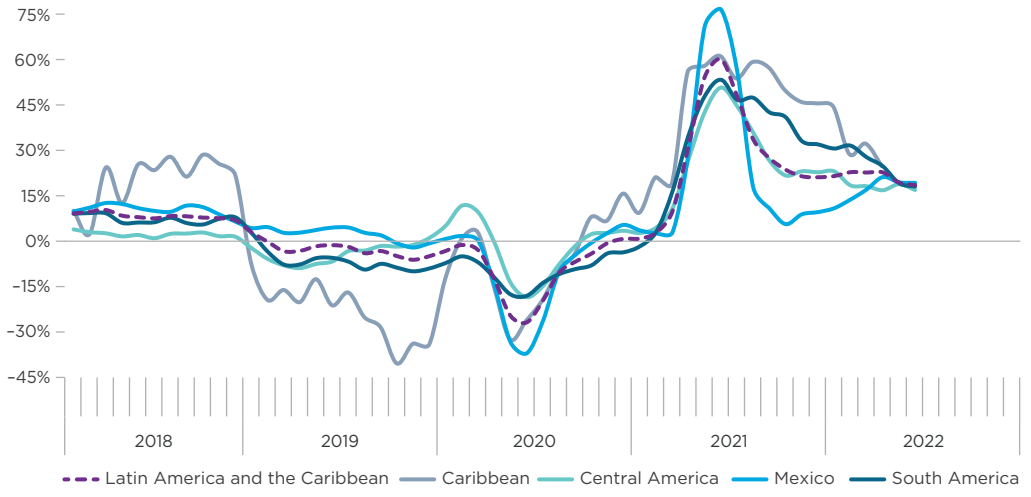
The growth in LAC imports and exports has slowed.

After the recovery of 2021 (27.9%), goods exports from Latin America and the Caribbean (LAC) lost steam in the first half of 2022 (20.6%), although their growth rate remained above the world average and was also higher than in the years leading up to the pandemic (Figure 8).[18] Imports slowed from 36.8% to 29.4% during the same period but continued to outperform exports. All LAC subregions experienced a deterioration in the balance of trade, although there were notable differences between subregions and countries (Tables 1 and 2).

Mexican exports increased by 18.6% in 2021 and 18.8% in the first half of 2022, a rate that was lower than that of imports (which grew by 32.0% and 25.0% in these two periods, respectively), leading to a significant trade deficit. Exports from Central America recovered in 2021 (26.6%) but slowed in the first half of 2022 (18.2%), while

[18] The estimate for the first half of 2022 is based on data for 23 LAC countries.

FIGURE 8 • TRENDS IN THE VALUE OF GOODS EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN
(Quarterly moving average of the year-on-year growth rate, 2018–2022)



Source: IDB Integration and Trade Sector with data from INTEGRA and national sources.

imports increased at a higher rate (42.5% and 31.0%, respectively), widening the deficit.

Mesoamerica's trade deficit grew.

In South America, exports grew by 36.2% in 2021, a lower rate than imports (40.9%). These dynamics were replicated in the first half of 2022 (22.5% and 33.5%, respectively), when the gap between imports and exports widened. As a result, the trade surplus shrank dramatically, but there were notable differences among countries. In the first half of 2022, the trade surpluses in Argentina, Bolivia, Brazil, Chile, and Ecuador were smaller than in the same period in 2021, and Peru moved into a deficit. Paraguay's deficit increased, while the only two countries whose positions improved were Colombia and Uruguay, which reduced their deficits.

South America's trade surplus shrank.

In the Caribbean, exports grew slower than imports in 2021, which led to widening trade deficits in Barbados, Belize, and Guyana compared to the previous year. Surpluses increased in Suriname and Trinidad and Tobago. In the first half of 2022, exports fell in Belize and Guyana but continued to grow in Barbados, Suriname, and Trinidad and Tobago.[19]

Performances in the Caribbean varied greatly.

[19] The data for Trinidad and Tobago only includes observations through April 2022. Given the country's relative size within the Caribbean, it is not possible to calculate the aggregate for the bloc, as was done for the other subregions.

TABLE 1 • GOODS EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN
(Annual growth rate, billions of US$, 2019-S1 2022)

	Billions of US$			Growth rate		
	2019	2020	2021	2020	2021	S1 2022
LATIN AMERICA AND THE CARIBBEAN	**1028.8**	**936.1**	**1197.8**	**–9.0**	**27.9**	**20.6**
LATIN AMERICA	**1016.3**	**924.4**	**1180.8**	**–9.0**	**27.7**	**20.7**
MESOAMERICA	**510.5**	**466.1**	**556.7**	**–8.7**	**19.4**	**18.7**
Mexico	460.6	417.2	494.8	–9.4	18.6	18.8
CENTRAL AMERICA	**49.9**	**48.9**	**61.9**	**–1.9**	**26.6**	**18.2**
Costa Rica	11.4	11.6	14.4	2.1	23.7	11.6
Dominican Republic	10.1	9.8	11.6	–2.3	18.3	10.9
El Salvador	5.9	5.0	6.6	–14.8	31.8	16.8
Guatemala	11.2	11.1	13.6	–0.6	22.7	25.2
Honduras	4.2	4.3	5.2	0.6	22.2	29.7
Nicaragua	5.6	5.3	6.9	–4.8	29.5	20.7
Panama	1.5	1.7	3.6	14.7	106.2	22.2
SOUTH AMERICA	**505.8**	**458.3**	**624.1**	**–9.4**	**36.2**	**22.5**
Argentina	65.1	54.9	77.9	–15.7	42.0	25.5
Bolivia	8.9	7.0	11.1	–21.3	57.5	37.8
Brazil	221.1	209.2	280.8	–5.4	34.2	20.5
Chile	68.8	74.1	94.7	7.7	27.8	8.6
Colombia	39.5	31.1	41.4	–21.4	33.3	57.4
Ecuador	22.3	20.4	26.7	–8.8	31.2	34.0
Paraguay	8.0	8.5	10.6	6.9	24.0	–6.8
Peru	46.5	41.0	60.6	–11.7	47.7	4.6
Uruguay	7.7	6.9	9.5	–10.6	39.0	43.5
Venezuela	17.9	5.3	10.8	–70.2	103.2	141.9
CARIBBEAN	**12.5**	**11.7**	**17.0**	**–6.6**	**45.5**	**n.a.**
Bahamas	0.3	0.2	n.a.	–22.7	n.a.	n.a.
Barbados	0.3	0.2	0.2	–12.1	–0.5	12.0
Belize	0.2	0.2	0.3	3.4	23.4	–4.8
Guyana	1.3	2.6	4.0	90.0	58.2	23.5
Haiti	1.2	0.5	n.a.	–61.5	n.a.	n.a.
Jamaica	1.7	1.3	1.4	–24.3	15.2	n.a.
Suriname	0.4	1.2	1.4	216.9	14.9	48.9
Trinidad and Tobago[a]	7.2	5.5	8.6	–23.2	56.2	24.5

Source: IDB Integration and Trade Sector with data from INTEGRA and national sources.
Note: n.a.: no data available. Methodological Annex 3 describes the geographic coverage and time periods included in the goods export data. [a] Data is only available through April for Trinidad and Tobago.

TABLE 2 • GOODS IMPORTS TO LATIN AMERICAN AND CARIBBEAN
(Annual growth rate, billions of US$, 2019-S1 2022)

	Billions of US$			Growth rate		
	2019	2020	2021	2020	2021	S1 2022
LATIN AMERICA AND THE CARIBBEAN	**1031.8**	**871.4**	**1191.9**	**–15.5**	**36.8**	**29.4**
LATIN AMERICA	**1006.5**	**851.1**	**1166.4**	**–15.4**	**37.1**	**29.5**
MESOAMERICA	**552.7**	**465.6**	**623.4**	**–15.8**	**33.9**	**26.1**
Mexico	455.2	383.0	505.7	–15.9	32.0	25.0
CENTRAL AMERICA	**97.4**	**82.6**	**117.7**	**–15.2**	**42.5**	**31.0**
Costa Rica	15.9	14.0	18.4	–12.3	31.7	23.9
Dominican Republic	20.6	17.3	24.5	–16.3	41.9	34.5
El Salvador	11.6	10.2	15.1	–11.7	47.1	27.2
Guatemala	19.9	18.2	26.6	–8.4	46.1	34.2
Honduras	10.4	9.0	13.2	–13.5	47.6	24.7
Nicaragua	6.2	5.9	8.4	–5.0	41.8	26.4
Panama	12.8	8.1	11.6	–37.1	43.1	43.1
SOUTH AMERICA	**453.8**	**385.4**	**543.0**	**–15.1**	**40.9**	**33.5**
Argentina	49.1	42.4	63.2	–13.8	49.2	44.4
Bolivia	9.1	6.6	8.8	–27.7	33.2	38.2
Brazil	185.9	158.8	219.4	–14.6	38.2	30.9
Chile	65.8	55.1	84.1	–16.2	52.7	29.3
Colombia	50.3	41.2	56.6	–18.1	37.5	41.4
Ecuador	22.6	17.9	25.7	–20.6	43.4	44.1
Paraguay	11.8	9.5	12.5	–19.3	32.1	27.3
Peru	42.4	36.8	51.1	–13.3	39.0	22.6
Uruguay	8.2	7.6	10.3	–8.3	36.4	34.6
Venezuela	8.5	9.7	11.2	13.1	15.8	41.9
CARIBBEAN	**25.4**	**20.3**	**25.5**	**–19.9**	**25.3**	**n.a.**
Bahamas	3.3	2.2	n.a.	–33.4	n.a.	n.a.
Barbados	1.6	1.5	1.7	–5.3	11.7	49.5
Belize	1.0	0.8	1.1	–17.9	31.0	39.6
Guyana	1.1	2.5	4.2	127.2	66.7	42.2
Haiti	4.1	2.2	n.a.	–47.0	n.a.	n.a.
Jamaica	6.4	4.8	6.0	–25.6	25.4	n.a.
Suriname	1.6	1.5	1.4	–4.0	–9.9	15.8
Trinidad and Tobago[a]	6.3	4.9	5.8	–23.1	18.2	8.1

Source: IDB Integration and Trade Sector with data from INTEGRA and national sources.
Note: n.a.: no data available. See Methodological Annex 3. [a] Data is only available through April for Trinidad and Tobago.

However, Barbados, Belize, and Guyana saw their deficits increase compared to the same period in 2021, while the surplus in Trinidad and Tobago grew and Suriname moved from a deficit to a surplus.

The Boost from Prices and Volumes

The increase in international prices played a decisive role in the evolution of the value of LA exports and imports.[20] After rising by 19.4% in 2021, export prices increased by 14.6% in the first half of 2022. In both periods, prices accounted for around 70% of the y-o-y growth in the value of LA exports. Import prices, which had risen by 13.5% in 2021, accelerated in the first half of 2022 (20.1%) against a backdrop of global inflation, the war in Ukraine (see Box 3), and higher transport costs (see Box 4). In 2021, prices accounted for one-third of the increase in imports, but this share rose to 70% in the first half of 2022.

Prices sustained LAC's export performance.

In 2021, export prices rose sharply in almost every country in the region (29.7% in Brazil, 28.6% in the rest of South America, 10.6% in Mexico, and 6.2% in Central America). Meanwhile, import prices rose at comparatively lower rates in Brazil (13.7%) and the rest of South America (16.6%) and higher rates in Central America (14.3%) and Mexico (11.4%). The first half of 2022 saw a widespread slowdown in export prices: 19.3% in Brazil, 20.8% in the rest of South America, and 8.9% in Mexico. Import prices accelerated sharply in Brazil (31.6%) and Mexico (21.0%), in contrast to the rest of South America (15.8%).

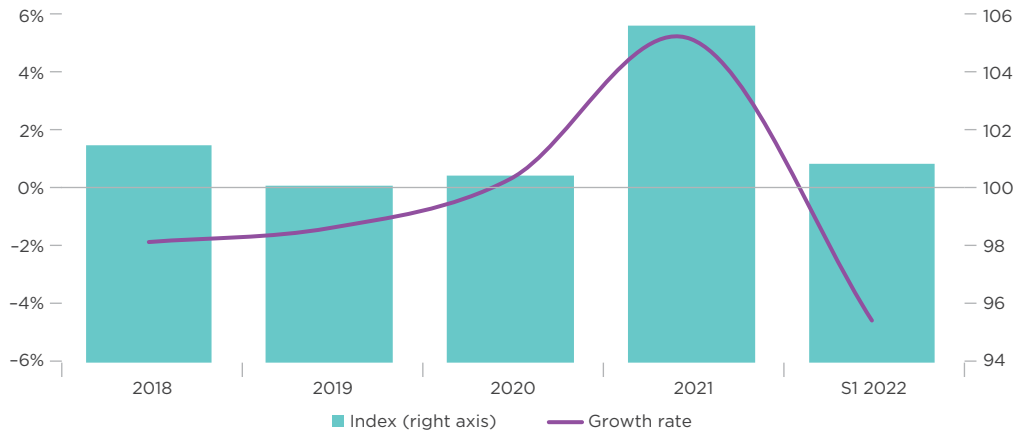
Export prices lost momentum and import prices accelerated.

For the regional aggregate, the 5.2% improvement in the terms of trade recorded in 2021 was reversed in the first half of 2022, when it dropped by 4.5% (Figure 9). This downturn is mainly explained by large countries such as Mexico (–0.7% to –10.0%) and Brazil (14.0% to –9.3%) and smaller economies such as El Salvador, Peru, and Uruguay. In contrast, the terms of trade improved in several South American countries, including Argentina, Chile, Colombia, and Venezuela.

Terms of trade deteriorated, albeit differently from country to country.

[20] The breakdown of export prices and volumes includes a sample of 18 LA countries for 2021, as is detailed in Methodological Annex 2. In the first half of 2022, the sample includes 10 LA countries that account for approximately 90% of the region's exports. For Central America, an estimate is only available for El Salvador. The Caribbean countries are excluded from both periods due to a lack of available data.

FIGURE 9 • LATIN AMERICA'S TERMS OF TRADE
(Index 2015=100 and annual rate of change, percentages, 2018–S1 2022)



Source: IDB Integration and Trade Sector with data from INTEGRA, Bureau of Labor Statistics (BLS), and national sources.
Note: Terms of trade were calculated based on 18 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The data for the first half of 2022 was estimated based on a sample of 10 countries (see Methodological Annex 2).

Export quantities were less dynamic than prices.

In real terms, LA export volumes recovered by 6.7% in 2021, increasing less than prices and at a rate below the world average (10.2%). The growth in export volumes slowed somewhat in the first half of 2022 but nonetheless increased by 5.3%, slightly above the global average (4.5%), although performances varied significantly by subregion (Figure 10). Although export volumes for the 10 LA countries analyzed outstripped prepandemic levels in the first half of 2022, this performance was explained by the largest economies (Mexico and Brazil), while several countries (Chile, Paraguay, Peru, and Venezuela) have yet to climb back above that level.

In 2021, the growth in export volumes was driven by Mexico (7.1%) and Central America (19.3%), which remained the case in the first half of 2022 (Mexico, 9.1%; El Salvador[21], 10.1%). In contrast, there was a severe slowdown in South America. While export quantities rose by 3.5% in Brazil and 6.3% in the rest of South America in 2021, they only increased by 1.0% and 2.7% in the first half of 2022, respectively.

South America was particularly affected by the slowdown in volumes.

[21] As was noted above, El Salvador is the only Central American country for which data is available in the first half of 2022.

BOX 3: THE IMPACT OF THE WAR IN UKRAINE ON LATIN AMERICA AND THE CARIBBEAN

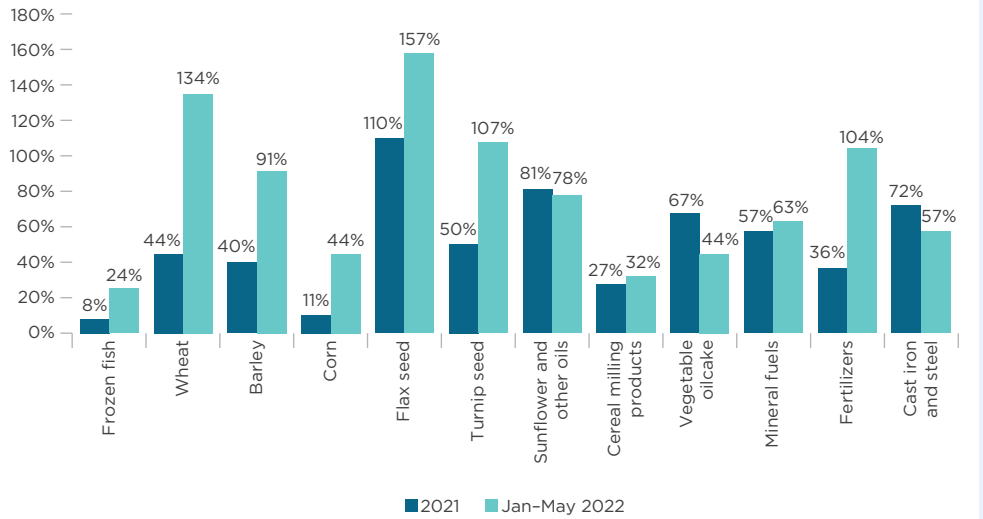
The trade impact of the conflict in Ukraine on LAC has mainly been indirect, through the increase in export and import prices. However, there has also been some direct impact caused by increased export volumes of certain products for which Russia and Ukraine are major global suppliers.

The rise in food and energy prices was one of the main channels through which the war has affected the region. These impacts have been varied and depend on countries' net export position and the magnitude of specific price changes.[a] The net energy- and food-importing countries of Central America, Mexico, and the Caribbean were affected via an increase in the trade deficit. In contrast, positive effects were seen in the energy-exporting economies of South America. Although agro-industrial exporters experienced positive impacts, they were also jeopardized by the increased cost of imported energy and fertilizers. Likewise, the mineral-exporting countries benefited from price hikes but were compromised by the increased cost of energy required to produce these exports.[b]

The direct impacts of the war in Ukraine on LAC trade were limited as Russia and Ukraine are not relevant trading partners for LAC: Russia accounted for barely 0.6% of the region's trade in 2018–2020, and Ukraine for less than 0.05%. However, LAC countries benefited from a reorientation of demand from some markets that were normally supplied by Russia and Ukraine (see Figure). In nine of the twelve selected sectors for which Russia and Ukraine are major global suppliers, the cumulative average value of LAC's external sales grew faster in January–May 2022 than in 2021. These nine sectors accounted for 12% of total exports from LAC countries in 2021.

LATIN AMERICAN EXPORTS OF SIGNIFICANT PRODUCTS IN EXPORT BASKETS OF RUSSIA AND UKRAINE

(Year-on-year growth rate, 2021 and January–May 2022)



Source: IDB Integration and Trade Sector with data from official sources and own estimates.

(continued on next page)

BOX 3: THE IMPACT OF THE WAR IN UKRAINE ON LATIN AMERICA AND THE CARIBBEAN *(continued)*

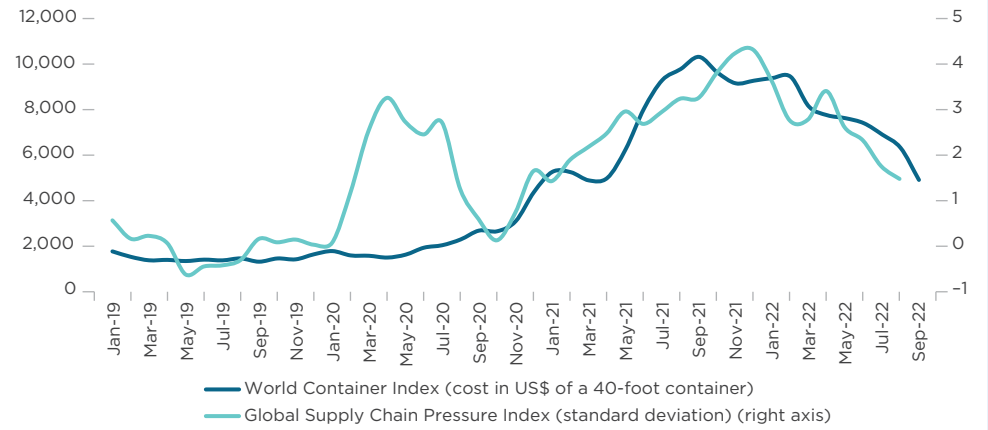
In four of these sectors (maize, wheat, frozen fish, and fertilizers), the growth rate increased by a factor of three to four. Although price increases also contributed to this growth, the prices of these products increased at lower average rates, suggesting that trade diversion effects are emerging as a result of the war.

[a] See Giordano and Michalczewsky (2022) for an ex-ante discussion of the transmission channels for the economic effects of the war in Ukraine.
[b] See IDB INTAL (2022) for some ex-post impact indicators observed in trade flows at the end of the second quarter.

BOX 4: THE IMPACT OF FREIGHT COSTS ON IMPORT VALUES

From mid-2020 onward, several factors have driven up international freight costs: the sudden recovery in global demand, port congestion, supply chain disruptions, and rising energy prices. Containers were removed from circulation during the pandemic, and rapidly reintroducing them proved difficult when trade flows rallied. In addition, trade flows mainly recovered in a single direction (from Asia to the US), such that containers began to pile up in the West—returning them to the East empty came at a high cost. Then in early 2022, the energy crisis unleashed by the conflict in Ukraine pushed global transport costs further up.

INTERNATIONAL OCEAN FREIGHT COSTS
(World Container Index—cost in US$ of a 40-foot container—and Global Supply Chain Pressure Index—standard deviation from the average)

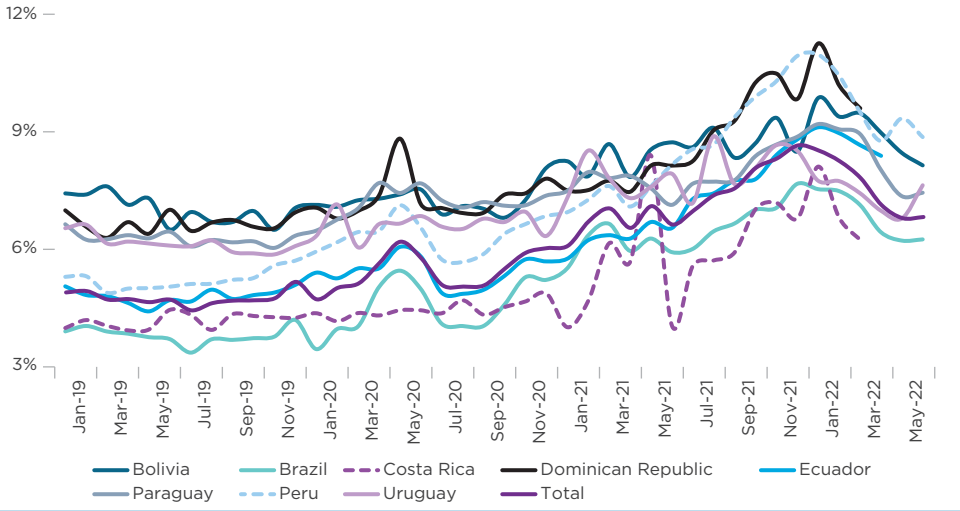


Source: IDB Integration and Trade Sector with data from Drewry and the Federal Reserve Bank of New York.
Note: The World Container Index (Drewry) reports container freight rates for major East-West trade lanes. It consists of eight individual route-specific indices and a composite index. These estimate the cost in US$ per 40-foot container. The Global Supply Chain Pressure Index (Federal Reserve Bank of New York) includes global transport cost data and PMI indicators to provide an indicator of global supply chain conditions.

(continued on next page)

BOX 4: THE IMPACT OF FREIGHT COSTS ON IMPORT VALUES *(continued)*

INSURANCE AND FREIGHT COSTS AS A SHARE OF THE VALUE OF IMPORTS
(in %)



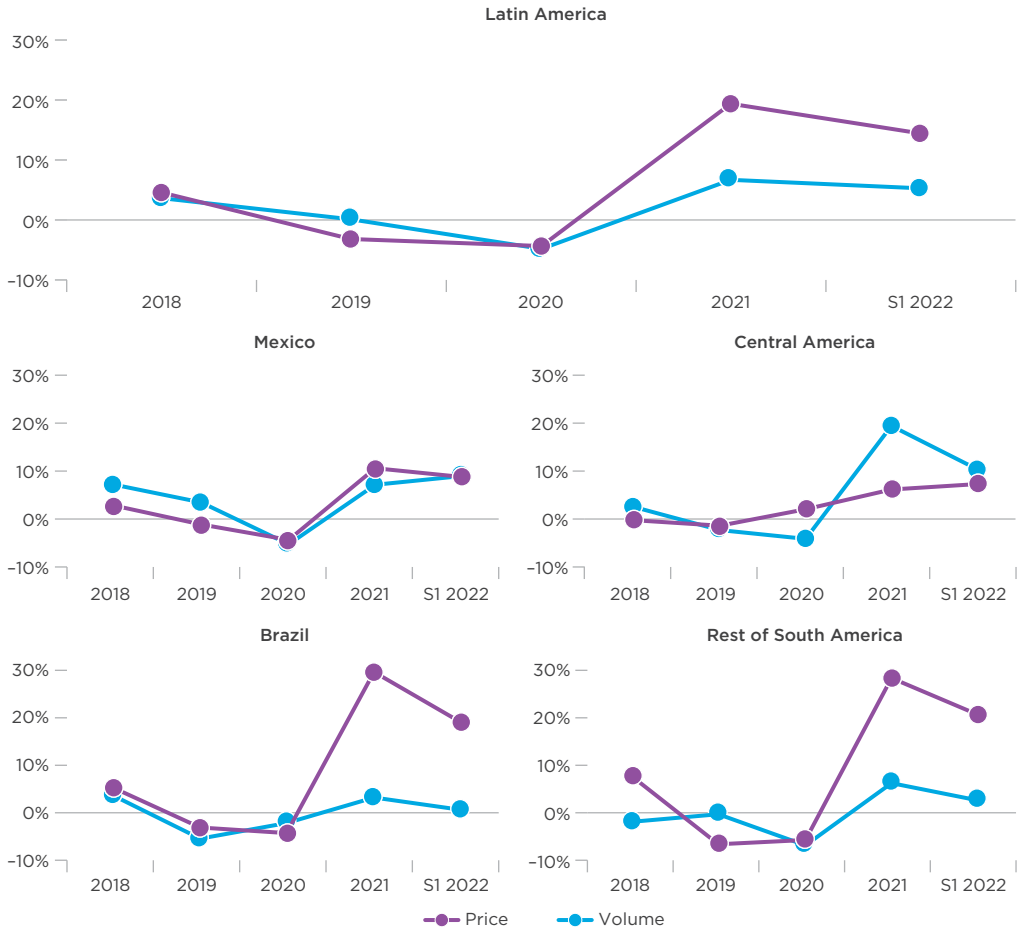
Source: IDB Integration and Trade Sector based on official sources.

However, the value of international freight began to fall in March 2022, mainly due to the slowdown in global growth and the gradual normalization of port operations. According to the World Container Index, the average freight cost of a 40-foot global container soared from US$1,405 on average in 2019 to US$10,361 in September 2021. Although costs then entered a downward phase, they remain well above 2019 levels. The Global Supply Chain Pressure Index (which measures disruptions to global supply chains) peaked at 3.41 standard deviations above the average in April 2022 and then dropped to 1.47 in August (see Figure).

At the regional level, there have been significant increases to the indicator for the impact of rising international freight costs on the value of LA imports, which measures the cost of transport and freight as a proportion of the value of imports. Between 2019 and the first quarter of 2020, this percentage ranged between 4% and 7% in the eight countries[a] included in the sample. With the advent of the pandemic, it began to increase, peaking between 7% and 10% in the last quarter of 2021 and the first quarter of 2022. It then stabilized and decreased in the second quarter of 2022, although it remains above pre-Covid levels (see Figure).

[a] First, the cost of insurance and freight (CIF) was computed as a share of the total value of imports expressed in CIF terms at the Harmonized System (HS) subheading level and weighted by the share of that subheading in external purchases. To create an index for LAC, these costs were weighted by the sample countries' share of imports. The indicator included the countries for which data on insurance and freight costs was available at the subheading level: Bolivia, Brazil, Costa Rica, the Dominican Republic, Ecuador, Peru, Paraguay, and Uruguay.

FIGURE 10 • PRICES AND VOLUMES OF LATIN AMERICAN EXPORTS
(Year-on-year growth rate, percentages, 2018–S1 2022)



Source: IDB Integration and Trade Sector with data from INTEGRA, BLS, and OPEC.
Note: The base year for the indexes is 2015. Methodological Annex 2 contains a detailed description of the estimation procedures for the series at constant prices.

The Recovery in Services Exports

Trade in services in LAC continued to recover.

In 2021, services exports from LAC recovered by 26.8%, although performances varied by subregion. The rebound was less significant in South America (13.1%) than in Mexico (60.0%), the Caribbean (52.1%), and Central America (29.9%), the latter three of which had been hardest hit during the pandemic (Table 3). The recovery accelerated in the first quarter of 2022 (53.6%), rallying in the Caribbean (101.9%), Mexico (87.8%), Central America (58.6%), and South America (38.5%) and outperforming prepandemic levels.

TABLE 3 • SERVICE EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN
(Annual growth rate and billions of US$, 2019–Q1 2022)

	Billions of US$			Growth rate (%)		
	2019	2020	2021	2020	2021	Q1 2022
LATIN AMERICA AND THE CARIBBEAN	**168.9**	**103.8**	**131.6**	**–38.5**	**26.8**	**53.6**
LATIN AMERICA	**156.4**	**98.6**	**123.6**	**–37.0**	**25.4**	**52.4**
MESOAMERICA	**72.2**	**41.9**	**59.5**	**–42.0**	**42.0**	**70.4**
Mexico	31.5	16.9	27.0	–46.6	60.0	87.8
CENTRAL AMERICA	**40.7**	**25.0**	**32.5**	**–38.5**	**29.9**	**58.6**
Costa Rica	10.7	7.8	8.5	–27.3	9.3	38.4
Dominican Republic	8.9	4.2	7.7	–52.6	81.3	107.0
El Salvador	2.3	1.4	2.0	–41.1	48.8	56.4
Guatemala	2.9	2.0	2.3	–32.8	15.6	29.8
Honduras	1.1	0.6	0.8	–43.7	22.0	12.7
Nicaragua	0.8	0.5	0.6	–35.0	7.7	76.5
Panama[b]	13.9	8.5	10.7	–38.6	25.4	56.1
SOUTH AMERICA	**84.2**	**56.7**	**64.2**	**–32.6**	**13.1**	**38.5**
Argentina	14.5	9.3	9.2	–36.2	–0.8	54.6
Bolivia[a]	1.4	0.4	0.5	–71.3	12.0	102.2
Brazil	33.1	26.9	31.4	–18.7	16.8	21.2
Chile	8.9	6.1	6.6	–32.3	8.3	33.3
Colombia	10.4	5.6	7.3	–45.5	30.1	79.5
Ecuador	3.2	1.7	2.0	–47.2	15.9	45.7
Paraguay	1.0	0.6	0.8	–33.4	24.6	29.0
Peru[a]	6.5	2.5	2.8	–61.0	8.8	65.8
Uruguay	5.2	3.6	3.7	–31.0	2.7	71.8
Venezuela	–1.0	–1.0	–1.0	–1.0	–1.0	–1.0
CARIBBEAN	**12.5**	**5.2**	**8.0**	**–58.0**	**52.1**	**101.9**
Bahamas	4.4	1.2	2.9	–72.3	140.6	–1.0
Barbados[a]	1.5	0.7	1.0	–49.2	38.3	–1.0
Belize	0.6	0.4	0.6	–40.5	51.3	88.2
Guyana[a]	0.2	0.2	–1.0	–10.5	–1.0	–1.0
Haiti[a]	0.5	0.1	0.1	–75.5	–15.7	–1.0
Jamaica[b]	4.3	2.1	2.9	–52.1	41.3	107.2
Surinam	0.1	0.1	0.1	–36.3	–1.9	50.0
Trinidad and Tobago[a]	0.8	0.4	0.3	–46.4	–22.0	–1.0

Source: IDB Integration and Trade Sector with data from IMF, WTO, UNCTAD, and national sources.
Note: [a] The data from Barbados, Bolivia, Guyana, Haiti, Jamaica, Peru, and Trinidad and Tobago is from WTO and UNCTAD estimates of exports of commercial services (see Methodological Annex 3). The rates are approximated based on the sample of available data—for 2022, this sample is always smaller. [b] The 2022 rates for Panama and Jamaica were estimated based on the export values of total services published by SEMCA and the Central Bank of Jamaica, respectively.

FIGURE 11 • SERVICE EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY SECTOR
(Year-on-year growth rate, percentages and percentage points, 2020–Q1 2022)

Source: IDB Integration and Trade Sector with data from the IMF.
Note: The total is expressed in percentages, and the sector data in percentage points (contribution to the total variation). The breakdown is based on a sample of countries that provide disaggregated data by sector, and thus the total does not coincide with the values in Table 3. KIS: knowledge-intensive services

Traditional sectors drove growth in the aftermath of the pandemic.

In 2021, services exports were driven by the traditional sectors that dominate LAC's export patterns, notably travel (13.4%), which accounted for half of the recovery, and transport (4.2%). Knowledge-intensive services (KIS)[22] also contributed to this growth—particularly other business services (3.2%) and information and communication technologies (ICTs) (1.7%)—albeit at lower rates (Figure 11). The recovery in these items continued in the first quarter of 2022, particularly travel, which accounted for two-thirds of the total increase.

The Change in Trend

Although uncertainty over how the global economy will evolve limits the predictive capacity of analytical tools, the results of two models provide relevant data for

[22] This includes personal, cultural, and recreational services, information and communication technologies, and other business services.

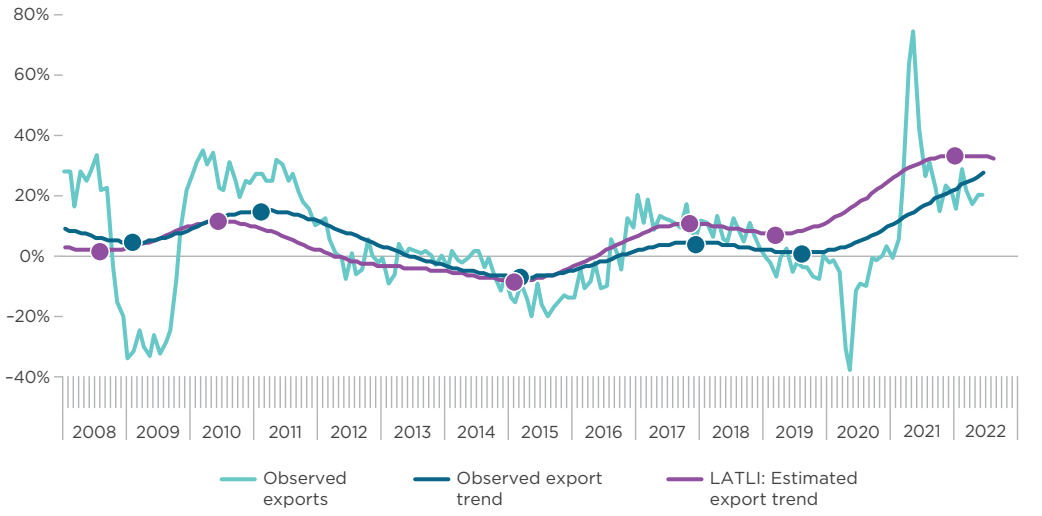
There is great uncertainty around the trade outlook.

interpreting how LAC's exports will perform in the coming months. The objective of the Latin American Trade Leading Index (LATLI) is to forecast an eventual turning point in the trend and signal the likelihood of a reversal in the growth of the value of LAC exports (Figure 12). Moreover, the export growth rate can be estimated using a nowcasting prediction methodology, which is what underlies the Latin American Trade Nowcasting Index (LATNI).[23]

According to the LATLI (Figure 12), the upward trend observed since the second quarter of 2020 will not continue. The latest estimate of the LATLI predicts a turning point in the y-o-y growth rate for goods exports from March 2022 onward. In other words, the slowdown observed in the last few months seems not to be a temporary phenomenon but is rather the start of a

The slowdown in exports has been consolidated.

FIGURE 12 • CHANGES IN THE TREND OF THE VALUE OF GOODS EXPORTS FROM LATIN AMERICA
(Year-on-year growth rate and LATLI index, January 2018=100, 2008-2022)

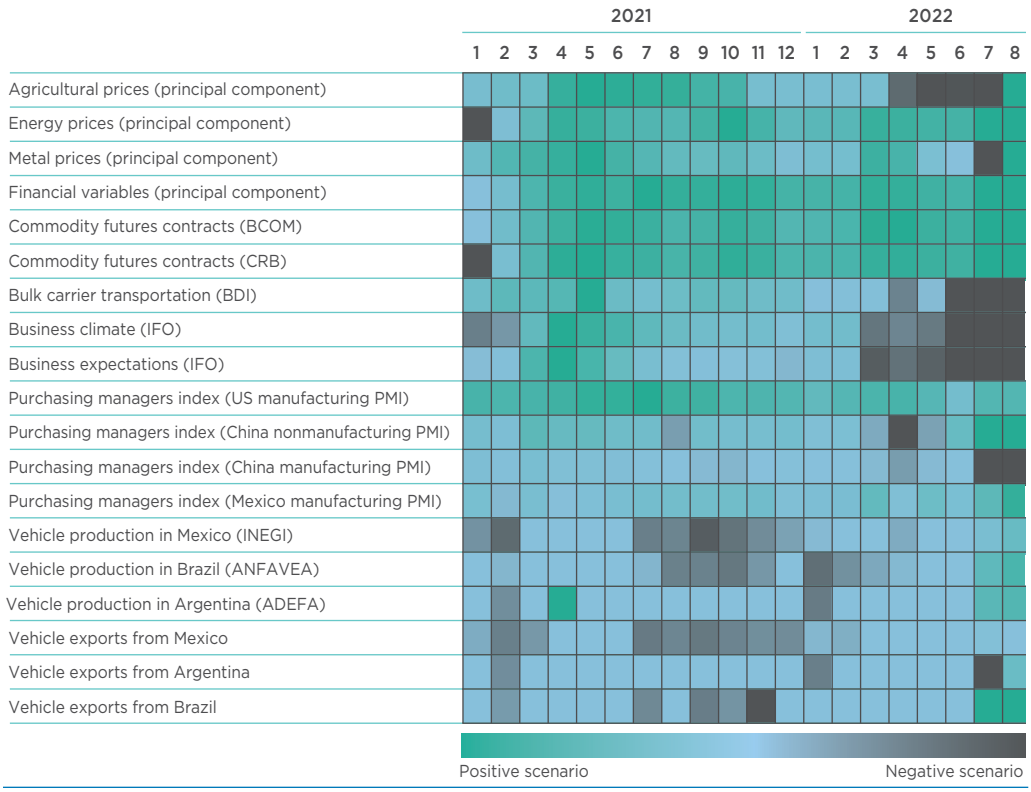


Source: IDB Integration and Trade Sector and authors' estimations.
Note: The leading index series shows the trend after the Hodrick-Prescott filter was applied. The circles indicate the turning points in the trend for the estimated series and the observed value of LAC exports.

[23] The nowcasting model provides an estimate of the export growth rate for periods for which official records were not yet available for all countries in the region at the time of writing (July, August, and September, in the case of this publication), as this data is generally released with a one- to two-month lag. For a detailed description of the two indicators and the data and estimation methodology used, see Giordano et al. (2021).

[24] The timeframe for which the prediction is valid is the average lead of the index with respect to the variation observed in export data since 2008. In the most recent estimate, which uses data through September 2022, the average lead was five months, so the model allows a change in the trend to be forecast in March 2022.

FIGURE 13 • COMPONENTS OF THE LATLI INDEX FOR EXPORTS FROM LATIN AMERICA
(Year-on-year growth rate, percentages, 2021–2022)



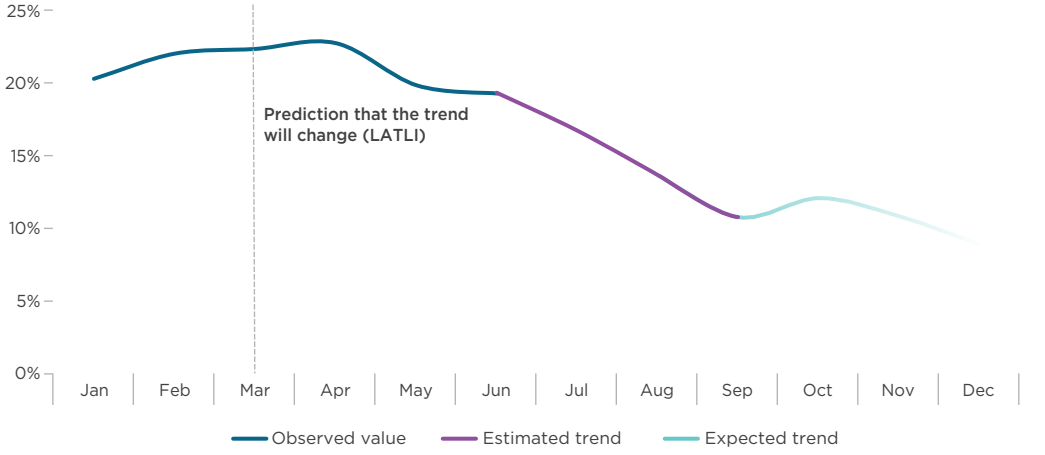
Source: IDB Integration and Trade Sector and authors' estimations.
Note: The colors correspond to growth rates ordered from minimum (gray) to maximum (green), with 0% (light blue) as the midpoint. In the case of the PMI, the midpoint is the critical threshold of 50. For a detailed description of the estimation methodology, see Giordano et al. (2019 and 2021).

consolidated trend.[24] The dwindling of the uptrend is consistent with the performance of the subindices that are highly correlated with LAC goods exports and are used as components of the LATLI (Figure 13). Some indicators began to deteriorate in March in connection with the war in Ukraine and in line with the lower overall prospects for global growth. Specifically, the indicators for business climate and purchasing managers' expectations provide evidence supporting the slowdown phase anticipated by the LATLI.

The LATNI enables the y-o-y change in LAC exports to be estimated for July, August, and September 2022, months for which no official data from export records was available at the time of publication. This estimate confirms that LAC's export growth has slowed dramatically: the y-o-y growth rate in September 2022 was 11%, nearly half the rate observed in the first half

The export growth rate has halved.

FIGURE 14 • ESTIMATED VARIATION IN THE VALUE OF EXPORTS FROM LATIN AMERICA
(Quarterly moving average of the year-on-year growth rate, percentages, 2022)



Source: IDB Integration and Trade Sector and authors' estimations.
Note: The prediction that the contraction will continue is based on the leading index (LATLI). The estimated value of the growth rate is based on the nowcasting model (LATNI). The expected value is based on the assumption that there will be no extraordinary boosts to export growth.

of the year (Figure 14). In other words, while the LATLI points to a consolidation of the change in the trend toward a slowdown, the LATNI confirms that exports have already settled on that path.

In conclusion, after a rapid rebound in 2021, goods exports from LAC slowed in the first half of 2022 but still increased more than world trade and remained at historically high growth rates. Although this trend was widespread, the factors determining it varied from one subregion to the next. In Mesoamerica, volumes continued to grow at a remarkable pace, and prices only accounted for half of the total increase. In contrast, South America experienced a slowdown in export quantities, while the growth in values was almost entirely explained by prices. Overall, the greater increase in imports compared to exports had a negative impact on the balance of trade in goods. In contrast, services exports remained on a path of rapid recovery in the aftermath of the pandemic. Looking ahead, the forecasting models confirm the consolidation of a marked slowdown. Chapter 3 examines how the region's main integration blocs performed in global and intraregional markets.

3 The Dynamics of Extra- and Intraregional Trade

Demand for export products from Latin America and the Caribbean lost momentum among partners inside and outside the region. Due to its weight in the total, demand from the rest of the world was the main driver of the region's trade performance. But intraregional exports were more dynamic, and the regional trade coefficient increased slightly. Intrazone exports slowed in all the region's integration blocs except the Andean Community. At the institutional level, there was fresh impetus for domestic agendas seeking to make the most of the digital economy. On the external front, there was progress in trade relationships with Asian countries. A synthetic indicator for various dimensions of regional integration shows progress since the pandemic.

This chapter examines the evolution of external demand from LAC's main trading partners in 2021 and the first half of 2022, explores the performance of extra- and intraregional exports[25] from the perspective of the main subregional integration blocs, and summarizes the advances in the agendas of the main integration initiatives: the Pacific Alliance (PA), Central America and the Dominican Republic (CADR),[26] the Andean Community (AC), the Caribbean Community (CARICOM),[27] and the Southern Common Market (MERCOSUR).

LAC's share in the main external markets increased.

[25] In this chapter, "intraregional exports" refers to exports to LAC trading partners, while "intrazone exports" or "intrabloc exports" are exports to other members of the respective trading blocs.

[26] Although the Central American countries and the Dominican Republic do not form an institutionalized integration scheme, they are analyzed as a bloc due to the scale of trade flows among them and their shared trade ties with the US, their main trading partner, through CAFTA-DR.

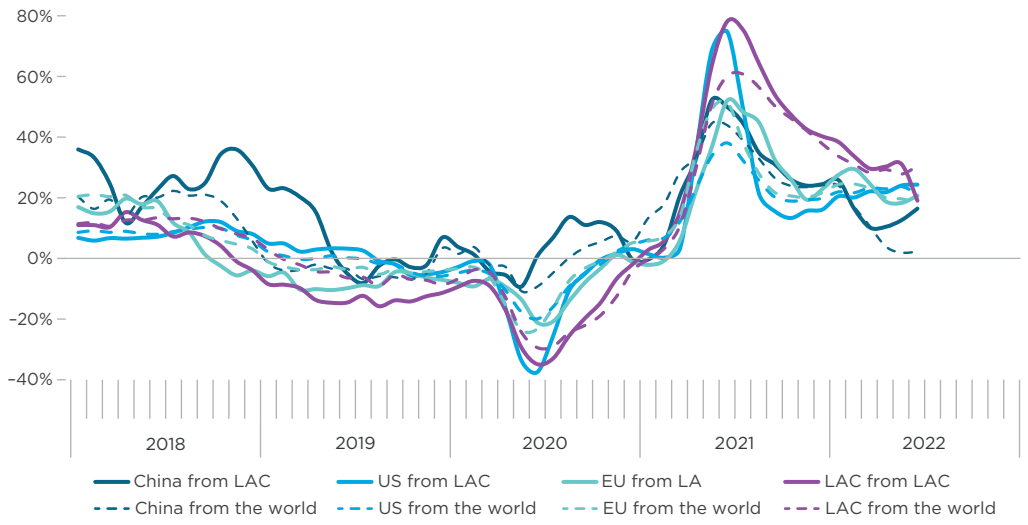
[27] See Methodological Annex 4 for the countries included in each group. The analyses by country of origin were only conducted for the integration blocs in LA: the Caribbean was left out due to a lack of comparable disaggregated data for the majority of member countries. However, LAC as a whole is included as a destination market. A separate analysis is included for the CARICOM countries for which data is available: Barbados, Belize, Guyana, Jamaica, and Suriname.

External Demand from Trading Partners

In line with global trends, the imports of LAC's main trading partners rallied in 2021, then slowed in the first half of 2022 (Figure 15). Notably, purchases originating in LAC increased slightly more than trading partners' total imports in 2022, so the region's market share increased. Total US external purchases maintained their dynamism (increasing from 22.2% in 2021 to 22.5% in the first half of 2022), while US imports originating in LAC increased more (21.9% and 23.3%, respectively). EU imports from LAC slowed from 27.5% to 22.4%, although they still grew at a slightly higher rate than total purchases (25.5% and 20.5%, respectively). In contrast, Chinese imports from LAC slowed dramatically, dropping from 30.6% to 13.8%, although this effect was even greater for the country's total imports (29.9% and 6.0%, respectively). Finally, the growth in imports from within LAC slowed from 44.3% to 23.6%, while total imports slowed less, going from 36.8% to 29.4%.[28]

The war in Ukraine, China's zero-Covid policy, the European energy crisis, and monetary tightening in advanced economies led to a slowdown in external demand

FIGURE 15 • TRENDS IN THE VALUE OF IMPORTS FROM SELECTED ECONOMIES
(Quarterly moving average of the year-on-year growth rate, percentages, 2018–2022)



Source: IDB Integration and Trade Sector with data from the US International Trade Commission (USITC), EuroStat, China Customs, IMF, and national sources.
Note: For China, the US, and LAC, the imports reported are the aggregate for LAC, while for the EU they are the aggregate for LA only.

[28] The imports discussed in this section were taken from the import records of the countries in question and thus may differ from the exports recorded by domestic sources for the LA countries in the rest of this publication, particularly in this chapter. This difference is due not only to the sources in question, but also to the lag between records of exports and imports.

for LAC products and services and a downward correction of the global economic outlook. Growth in the US recovered rapidly in 2021 (5.7%) before slowing to 3.7% in the first quarter of 2022 and 1.8% in the second. This slowdown is expected to continue, as the IMF projected average growth of 1.6% in 2022.[29] In the Eurozone, after a 5.2% rebound in 2021 and a higher-than-expected GDP increase of 5.4% in the first quarter of 2022, growth slowed to 4.1% in the second quarter and is projected to average 3.1% for the year. After expanding by 8.1% in 2021 and 4.8% in the first quarter of 2022, China's GDP growth plummeted to just 0.4% in the second quarter of 2022, and average growth of 3.2% is projected for the year. In this context, after rising by 6.9% in 2021, LAC GDP growth is expected to slow to 3.5% in 2022. These figures will be even lower for the region's two largest economies, Brazil (2.8%) and Mexico (2.1%).

Demand from trading partners is slowing.

Intra- and Extraregional Exports

Extraregional demand drove LAC's export performance.

Extraregional flows were the main driver of LA export growth, as they account for the lion's share of the total (85.6% in 2021). However, intraregional exports—which grew 40.4% in 2021 and 33.5% in the first half of 2022—were more dynamic than exports outside the region, which grew 25.8% and 18.5%, respectively (Table 4). As a result, the share of intraregional trade increased from 14.4% in 2021 to 15.8% in the first half of 2022 (Table 5).

The US was the partner that contributed most to LA's export growth in both 2021 and the first half of 2022. However, if Mexico is excluded, the region itself played a crucial role in explaining total export growth: it accounted for a quarter of the total increase in 2021 and a third of this in the first half of 2022. Looking at the effects on different integration blocs, US demand was only decisive for the PA countries (due to Mexico). For CADR, the main contribution came from LAC itself. The market that contributed most to MERCOSUR's performance in the first half of 2022 was China, followed by LAC itself, while in 2021 the largest contribution came from other partners such as India, the Republic of Korea, and Singapore. In the AC, export growth was driven by China, India, Japan, and the Republic of Korea in 2021, and by LAC in the first half of 2022.

The US was the destination that contributed most to export growth.

[29] See IMF (2022).

TABLE 4 • EXPORTS FROM LATIN AMERICA TO MAIN TRADING PARTNERS BY INTEGRATION BLOC
(Year-on-year growth rate, percentages, 2021–S1 2022)

		Extra-LAC					
Origin	**LAC**	**Extra-LAC**	**US**	**EU**	**China**	**RW**	**Total**
			2021				
Latin America	**40.4**	**25.8**	**21.1**	**29.2**	**21.5**	**38.6**	**27.7**
PA	32.0	22.0	19.0	22.9	34.9	27.7	34.5
AC	36.9	41.6	24.4	30.9	55.4	50.9	40.5
CADR	29.6	25.3	23.7	28.3	88.0	18.2	26.6
MERCOSUR	44.8	33.3	44.8	35.2	8.8	48.9	35.6
			S1 2022				
Latin America	**33.5**	**18.5**	**22.1**	**23.3**	**19.3**	**8.0**	**20.7**
PA	33.7	16.9	21.2	4.5	1.0	19.1	17.1
AC	50.5	22.1	40.6	30.5	–12.0	36.0	28.4
CADR	25.0	15.2	16.7	19.9	16.5	6.7	18.2
MERCOSUR	29.7	19.2	34.2	37.1	33.6	–3.6	21.2

Source: IDB Integration and Trade Sector with data from official national sources.
Note: RW refers to the Rest of the World.

TABLE 5 • INTRAREGIONAL AND INTRABLOC TRADE COEFFICIENTS
(Share of intrazone exports and exports to LAC in the total. percentages, 2021–S1 2022)

	2021		S1 2022	
	Intrabloc	**LAC**	**Intrabloc**	**LAC**
Latin America		**14.4**		**15.8**
PA	2.5	7.9	2.7	9.3
AC	5.7	22.1	6.1	25.9
CADR	22.4	31.8	22.9	32.1
MERCOSUR	10.6	20.9	10.1	20.6

Source: IDB Integration and Trade Sector with data from official national sources.
Note: "Intrabloc" indicates exports to members of the same subregional trade bloc. The Caribbean was excluded as an origin due to the lack of comparable disaggregated data.

In 2021 and the first half of 2022, intraregional trade was more dynamic than extraregional trade for LA as a whole. Whereas intraregional exports were hit harder than any others in 2020, they recovered more robustly in 2021 than those to the rest of the world. The exception was the AC, where extraregional sales grew more than intraregional ones in 2021. In the first half of 2022, intraregional sales slowed in all blocs except the PA and the AC.

Intraregional trade was more dynamic than extraregional trade.

Intrazone trade is more significant for CADR (22.4%) and MERCOSUR (10.6%) than for the PA (2.5%) due to the weight of Mexican exports to the US. Although the AC's intra-bloc exports account for a smaller share of its total exports (5.7%), LAC as a whole is more significant (22.1%). In all the integration blocs except MERCOSUR, the shares of intrabloc and intraregional trade increased in the first half of 2022, as detailed in the following section.

The share of intrazone trade increased in every bloc except MERCOSUR.

The Progress on Regional Integration

The evolution of extra- and intraregional trade flows in the various LAC integration blocs and the countries that comprise them is described below (Table 6). The boxes also summarize the main focuses of the blocs' internal and external agendas and the progress therein. Two common themes stand out: the promotion of digitalization and

TABLE 6 • EXPORTS TO MAIN TRADING PARTNERS BY COUNTRIES IN EACH INTEGRATION BLOC
(Year-on-year growth rate, percentages, 2021-S1 2022)

	Intra-LAC		Extra-LAC					
Origin	Intrabloc	LAC	Extra-LAC	USA	EU	China	RW	Total
				2021				
PA	**31.0**	**32.0**	**22.0**	**19.0**	**22.9**	**34.9**	**27.7**	**22.7**
Chile	18.2	29.9	27.5	52.6	19.8	27.3	17.7	27.8
Colombia	21.4	27.5	35.7	23.6	24.0	32.0	63.1	33.3
Mexico	37.9	30.7	18.1	17.9	18.1	11.3	21.4	18.6
Peru	45.4	48.7	47.6	15.7	43.5	70.0	42.6	47.7
CADR	**30.1**	**29.6**	**25.3**	**23.7**	**28.3**	**88.0**	**18.2**	**26.6**
Costa Rica	26.0	29.7	21.4	23.4	18.4	21.8	18.4	23.7
Dominican Rep.	43.5	27.5	16.8	22.9	24.8	37.2	–3.1	18.3
El Salvador	34.8	33.3	30.2	32.4	14.3	–4.3	36.1	31.8
Guatemala	30.7	29.3	17.7	22.7	32.9	36.9	–7.9	22.7
Honduras	28.9	29.0	19.4	5.8	33.0	–42.9	37.2	22.2
Nicaragua	25.9	31.6	28.5	30.7	32.2	9.2	18.9	29.5
Panama	11.0	0.8	125.1	22.1	64.2	188.7	157.0	106.2
AC	**31.6**	**36.9**	**41.6**	**24.4**	**30.9**	**55.4**	**50.9**	**40.5**
Bolivia	83.3	33.3	79.3	79.3	55.2	43.7	93.1	57.5
Colombia	21.5	27.5	35.7	23.6	24.0	32.0	63.1	33.3

(continued on next page)

TABLE 6 • EXPORTS TO MAIN TRADING PARTNERS BY COUNTRIES IN EACH INTEGRATION BLOC *(continued)*
(Year-on-year growth rate, percentages, 2021-S1 2022)

	Intra-LAC		Extra-LAC					
Origin	**Intrabloc**	**LAC**	**Extra-LAC**	**USA**	**EU**	**China**	**RW**	**Total**
Ecuador	21.8	44.7	26.6	33.8	14.2	22.2	32.5	31.2
Peru	36.2	48.7	47.6	15.7	43.5	70.0	42.6	47.7
MERCOSUR	**38.1**	**44.8**	**33.3**	**44.8**	**35.2**	**8.8**	**48.9**	**35.6**
Argentina	45.8	48.2	39.0	50.9	48.0	16.6	39.9	41.8
Brazil	37.0	48.0	32.0	45.0	32.2	6.5	53.5	34.2
Paraguay	20.0	20.5	34.0	26.0	27.0	13.2	37.6	24.0
Uruguay	59.7	43.6	37.0	4.3	34.5	85.7	14.8	39.0
				S1 2022				
PA	**25.6**	**33.7**	**16.9**	**21.2**	**4.5**	**1.0**	**19.1**	**18.3**
Chile	27.4	21.3	5.4	2.4	–13.2	11.0	5.6	7.4
Colombia	38.8	77.6	49.6	35.8	84.6	–43.0	103.7	57.4
Mexico	11.0	14.5	18.7	20.3	–2.0	25.3	12.5	18.5
Peru	33.1	33.6	0.7	43.3	0.2	–19.9	13.2	4.6
CADR	**23.9**	**25.0**	**15.2**	**16.7**	**19.9**	**16.5**	**6.7**	**18.2**
Costa Rica	21.1	23.0	7.2	7.7	7.7	–25.0	5.1	11.6
El Salvador	20.1	22.1	11.3	11.3	73.0	–67.3	–21.8	16.8
Dominican Rep.	17.6	28.4	8.6	11.0	5.1	73.5	–2.4	10.9
Guatemala	25.5	27.4	23.6	29.3	43.4	12.1	–2.0	25.2
Honduras	28.1	29.9	29.6	33.6	28.0	–9.1	24.4	29.7
Nicaragua	30.0	30.6	15.8	22.8	37.9	25.8	–19.2	20.2
Panama	5.3	–43.9	31.9	10.1	5.5	7.5	87.2	22.2
AC	**39.2**	**50.5**	**22.1**	**40.6**	**30.5**	**–12.0**	**36.0**	**28.4**
Bolivia	74.5	54.4	26.5	–9.4	55.8	26.9	24.7	37.8
Colombia	16.7	77.6	49.6	35.8	84.6	–43.0	103.7	57.4
Ecuador	55.6	18.8	40.4	51.6	12.0	95.5	13.1	34.0
Peru	42.8	33.6	0.7	43.3	0.2	–19.9	13.2	4.6
MERCOSUR	**21.0**	**29.7**	**19.2**	**34.2**	**37.1**	**33.6**	**–3.6**	**21.2**
Argentina	18.1	29.1	23.9	48.9	27.8	3.1	9.8	25.5
Brazil	32.4	36.9	17.8	31.7	39.5	36.0	–6.2	20.5
Paraguay	–7.1	–8.0	–3.1	34.2	16.2	–40.3	–9.4	–6.8
Uruguay	42.8	44.4	43.1	35.9	38.2	35.0	52.9	43.5

Source: IDB Integration and Trade Sector with data from official national sources.

closer ties with Asian economies. These recent developments contribute to a trend toward progress on regional integration, several dimensions of which were measured through a synthetic indicator (Box 5).

BOX 5: THE REGIONAL INTEGRATION INDICATOR HAS IMPROVED SINCE THE PANDEMIC

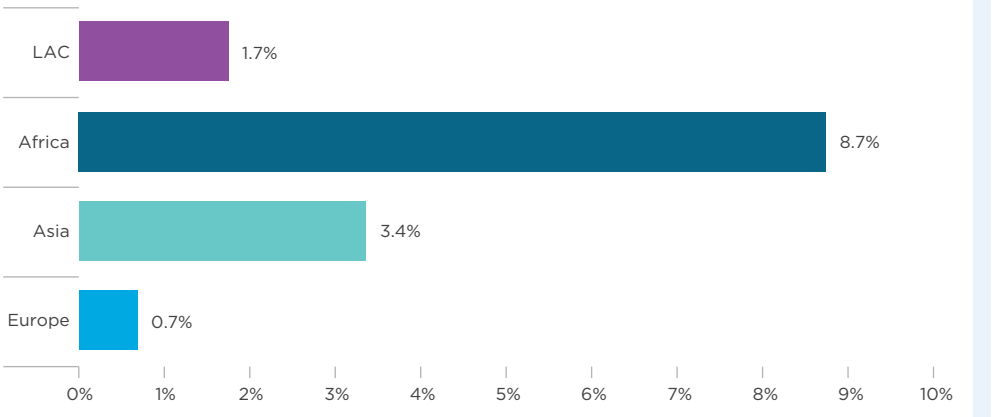
The 2021 Trade and Integration Monitor introduced an indicator that objectively measures economic integration in LAC and enables its evolution to be evaluated and compared with similar processes in other regions of the world. The indicator covers four core dimensions of regional integration: institutional, physical, productive, and trade integration.[a]

The aggregate integration index for LAC increased slightly between 2019 and 2021 (1.7%). Although the nature of the indicators that make up the aggregate is such that variations in the latter are only small, it should be noted that the aggregate index for Africa in 2021 was 8.7% higher than in 2019, while that of Asia grew by 3.4% and that of Europe by 0.7%. The sharp increase in the indicator for Africa owed to the deepening of the institutional dimension following the entry into force of the African Continental Free Trade Area (AfCFTA) in 43 of the 54 signatory countries.

The slight increase in the overall index in LAC is due to improvements in all dimensions, although the largest increases were observed in the physical and trade dimensions. The former was mainly due to improvements in maritime connectivity and the latter to the performance of intraregional trade. There were no significant changes to the institutional dimension since the number of new trade, taxation, and investment agreements captured by the indicator was low.[b]

With regard to the measurement of the subregions' integration with the rest of LAC, there was progress on the aggregate index in all blocs except the PA, which was affected by the negative

EVOLUTION OF ECONOMIC INTEGRATION
(Growth rate of the aggregate index, selected regions, 2019–2021)

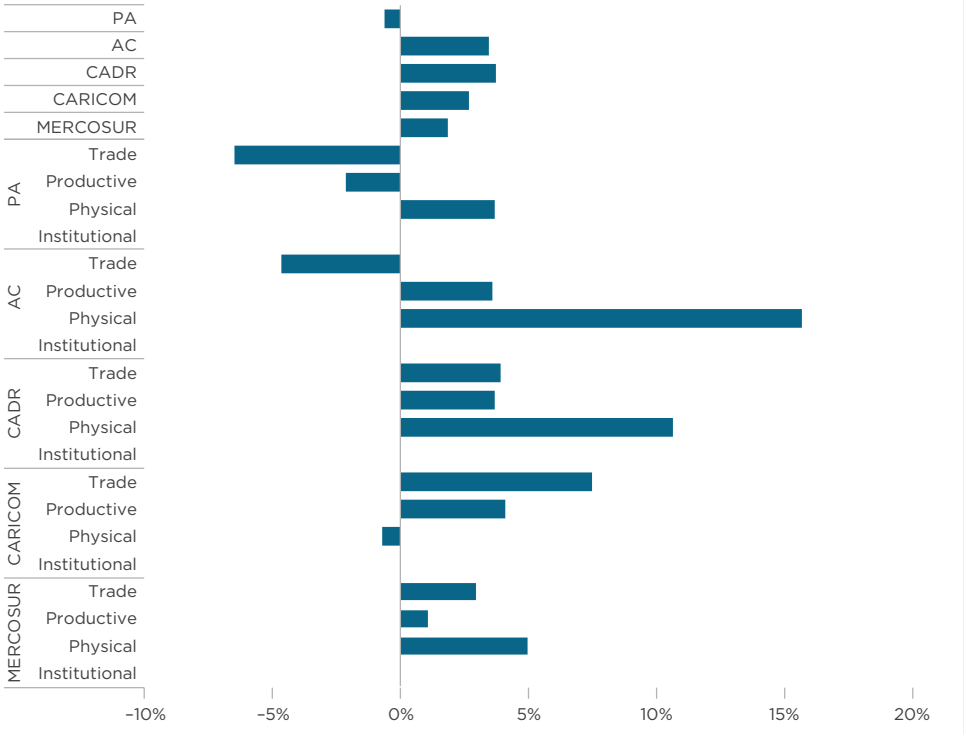


Source: IDB Integration and Trade Sector.

(continued on next page)

BOX 5: THE REGIONAL INTEGRATION INDICATOR HAS IMPROVED SINCE THE PANDEMIC *(continued)*

DIMENSIONS OF ECONOMIC INTEGRATION IN LAC BY SUBREGION
(Growth rate, 2019–2021)



Source: IDB Integration and Trade Sector.

impact of the production and trade dimensions.[c] The greatest progress was observed in CADR and the AC, although the trade dimension deteriorated in the latter. In MERCOSUR and CARICOM, the aggregate index increased less. In MERCOSUR, this was due to slight improvements to the trade, production, and physical dimensions. In CARICOM, this was because the increases in the trade and production dimensions barely offset the decline in the physical dimension.

[a] The methodology for the indicator is explained in detail in Giordano et al. (2021), which also analyzes its evolution in the medium term. The update in this edition includes specific features that are explained in Methodological Annex 5.
[b] The trade agreement subindicators only measure the ratification of new treaties. In other words, they do not reflect updates or expansions of existing agreements.
[c] The trade and productive integration dimensions are measured in relative terms by comparing progress on intra- and extraregional dimensions. Thus, in the case of the PA, the subindicators for these dimensions reflect not just progress within the bloc but also the increased dynamism of its linkages with economies outside the region, particularly the US.

Pacific Alliance

PA exports increased by 22.7% in 2021 due to higher extraregional sales, particularly of vehicles and electrical products from Mexico to the US. For the other PA member countries, the main contribution to external sales came from China—the leading products were iron ore in the case of Chile, oil for Colombia, and minerals for Peru. In the first half of 2022, total PA exports slowed to 18.3% due to lower growth in shipments to China and the EU. Chile's and Peru's external sales slowed the most, Colombia's accelerated, and Mexico's maintained steady growth.

The export performance deteriorated in China and the EU.

The PA's intrazone trade increased by 31.0% in 2021 and accounted for 2.5% of the bloc's total. Intra-PA trade was driven by sales of vehicles from Mexico to Colombia and vehicles and electrical products to Chile and Peru. Exports of molybdenum, fruits, and plastics from Peru to Chile also played a part. In the first half of 2022, intrazone trade slowed slightly to 25.6%, although it remained at a higher rate than was observed in shipments to the remaining major extraregional trading partners. The main progress on the integration agenda was in intrabloc digital integration and negotiations with Asian countries (Box 6).

Intrazone trade was particularly dynamic.

BOX 6: PROGRESS ON THE PACIFIC ALLIANCE INTEGRATION AGENDA

Digital Marketplace — At the start of 2022, the roadmap for the creation of a Regional Digital Marketplace was approved. The objective was to identify actions that will enable the PA to progress toward digital transformation, particularly in e-commerce. The roadmap includes three core areas: improving access to connectivity, promoting digital trade in goods and services, and boosting the digital economy to generate new sources of growth and productivity. Likewise, in January 2022, high-ranking PA authorities approved an action plan to facilitate and streamline digital skills training to help close the region's digital talent gap.

External negotiations — Singapore became the PA's first Associated State, with the aim of stimulating trade in goods and services, investment, e-commerce, regional linkages, reciprocal tourism, and digital cooperation, among other goals. Negotiations toward a free trade agreement (FTA) with the Republic of Korea were also launched, which will eventually enable the country to become an Associated State. The Republic of Korea is among the PA's main trading partners and has been an Observer State since 2014.

Central America and the Dominican Republic

CADR exports were driven by sales to the US and the bloc itself.

CADR exports increased by 26.6% in 2021, driven mainly by demand from the US and LAC. Sales to the US of medical supplies from Costa Rica, gold and cigarettes from the Dominican Republic, and apparel from Guatemala and El Salvador were particularly dynamic. Copper exports from Panama to China also contributed. In the first half of 2022, CADR export growth slowed to 18.2%. This downturn was widespread, and LAC itself and the US continued to account for most of the growth in external demand. Guatemala and Honduras were the only countries where export growth rates were higher in the first half of 2022 compared to the average for 2021.

Intrazone sales accounted for 30.1% of total CADR exports in the first half of 2021 (22.4% in 2020). The main factors that contributed to the increase in intrazone trade in 2021 were exports of plastics from Guatemala to El Salvador and Honduras; plastics and paper from El Salvador to Guatemala; clothing and plastics from El Salvador to Honduras; and food, electrical products, and plastics from Costa Rica to intrazone partners. The first half of 2022 saw intrabloc trade slow slightly (23.9%). Within the bloc, there was progress on the deep integration agenda, while the external front saw progress at both the biregional and bilateral levels (Box 7).

The share of intrazone trade continued to grow.

Andean Community

Exports from the AC to China contracted.

Total AC exports increased by 40.5% in 2021, driven by shipments of fuels from Ecuador and Colombia to the US, gold from Bolivia to India, and minerals from Peru to China. In the first half of 2022, total AC exports slowed to 28.4% due to the lower pace of growth in extraregional exports, mainly as a result of the reduction in shipments to China from Peru and Colombia. Peru had the greatest influence on the overall extraregional performance, in contrast with Colombia and Ecuador, where exports accelerated. Intraregional exports were remarkably dynamic, growing 50.5% y-o-y in the first half of 2022.

The AC's intrazone trade increased by 31.6% in 2021, reaching 5.7% of the total. This growth was driven by all the member countries. Sales of soy derivatives from Bolivia to Colombia and Peru rose, as did nontraditional exports from Peru to Colombia and Ecuador, and plastics from Colombia

Intrazone trade increased in the AC.

BOX 7: PROGRESS ON THE INTEGRATION AGENDA FOR CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

Deep integration — The first half of 2022 brought progress on the implementation of the customs union between El Salvador, Honduras, and Guatemala. An initial meeting was held between authorities from the countries' ministries of the economy to follow up on the implementation of the roadmap for the full inclusion of El Salvador in the Deep Integration Process (DIP). The DIP seeks to establish a single customs territory, that is, eliminate duties and restrictive regulations on products originating in those territories and apply identical customs duties and regulations to trade with third parties. Guatemala and Honduras launched the process in late 2014. The flexibility principle of the Guatemala Protocol enables subsets of countries to make specific commitments that are only binding for participants. El Salvador signed the protocol to begin the process of joining the DIP in 2018. At the end of 2021, the roadmap for the operational implementation of this process was approved.

External negotiations — The most significant progress made on the external agenda was in the deepening of cooperation between the Secretariat for Central American Economic Integration and the General Secretariat of the AC, which agreed to facilitate control of rules of origin for exports to the United Kingdom. At the bilateral level, the extension and deepening of the 2013 Partial Scope Agreement (PSA) between Guatemala and Ecuador entered into force. The original treaty included preferences on around 600 products. With the extension, 142 products were added, and the rules of origin were modified. Finally, Costa Rica and Ecuador agreed to begin negotiations for an FTA.

to Ecuador. The latter's oil exports to Peru also increased. In the first half of 2022, intrazone trade accelerated to 39.2%, mainly due to the contribution of Ecuador's sales to Colombia and Peru. The main advances in the integration agenda came in digital and environmental matters and trade (Box 8).

Caribbean Community

CARICOM exports lost momentum.

Based on data for a sample of countries[30] (Barbados, Belize, Guyana, and Suriname), CARICOM exports recovered in 2021, driven mainly by extraregional sales, particularly Guyana's oil exports to the US. CARICOM exports lost momentum in the first half of 2022, due to a reduction in Guyana's exports, which were partially offset by the increase in extraregional exports from Suriname. The integration agenda moved forward through the reform of the bloc's organizational structure. Urgent attention was also given to the critical issue of food security (Box 9).

[30] The limitations of official records make it impossible to calculate the aggregate figure for the Caribbean or distinguish between flows from the subregion to LA and those to the rest of the world.

BOX 8: PROGRESS ON THE ANDEAN COMMUNITY INTEGRATION AGENDA

Internal agenda — In the first half of 2022, while Ecuador held the pro tempore presidency of the bloc, the roadmap for the Andean Digital Agenda was published, international roaming came into force, the second stage of the Andean Environmental Technology Platform Project continued, and the financing agreement between the AC and the Presidential Cooperation Agency of Colombia was signed. Finally, in the context of rising international freight rates, a regulation was passed that allows AC member countries to temporarily reduce the percentage of transport costs for imported products when determining their customs valuation.

External negotiations — The General Secretariat of the Andean Community and the Secretariat for Central American Economic Integration agreed to provide the countries that make up both blocs with the information needed to apply the provisions of cumulation of origin to certify and verify origin within trade agreements with the United Kingdom. Colombia held the first round of negotiations toward an FTA with the United Arab Emirates. Ecuador held negotiation rounds toward a trade agreement with Mexico that would broaden and deepen the existing FTA between the two countries, implemented the extension of its FTA with Guatemala, agreed to begin negotiations with Costa Rica toward the signing of an FTA, signed a memorandum of understanding with China for an FTA, and relaunched negotiations toward an FTA with the Republic of Korea.

BOX 9: PROGRESS ON THE CARICOM INTEGRATION AGENDA

Integration at different speeds — In the first half of 2022, the CARICOM Heads of Government approved the Protocol Amending the Revised Treaty of Chaguaramas, which established the CARICOM Single Market and Economy, to allow for greater cooperation among member states. The provisions of this protocol enable enhanced cooperation within groups of at least three member states in areas in which the intended objectives cannot be achieved within a reasonable time frame by CARICOM as a whole. Decisions taken in these specific areas will only be binding for participating member states.

Prioritizing food security — The CARICOM Heads of State stressed the importance of addressing key food security issues, including climate-smart agriculture, land reform, transport, regional infrastructure development, public-private partnerships, legislative reform, improved production and productivity, and incentives to encourage the agricultural sector. They agreed to modernize production methods, promote digitization and the use of technology, develop human resources, encourage youth participation, and focus on research and development. Guyana and Suriname offered land for agricultural production. In addition, the annual Heads of Government meeting mandated the Council for Trade and Economic Development to complete initiatives and programs to eliminate nontariff barriers to intraregional trade by the end of July 2022. They also asked the private sector (represented through the CARICOM Private Sector Organization) to accelerate food-related investment projects.

Southern Common Market

Total MERCOSUR exports increased by 35.6% in 2021 and slowed to 21.2% in the first half of 2022. This slowdown affected most of the bloc's destination markets except China and the EU. China and LAC itself accounted for most of the growth in the first half of 2022, while other Asian countries were more significant in 2021. In the first half of 2022, total shipments from Argentina and Brazil slowed, those from Paraguay dropped, while growth in Uruguay's accelerated. Brazil's iron ore shipments to China were offset by higher soybean sales. Wheat, corn, and oil sales boosted Argentina's total exports, albeit at a slower pace than in 2021. Paraguay's exports were driven by soybean and beef in 2021 but fell in the first half of 2022 due to lower soybean and electricity sales. Uruguay's exports were very dynamic in 2021 and accelerated in the first half of 2022 due to higher exports of beef and soybean.

The slowdown in MERCOSUR owed to the decline in intrazone trade.

In the first half of 2022, intrazone exports slowed to 21.0% after growing by 38.1% in 2021. Intrabloc trade went from representing 10.6% of the total to 10.1%. Still, sales within the MERCOSUR in the first half of 2022 were driven by Brazil's exports of industrial supplies and auto parts to Argentina, and Argentina's shipments of transport equipment and wheat to Brazil. Uruguay's exports to Argentina contributed positively to intrazone trade, while Paraguay's exports to Argentina fell. There was progress on the institutional agenda in areas relating to the Common External Tariff (CET), the MERCOSUR Origin Regime (MOR), and bilateral and external trade negotiations (Box 10).

Trade between Brazil and Argentina played a decisive role in intrazone trade.

In sum, the region's export growth slowed due to a widespread drop in demand from all of LAC's main partners, both inside and outside the region, although the latter drove the overall performance due to their greater relative weight. The slowdown in shipments to China played a decisive role in the AC and the PA, the latter of which was also affected by the shrinking contribution of the EU. In MERCOSUR, the acceleration of shipments to China was offset by lower sales to other Asian markets. Finally, in CADR, the slowdown was triggered by lower growth in exports to the US and within the bloc itself, albeit to a lesser extent. As a result, LAC's share in global trade increased slightly, as did the intraregional trade coefficient for all integration schemes except MERCOSUR. These variations in trade patterns combined with progress on the physical and productive dimensions of integration triggered a slight increase in the synthetic indicator for regional integration. The trade dimension of LAC's integration into global trade is analyzed from a medium-term perspective in the following chapter.

BOX 10: PROGRESS ON THE MERCOSUR INTEGRATION AGENDA

Common External Tariff — In the first half of 2022, while Paraguay held the pro tempore presidency of the bloc, Brazil unilaterally lowered its extrazone import duties temporarily through December 2023.[a] During the MERCOSUR Summit in July 2022, the states parties agreed to reduce the CET in a coordinated manner, namely by introducing a 10% reduction on tariff positions that currently pay tariffs of between 4% and 14%, and a 100% reduction for products with a 2% rate. At the same time, it was established that each member would be able to voluntarily apply a 10% reduction to tariffs that are currently between 16% and 35%.[b]

MERCOSUR Origin Regime — Technical Committee No. 3, which focuses on trade rules and disciplines, continued the work begun in 2020 to update the MOR currently in force. Progress was made on drafting a new regulatory framework, which was based on the provisions agreed by the bloc with the EU and the European Free Trade Association in their respective chapters on rules of origin. The new MOR contemplates self-certification of origin by the exporter; a change in the approach for determining origin, dispensing with a general rule and adopting specific origin requirements (SORs) by heading, subheading, or tariff position for the entire tariff nomenclature; and the adoption of a new formula for SORs based on the maximum value of nonoriginating materials.

Bilateral integration — Brazil and Uruguay signed the 83rd and 84th Additional Protocols to Economic Complementation Agreement (ECA) No. 2, which seek to improve the free trade area between the two countries by eliminating the CET from the trade in goods produced in free trade zones (FTZs). The protocols also established a new technical criterion in sanitary matters for *yerba mate* of Brazilian origin entering the Uruguayan market. A total reduction of import tariffs was established for an indefinite period for all goods included in ECA No. 18, provided that the goods comply with the MOR. This ECA is in force between the four full members of MERCOSUR and applies to goods manufactured in any of the countries' FTZs or special customs areas. So far, this tariff elimination initiative is only temporary and applies to a specific list of products and FTZs.

External agenda — MERCOSUR and Singapore concluded negotiations toward an FTA, the bloc's first agreement with a member country of the Association of Southeast Asian Nations. In the absence of a consensus within the bloc to make trade negotiations with third parties more flexible, Uruguay moved forward on its own by signing the terms of reference for an FTA with Turkey and announcing the launch of trade negotiations with China. It ratified its agenda for external relations at the presidential summit in July.

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[a] This was based on the general exception of Art. 50 of the Treaty of Montevideo, on the grounds that the pandemic's impact on the domestic economy needed to be mitigated.

[b] Products that are subject to exceptions to the CET are excluded (dairy products, canned peaches, textiles, footwear, toys, automobiles, and auto parts).

4 International Integration in Perspective

After the global financial crisis, world trade went through a period of extreme volatility in both nominal and real terms. In contrast to previous decades, between 2012 and 2021, there were pronounced phases of expansion and contraction in response to various shocks. As a result, international trade grew at a lower rate than the world economy. Growth in the international flow of manufactures, the driving force for globalization in the run-up to the Great Recession, plummeted. During this period, Latin America's real exports expanded at a slightly higher rate than the world average, driven largely by Mexico and Brazil. The trade performance in other Latin American economies was weak, primarily because of declining competitiveness, particularly in the region's own markets.

A New Global Trade Regime

The global trade outlook has changed substantially in the last decade.

Since the Great Recession, world trade has followed a substantially different pattern than in previous decades. Between 1990 and 2008, global trade grew steadily and at a faster rate than GDP due to a combination of factors: falling transport costs, advances in communications, the liberalization of trade and finance, and China's entry into the global market. The single European market came into being, the North American Free Trade Agreement was signed, the WTO was created, and a wave of trade agreements swept the developing world. However, from 2012 onward, following the disruption caused by the 2008–2009 international financial crisis, average trade growth slowed dramatically, ushering in the so-called global trade slowdown.[31] Since then, a series of shocks gave way to a pattern of extreme volatility: the oil crisis of late 2014 to 2016; the Covid-19 pandemic in 2020; and the

[31] See Hoekman (2015) for an early discussion of trends, causes, and consequences.

war in Ukraine in 2022, which also coincided with the tightening of monetary policies to reduce global inflation.

The factors that drove the previous phase of globalization weakened.

These changes are part of a wider pattern of transformation of globalization in which the internationalization of economic activity is advancing at a slower pace. This regards not just trade but also investment and the international division of production. The shift is reflected in several indicators. The share of trade in goods in global GDP fell from 51.1% in 2008 to 46.3% in 2021.[32] Global supply chains have become increasingly regionalized, as evidenced by regional partners' growing shares in imports from Asia, Europe, and North America.[33] Emerging countries, particularly China, reduced their imports of intermediate goods and began to substitute them with local production.[34] Global foreign direct investment flows stagnated, such that in 2021 they were 23% below the high point of 2015 and in a similar position to 2008.[35] These aggregate indicators reflected certain microeconomic transformations. The expansive phase in the fragmentation and offshoring of production from high-income countries to some emerging economies has come to an end. Supply chains are becoming shorter and less complex as a result of the increasing vertical integration of production processes.[36] At the same time, the dematerialization of services is driving the growth of international trade in services, which contrasts with the slowdown in trade in goods.[37]

These trends were recently magnified by economic and political phenomena that were laid bare by the pandemic. The globalization process was in many ways driven by the decreasing costs of moving goods—not only have these stopped falling, but they have also risen sharply in the last two years, although this may prove temporary. The trade war between China and the US ushered in a process of "decoupling" between the world's two largest economies.[38] Post Covid, investors' priorities regarding the international fragmentation of production began to lean away from targeting profitability and more toward risk. In the political sphere, both the pandemic and the war in Ukraine have consolidated the tendency to prioritize domestic objectives over integration into global markets, especially those related to public health and national security.[39] Consequently, there is anecdotal evidence that

Incentives for shorter, more regionalized value chains increased.

[32] According to World Bank data.
[33] According to OECD data measuring trade in terms of value-added.
[34] See Baldwin (2022a) for a recent discussion.
[35] According to UNCTAD data.
[36] See Baldwin (2022b).
[37] See Baldwin (2022c).
[38] See Bown (2022).

terms such as nearshoring, onshoring, and reshoring are mentioned more frequently during corporate earnings calls and investor conferences than has been the case since 2005.[40] Likewise, when defining international integration strategies, there has been an increase in incentives to select partners based on geographic or geopolitical proximity, a phenomenon known as "friendshoring".[41]

Despite the extent of these changes, the scale of the sunk costs in existing global value chains suggests that the driving forces of globalization are still relevant.[42] At the same time, sound empirical evidence points to effective international integration being a core ingredient in the region's economic growth and development strategy.[43] This prompts the question of how LA will be able to continue sustaining growth while competing in a less dynamic, more turbulent, fragmented global market. In response, this section presents the results of a retrospective analysis that focuses on the period following the recovery from the Great Recession (2012–2021). It analyzes changes in the composition of world and LA trade in terms of both products and countries, tracking flows at constant prices to isolate the effect of nominal price volatility and disaggregating real export growth according to whether this owes to changes in the structure and dynamics of external demand or the performance of the export supply. By doing so, it sheds light on the region's vulnerabilities vis-à-vis the challenges at the heart of the ongoing transformation of globalization.

Latin America needs to adapt to the changes in globalization.

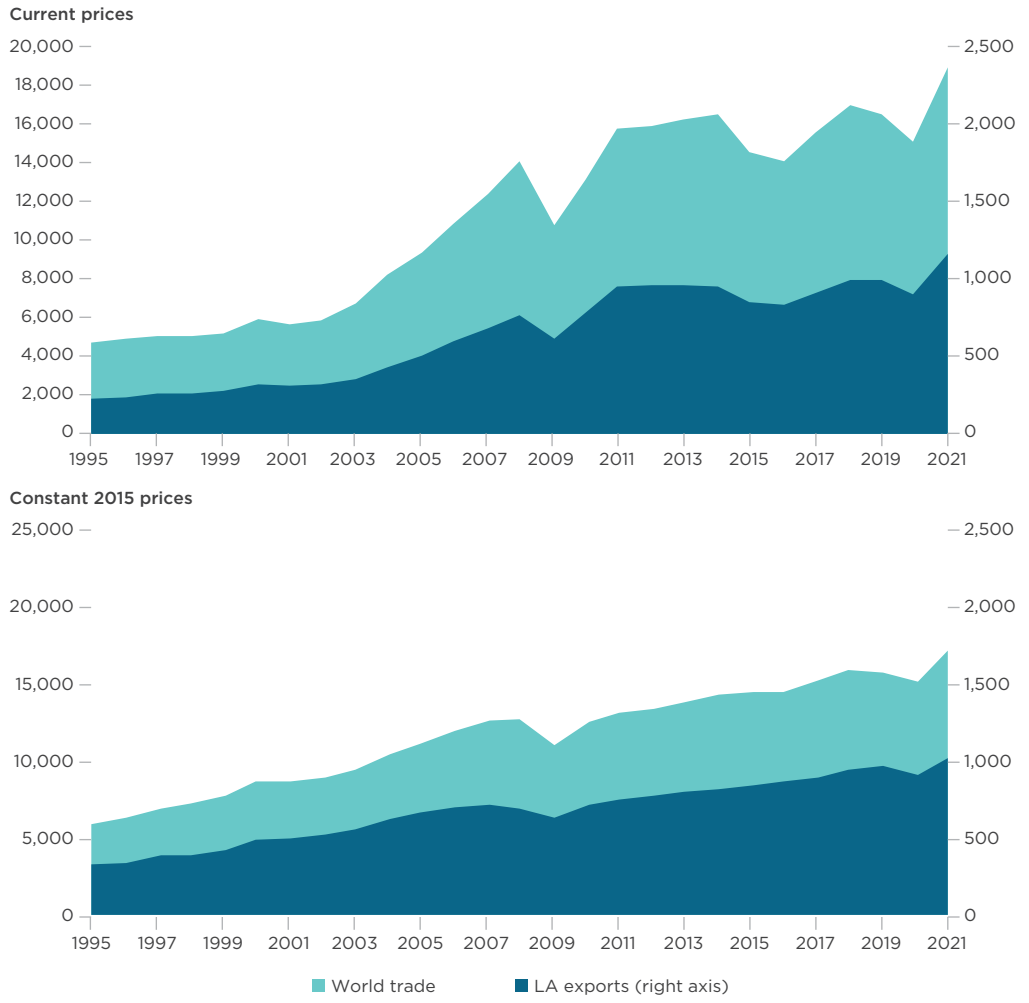
The Drivers of Export Performance

Global goods flows have slowed significantly in both nominal and real terms over the last decade, and LA exports have followed suit. Between 1999 and 2008, the value of world trade grew by 11.8% per annum (p.a.), primarily driven by larger volumes, which increased by 5.7% p.a. In 2012–2021, the average increase in nominal terms slowed to 2.0% p.a., as the 2.8% p.a. rise in traded quantities was offset by a fall in prices (Figure 16). LA exports followed a similar pattern: between 1999 and 2008, export values increased by 12.1% p.a. and volumes by 5.6% p.a. but grew by 2.1% p.a. in nominal terms and 3.1% in real terms between 2012 and 2021.[44]

World trade grew more slowly.

[39] See Rodrik (2022).
[40] See Financial Times (2022).
[41] See Yellen (2022) and Lagarde (2022).
[42] See Antràs (2020).
[43] See Mesquita Moreira and Stein (2019).
[44] The findings of an analysis using data through 2019 do not change these conclusions, suggesting that the change in trend for both world and LA trade was already evident before the outbreak of the pandemic, which merely intensified it.

FIGURE 16 • WORLD TRADE AND LATIN AMERICAN EXPORTS
(Billions of US$, 1995–2021)



Source: IDB Integration and Trade Sector with data from the Database for the Analysis of International Trade (BACI) of the Center for Prospective Studies and International Information (CEPII), COMTRADE, and INTEGRA.
Notes: Global trade is defined as imports and excludes flows among Eurozone countries. Methodological Annexes 2 and 6 contain a detailed description of the estimation procedures for the series at constant prices.

Another feature of the aftermath of the Great Recession was extreme instability: the value of trade fell in four of the last ten years, grew by more than 10% in three of them, but did so at less than 3% in the remaining three. Recent years have seen tremendous volatility in real terms, although this was less marked than the volatility in value terms. For half of 2012–2021, the volume of global trade expanded at a rate of

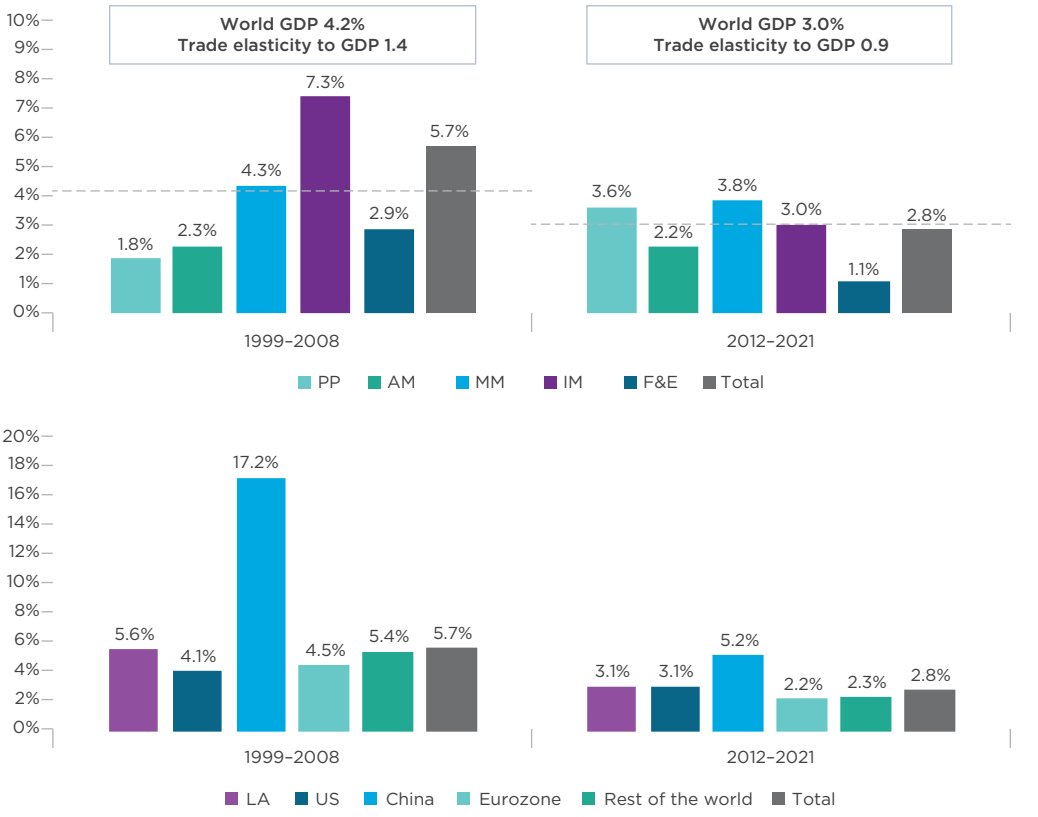
The real and nominal volatility of trade increased.

between 0% and 5%, but declined in three of these years (2015, 2019, and 2020), and grew by more than 5% over the remaining years. In contrast, between 1999 and 2008, nominal expansion was above 13% per year, and volumes grew at more than 5% per year in seven of these years. One indicator of volatility is the standard deviation, which in 2012–2021 stood at 10.8% for the value of trade and 4.9% for volumes (as compared to 7.7% and 4.0% in 1999–2008, respectively), revealing how price changes impacted volatility. LA exports followed a similar pattern.

In 1999–2008, the volume of world and LA trade grew at higher rates than GDP, while in 2012–2021, real global flows expanded on par with GDP (Figure 17). The elasticity of volumes relative to GDP fell from 1.4 to 0.9 between these same two periods. This slowdown was replicated for almost all items

The slowdown in trade was widespread.

FIGURE 17 • GROWTH IN WORLD TRADE BY SELECTED ITEMS AND ECONOMIES
(Average annual growth rate, percentages, constant 2015 prices, 1999–2008 and 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.
Note: PP: primary products, AM: agricultural manufactures, MM: mineral and metal manufactures, IM: industrial manufactures, F&E: fuels and energy.

except primary products (PP). Industrial manufactures (IM) grew by only 3.0% p.a. in 2012–2021, despite having driven growth between 1999 and 2008 (7.3% p.a.), when they went from representing 57% to 66% of global flows. Also noteworthy is the weak performance of fuels and energy (F&E) and agricultural manufactures (AM), which grew at a slower pace than the global average and lost market share in both periods. In the main global economies, the largest drop was for the growth rate of China's imports, which fell from 17.2% p.a. in 1999–2008 to 5.2% p.a. in 2012–2021. Even so, the country's imports still grew more than the world average and continued to gain global market share, which rose from 3% to 8% between 1999 and 2008 and from 10% to 14% between 2012 and 2021. In the other advanced economies, the slowdown was evident in growth rates, which halved, except in the US, where growth had already been comparatively slow in the previous period.

LA's export volumes grew just above the global average.

LA's real exports expanded by 3.1% p.a. in 2012–2021, significantly below the 5.6% p.a. growth seen in 1999–2008 (Figure 18). Even so, the region's growth outperformed the global average. However, this good relative performance in 2012–2021 owed mainly to Mexico. In the rest of LA, real exports expanded by 2.5% p.a., lower than world trade. Growth in IM exports increased at higher rates than other items in 1999–2008 (6.7% p.a.) but slowed in 2012–2021 (3.6% p.a.). This downturn is even more marked if Mexico is excluded (2.0% p.a.). In any case, the slowdown also affected all other export items.

As a result, the LA aggregate gained just 0.1 p.p. of world market share between 2012 and 2021, increasing from 5.8% to 5.9% (Figure 19). The increase was explained

FIGURE 18 • EVOLUTION OF GOODS EXPORTS FROM LATIN AMERICA BY ITEM
(Average annual growth rate, percentages, constant 2015 prices, 1999–2008 and 2012–2021)

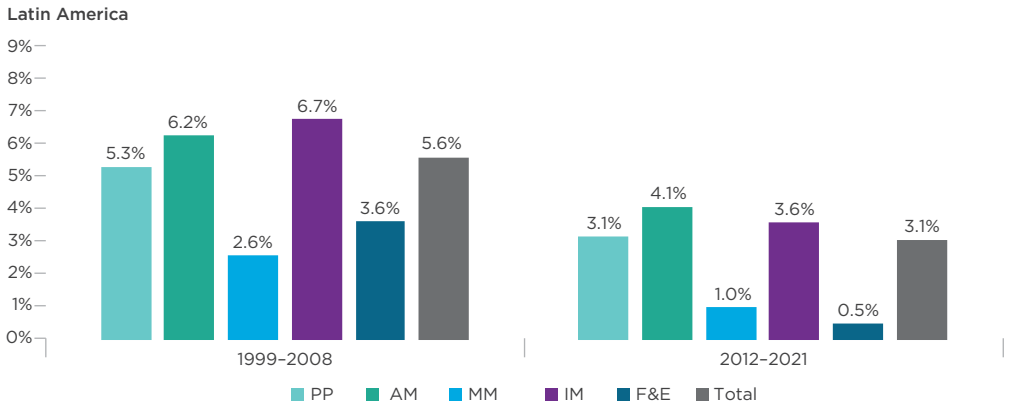


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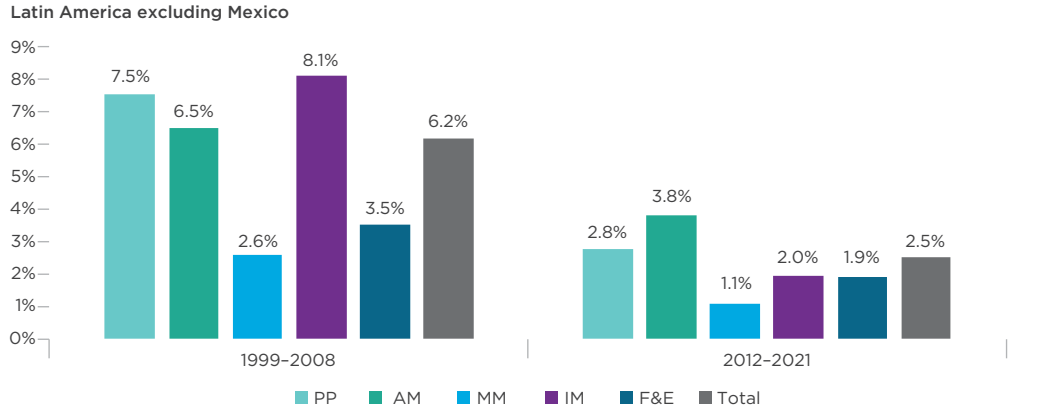
FIGURE 18 • EVOLUTION OF GOODS EXPORTS FROM LATIN AMERICA BY ITEM

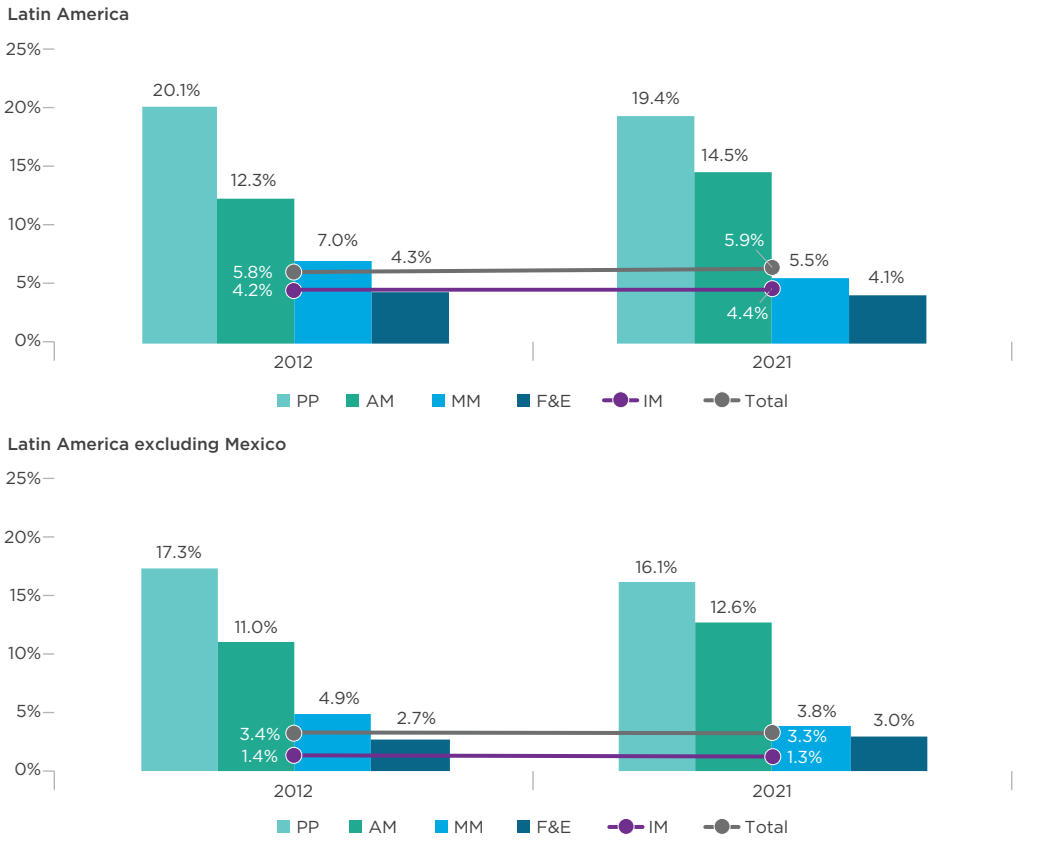
(Average annual growth rate, percentages, constant 2015 prices, 1999–2008 and 2012–2021) *(cont.)*



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

FIGURE 19 • SHARE OF LATIN AMERICAN EXPORTS IN WORLD TRADE BY ITEM

(Percentages, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

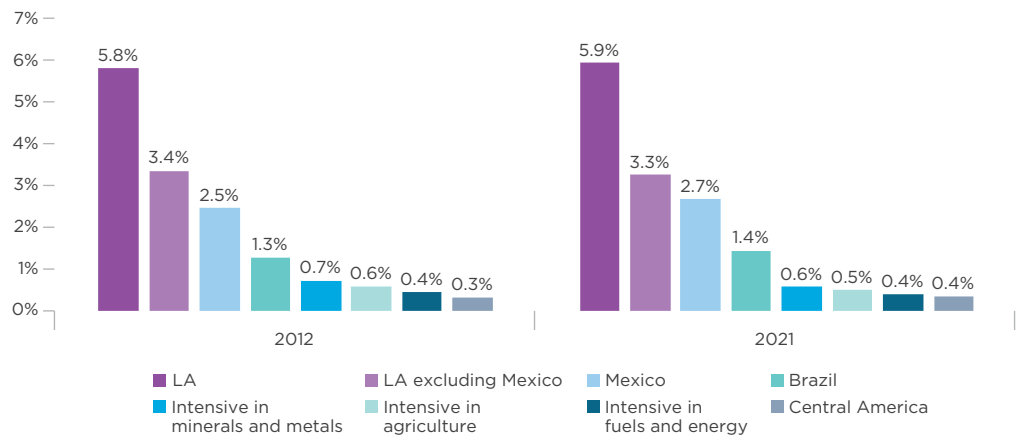
by exports of AM and, to a lesser extent, IM, both of which grew at a faster pace than world trade. The region's share in total AM went from 12.3% to 14.5% (+2.1 p.p.). In the case of IM, the increase owes entirely to Mexico's performance since the remaining LA economies lost market share in this area. In the regional aggregate, the largest losses (-1.5 p.p.) were in MM: LA went from representing 7.0% of the world market in 2012 to 5.5% in 2021. F&E also declined (-0.2%), with the region's market share dropping from 4.3% to 4.1%.

LA's share in world trade increased very slightly.

Performance varied significantly among subregions. Most South American countries lost market share, although the opposite was true for Brazil (from 1.3% to 1.4%), Mexico (from 2.5% to 2.7%), and Central America (from 0.3% to 0.4%) (Figure 20). In contrast, countries whose exports are intensive in minerals and metals lost global market share in real terms (from 0.7% to 0.6%). The same was true for those whose exports are intensive in agricultural products (from 0.6% to 0.5%).[45] However, change in market share is a synthetic indicator that is driven by compositional factors

LA's increase in global market share was concentrated in Brazil, Mexico, and Central America.

FIGURE 20 • SHARE OF LATIN AMERICAN EXPORTS IN TOTAL WORLD IMPORTS BY COUNTRY GROUPS
(Percentages, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

[45] The countries were grouped according to their export specializations, and the two largest economies (Mexico and Brazil) were analyzed separately. The main agricultural exporters are Argentina, Paraguay, and Uruguay; the mineral and metal exporters are Peru and Chile; and the countries whose exports are F&E-intensive are Bolivia, Colombia, and Ecuador. Central America includes the Dominican Republic.

related to external demand and the competitiveness of the export supply, which are worth analyzing separately.

The Competitiveness Challenge

Export growth can be disaggregated by applying a decomposition technique known as shift-share analysis. Three compositional effects can thus be identified: the global effect, the product effect, and the market effect. These respond to the dynamics and structure of external demand for the region's products and the effect of performance on the export supply (competitiveness).[46] The global effect reflects the impact of the growth in world trade. The product and market effects indicate changes in the export growth rate due to the sector-specific composition of exports and the geographic patterns of the export basket, respectively. Any residual variation is attributed to competitiveness. As a result, any deviation from the global average of the compositional or competitiveness effects for a given economy yields a variation in global market share.[47]

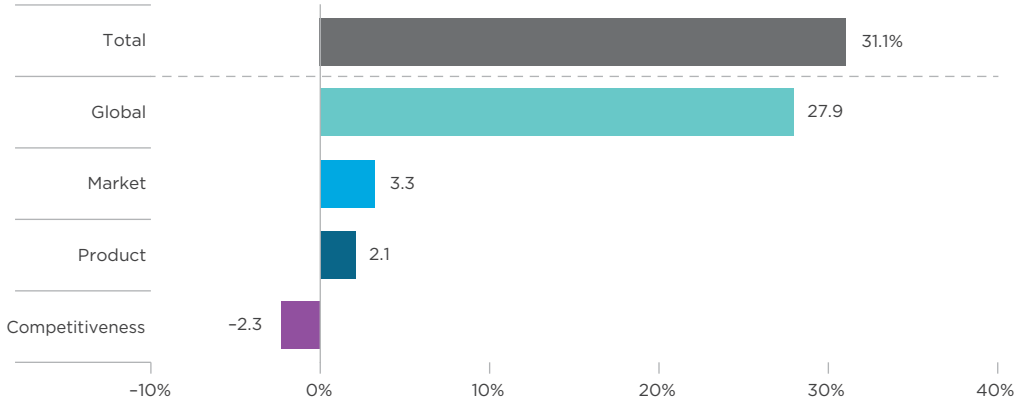
Real exports from LA grew by 31.1% between 2012 and 2021, while global trade increased by 27.9% in the same period. As a result, LA's share in global trade flows went from 5.8% in 2012 to 5.9% in 2021. Applying this decomposition to the 3.2 p.p. growth differential between LA exports and international trade in 2012–2021 reveals that the competitiveness factor had a negative impact (-2.3 p.p.), which was offset by positive effects from the product and market factors (2.1 p.p. and 3.3 p.p., respectively) (Figure 21). The product effect refers to the impact caused by an export basket made up of goods whose volume grew at a higher rate than the global average. The market effect occurs when the geographical composition of exports is biased toward trading partners whose imports in real terms increased faster than the rest of the world's. It can be deduced from the decomposition that had LA's competitiveness remained unchanged, its global market share would have grown faster than what was actually observed.

The loss of competitiveness prevented LAC from gaining a larger market share.

[46] The simplicity of the shift-share technique has led to it being widely used in the international trade literature. The version used in this publication is based on a similar statistical method to that used by Piezas-Jerbi and Nee (2009), as the emphasis is placed on the competitiveness component, which is not affected by the method through which the product and destination market effects are derived. For a detailed description of the estimation methodology, see Giordano et al. (2017).

[47] Although repetitions were omitted to simply the explanations provided here, throughout the chapter the effects of variations in the compositional and competitiveness effects should always be interpreted as deviations from the global total.

FIGURE 21 • DECOMPOSITION OF GROWTH IN EXPORTS FROM LATIN AMERICA
(Growth rate, percentages and percentage points, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

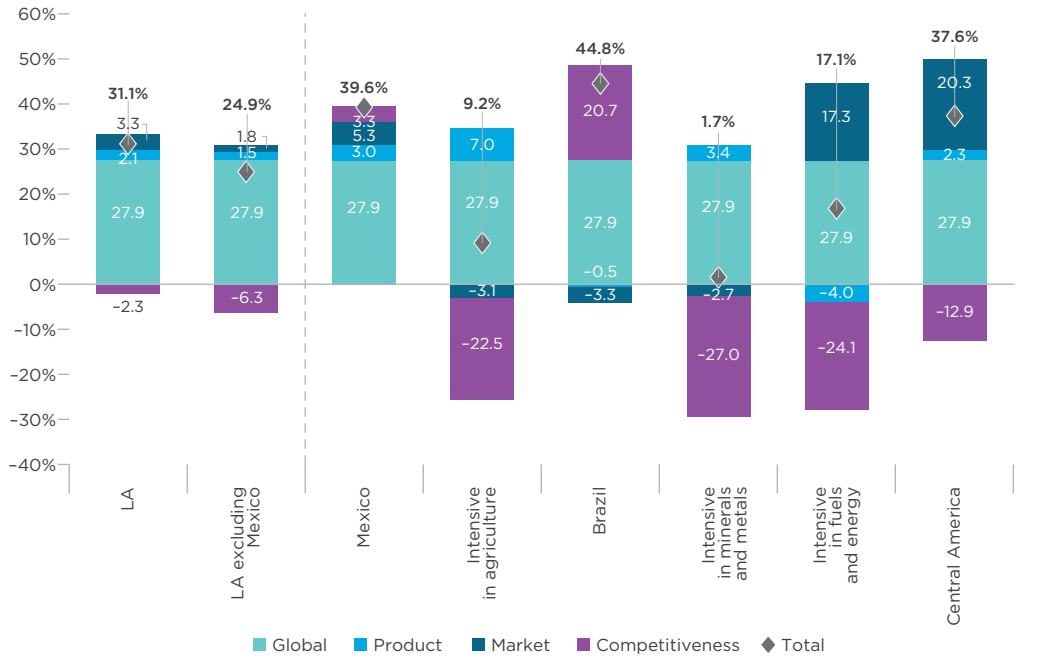
The gains in competitiveness centered on Mexico and Brazil.

Export volumes grew between 2012 and 2021 throughout LA, but this was particularly true for Mexico, Brazil, and Central America.[48] Exports from these locations grew at higher rates (39.6%, 44.8%, and 37.6%, respectively) than they did in the groups of countries whose exports were intensive in F&E (17.1%), agricultural products (9.2%), and mining products (1.7%) (Figure 22). These differences also lie in the factors underlying the overall performance in each case: in Mexico, all the effects contributed positively, but in Brazil, the gain in competitiveness was key, offsetting the losses caused by the product and market effects.[49] In Central America, in contrast, competitiveness made a robust negative contribution, but this was mostly offset by the market effect. All countries in the subregion benefited from the market effect, although this was particularly marked in the case of Costa Rica, El Salvador, the Dominican Republic, and Guatemala. These economies experienced the sharpest drops in competitiveness, except in the Dominican Republic, where it stagnated. Competitiveness did not vary much in Honduras and Nicaragua and increased notably in Panama.[50]

The weaker export performances of the other three groups of countries were mainly explained by lost competitiveness. In economies whose exports were intensive in agricultural products, the drop in competitiveness cut growth by 22.5 p.p. between 2012 and 2021. This contraction was particularly pronounced in Argentina

[48] The Statistical Annex provides disaggregated data by country. Chile and Colombia were the only Latin American economies that experienced a drop in real exports between 2012 and 2021.
[49] This analysis does not contemplate the global component, which by definition is the same for all subregions.
[50] See Methodological Annex 1 for more details on the country-level components.

FIGURE 22 • COMPONENTS OF GROWTH IN LATIN AMERICAN EXPORTS BY COUNTRY GROUPS
(Growth rates, percentages and percentage points, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

and Uruguay but remained relatively stable in Paraguay. Reduced competitiveness among the F&E exporters led to 24.1 p.p. less growth in the period in question. This loss was concentrated in Bolivia and Colombia, while the opposite was true of Ecuador, where competitiveness increased notably. Finally, the mineral-and-metal-exporting economies were jeopardized most by the competitiveness effect (-27.0 p.p.), which was felt in both Chile and Peru.

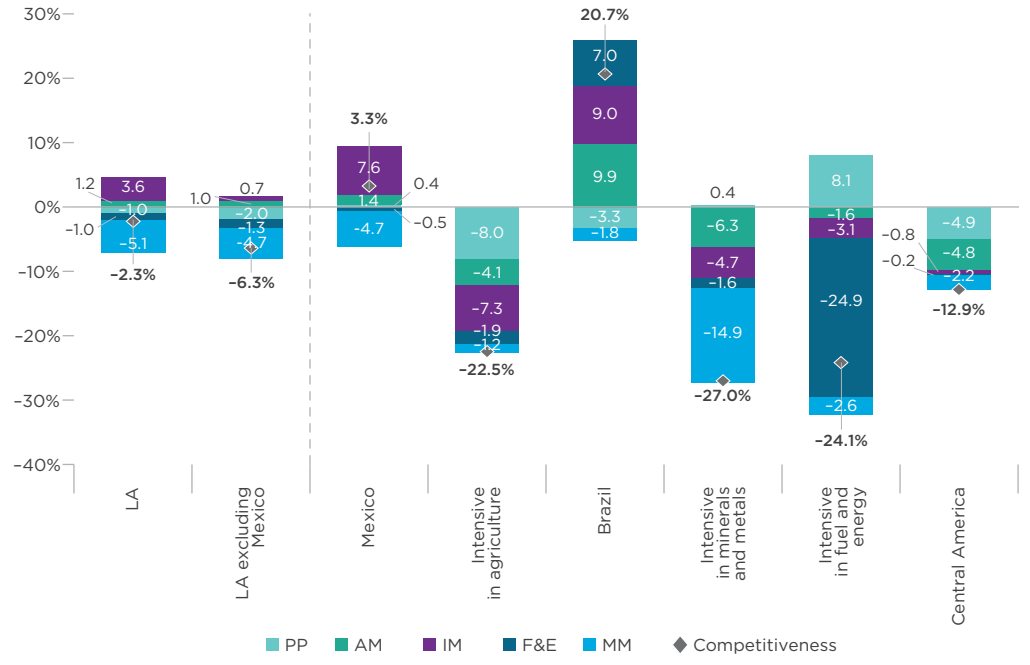
The drop in competitiveness defined South America's export performance.

The greatest drop in competitiveness was observed in the countries whose exports are intensive in minerals and metals (Chile and Peru), mainly affecting the sectors that they specialize in (Figure 23).[51] MM explained more than half of the drop in competitiveness, although other items also contributed, except

[51] Five categories were included in the product analysis: primary products (PP), agricultural manufactures (AM), mineral manufactures (MM), industrial manufactures (IM), and fuels and energy (F&E). If a product category makes a negative/positive contribution to the competitiveness component, the region is deemed to be less/more competitive than the rest of the world at exporting products in that category.

FIGURE 23 • COMPETITIVENESS EFFECT IN THE GROWTH OF LATIN AMERICAN EXPORTS BY PRODUCT

(Growth rates, percentages and percentage points, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

PP, where competitiveness remained almost unchanged. The F&E exporters (Bolivia, Ecuador, and Colombia) replicated this performance, and the loss of competitiveness focused entirely on the items they specialize in. Ecuador's exceptional performance owed to solid increases in competitiveness in PP and MM, which offset the contraction in the F&E component. Central America and the countries that specialize in agricultural exports experienced a widespread loss of competitiveness in all areas, but this was particularly marked for PP and AM. Mexico's gains were concentrated in IM, while Brazil's were spread across all three types of manufacture (AM, IM, and MM) (Box 10).

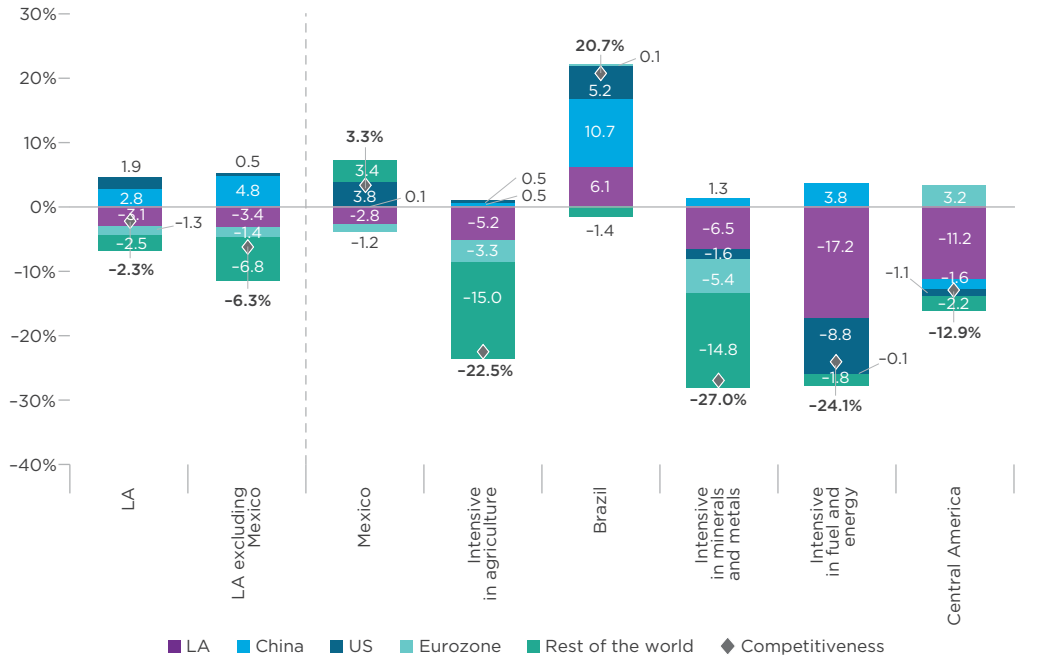
Drops in competitiveness were concentrated in the sectors that the region specializes in.

Analyzing competitiveness by export market allows the destination market where this component varied most to be identified.[52] On the one hand, a large number of

[52] As with product categories, if a destination market makes a positive/negative contribution to the competitiveness component, LAC exports to that destination are deemed to be more/less competitive than those from other origins.

FIGURE 24 • COMPETITIVENESS EFFECT IN THE GROWTH OF LATIN AMERICAN EXPORTS BY DESTINATION MARKET

(Growth rates, percentages and percentage points, constant 2015 prices, 2012–2021)



Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

countries lost competitiveness in the regional market (Figure 24). The exceptions were Brazil, Honduras, Nicaragua, Panama, and Paraguay. Another destination market where the region's export performance was fragile in terms of competitiveness was the Eurozone. In contrast, China was the destination market where all the subregions except Central America experienced the greatest gains in competitiveness. However, the subregional averages conceal significant differences among countries: in the case of Central America, Panama saw a sharp increase in the competitiveness of its exports to China, while in South America, there were declines in Argentina, Colombia, and Peru. The Chinese market was particularly significant for Brazil, where it accounted for half of the increase in competitiveness. Finally, the results for the US market were mixed: competitiveness increased dramatically for Mexico and, above all, Brazil, but remained almost unchanged for the countries intensive in agricultural exports. For the rest of the subregions, there was a loss of competitiveness in the US market, which was more marked for the economies intensive in F&E exports, especially Bolivia.

The greatest gains in competitiveness were observed in China, and the greatest losses were in LAC itself.

BOX 11: COMPETITIVENESS GAINS IN BRAZIL AND MEXICO

Almost half of the growth in Brazil's real exports between 2012 and 2021 was due to gains in competitiveness (20.7 p.p. out of a total of 44.8%).[a] These gains were observed in the country's primary destination markets (China, LA, and the US) and were shared almost equally between AM, F&E, and IM. Specifically, three sectors accounted for most of the increase: oilseeds (especially soybean), oil, and some mechanical appliances. However, there were also competitiveness gains in other products, including precision instruments and devices, wood pulp, wood, cotton, and coffee. The gains in the oilseed sector came mainly from China, while for oil, they were divided between China, the Eurozone, and the rest of the world. Machinery gained competitiveness in the rest of LA and the US. Notably, Brazil only lost competitiveness in 8 of the 96 sectors analyzed.

BRAZIL: CONTRIBUTION TO THE COMPETITIVENESS EFFECT BY DESTINATION MARKETS AND SECTORS
(Percentage points, constant 2015 prices, 2012–2021)

Type	HS Chapter	Description	Latin America	China	United States	Eurozone	Rest of the World	Contribution to export growth
F&E	27	Mineral fuels, mineral oils…	0.4	3.3	0.5	0.7	2.2	7.0
AM	12	Oil seeds and oleaginous fruits…	0.3	5.5	0.0	0.4	0.7	6.9
IM	84	Machinery and mechanical appliances; parts thereof	3.0	0.4	2.0	0.1	1.3	6.8
IM	90	Measuring, checking, precision, medical or surgical instruments and apparatus…	1.0	0.1	0.7	0.5	0.7	3.0
AM	47	Pulp of wood…	0.1	1.2	0.2	0.2	0.4	2.0
AM	44	Wood and articles of wood…	0.3	0.2	0.7	0.1	0.2	1.4
IM	52	Cotton	0.0	0.4	0.0	0.0	0.7	1.1
PP	09	Coffee, tea, mate…	0.1	0.0	0.1	0.5	0.1	0.9
Rest			0.9	–0.3	0.9	–2.3	–7.6	–8.4

Note: HS: Harmonized System.
Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

Competitiveness made a smaller contribution in Mexico (3.3 p.p. of 39.6% total growth between 2012 and 2021), and unlike in Brazil, the product and market components also had positive effects. Competitiveness mainly increased in IM and was offset by losses in F&E and MM. The gains for PP and AM were positive but small. In terms of destination markets, the gains in competitiveness were concentrated in exports to the US and the rest of the world. At the same time, the competitiveness of exports to the rest of LA and the Eurozone decreased. Aircraft was the sector that contributed most to the gains in competitiveness, exports of which went almost entirely to the US. Gains were also recorded in the following sectors: railways, beverages, watches and clocks, fruits, rubber, cereals, iron and steel products, and toys.

(continued on next page)

BOX 11: COMPETITIVENESS GAINS IN BRAZIL AND MEXICO *(continued)*

MEXICO: CONTRIBUTION TO THE COMPETITIVENESS EFFECT BY DESTINATION MARKETS AND SECTORS

(Percentage points, constant 2015 prices, 2012–2021)

Type	HS Chapter	Description	Latin America	China	United States	Eurozone	Rest of the World	Contribution to export growth
IM	88	Aircraft, spacecraft, and parts thereof	0.5	0.1	14.3	1.5	1.7	18.1
IM	86	Railway or tramway locomotives, rolling stock and parts thereof…	0.2	0.1	3.3	0.2	0.6	4.5
AM	22	Beverages, spirits and vinegar	0.0	0.0	1.3	0.0	–0.1	1.2
IM	91	Clocks and watches and parts thereof	0.0	0.1	0.7	0.2	0.1	1.2
PP	08	Edible fruit and nuts; peel of citrus fruit or melons	0.0	0.0	0.7	0.0	0.1	0.8
IM	40	Rubber and articles thereof	0.1	0.0	0.4	0.1	0.1	0.8
PP	10	Cereals	0.0	0.0	0.8	0.0	–0.1	0.7
MM	73	Articles of iron or steel	0.1	0.0	0.7	0.0	–0.1	0.6
IM	95	Toys, games and sports requisites; parts and accessories thereof	0.0	0.0	0.6	0.0	–0.1	0.6
Rest			–3.8	–0.2	–19.2	–3.2	1.1	–25.3

Note: HS: Harmonized System.
Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

[a] The analysis presented in the box focuses on the competitiveness component, which is disaggregated by product and destination market and differs from the specific product and market components. The product effect refers to the impact caused by an export basket made up of goods whose volume grew at a higher rate than the global average. The market effect refers to the positive impact that occurs when the geographical composition of the region's exports is biased toward trading partners whose average imports grew faster than the rest of the world's.

In conclusion, at a time of high volatility and low growth in world trade, real exports from LA only expanded weakly during 2012–2021. This overall outcome conceals highly varied performances within the region: in Brazil, Mexico, and Central America, exports grew at a higher rate than the world trade and their market shares increased, while the opposite was true for the rest of the South American economies. The outcomes for Mexico and Brazil were driven by gains in competitiveness, while in Central America, the performance was due to the geographic composition of exports. The remaining South American economies experienced a significant drop in

competitiveness. Although this downturn affected all exports, it was concentrated in the export items that each country specializes in. The gap in competitiveness was mainly observed in the markets of the region itself and, to a lesser extent, in Europe. In contrast, almost all the groups of countries gained competitiveness in the Chinese market. If the region is to prosper in a global context of increasing turmoil, fragmentation, and regionalization, it will need to prioritize and revitalize policies to shore up external competitiveness and support regional integration, as is discussed in the conclusion.

Conclusion

In the short term, the outlook for trade in LAC will depend primarily on the dynamics of commodity prices. Since the outbreak of the war in Ukraine, these have been pushed upwards, and some are now close to their highest points in the last decade. Although the impact on individual countries largely followed the specific trade patterns of each, on aggregate, LAC's terms of trade fell, trade balances declined, imports grew, driven by energy prices, and trade balances deteriorated. Over the year, export prices slowed due to lower prospects of growth and the appreciation of the US dollar. Given this context, the price channel cannot be expected to sustain export values in the long term, which once again underlines the need for the region to diversify its export basket.

In real terms, the slowdown in LAC exports owed to the deteriorating outlook for external demand caused by the impact of the war, restrictive monetary policies to reduce inflation, and China's zero-Covid policy. To some extent, this performance has also been influenced by the end of the substitution of spending on services for durable consumer goods, which drove trade during the pandemic. Throughout the year, predictions of economic growth were repeatedly corrected downwards, pessimism began to prevail among business operators, and forecasts began to signal stagnation in global trade. Looking ahead, there are downward risks associated with the global energy crisis that has been unleashed by the war in Ukraine, the recessionary impact of monetary tightening, and the challenges around maintaining macroeconomic stability in the face of rising inflation and high debt levels.

Taking a broader view, the unprecedented nature of recent crises paints a picture of uncertainty for the global environment in which LAC's future trade relations will unfold. The biggest questions are how fast economies will settle on a path to stability, whether the world economy will return to the low trade growth path of the last decade, and, more than anything, what will drive competitiveness in the new phase of globalization that is unfolding.

The external sector was a key engine of growth for LAC economies during the boom decades of globalization and has remained vital in the recent years of economic turmoil and repeated trade shocks. LAC is one of the world regions that was hardest hit by the health-related, economic, and social impacts of the pandemic. It is now in the throes of macroeconomic instability. The region thus needs to continue driving

growth through international trade. In this sense, it is essential not only to target the reforms and investments needed to shore up competitiveness in the global economy and adapt to the new direction that value chains are taking, but also to increase the capacity to seize emerging opportunities in a rapidly changing environment.

In the last ten years, world trade has followed a different pattern than in previous decades. Against a backdrop of high volatility in both nominal and real terms, average growth in trade in goods declined, lagging behind that of the world economy. Greater instability is the result of increasingly frequent, recurring shocks on a global scale. However, the slowdown reflects the impact of certain ongoing transformations: the end of the expansionary phase in the fragmentation and offshoring of production; the emergence of new incentives for reducing the length and complexity of supply chains; and the contrasting boost to trade in services due to digitalization, which slashes their face-to-face provision costs.

These structural trends have recently been magnified by both economic and political factors: the decoupling of the world's two largest economies, the US and China, unleashed by the trade war between them; the gradual subordination of global economic integration objectives to strategic national imperatives; and the tendency to select trading partners based on criteria of geographic or geopolitical proximity.

Over the last decade, as the global trading system became increasingly fragmented, LAC's real exports of goods grew at a rate that barely outstripped the world average. However, the overall result for the region was essentially determined by Mexico and Brazil. Trade performed poorly in other LAC economies due to declining competitiveness, particularly in the region's own markets. At the same time, although some promising new niches developed, LAC's share in the global services market continued to be dominated by traditional sectors. As a result, the region's authorities will have to step up their efforts to adapt their international integration policies to the long-term challenges that are emerging.

The reshuffling of globalization may provide opportunities for LAC to attract segments of global value chains that are seeking to relocate as a risk diversification strategy. However, it would be unwise to assume that these benefits will materialize automatically or that subsidy-intensive industrial policies are the most appropriate instruments for influencing the decisions of multinational firms. Instead, LAC companies will need support from next-generation export promotion and investment attraction agencies to position them as reliable suppliers. If the global economy returns to the limited trade dynamism of the last decade and the competition to attract investment becomes fiercer, building export promotion and investment attraction capacities will become a key strategic asset.

Likewise, in an environment in which global buyers are seeking to reorganize their supply networks, increasing the speed and predictability of customs transactions will become a vital competitive edge. Although progress has been made, the

trade facilitation agenda remains unfinished business. Pushing for domestic reforms, increasing investment, and improving cooperation to promote regional interoperability are essential to boosting trade and attracting efficiency-seeking investments.

In contrast to the slowdown in trade in goods, the acceleration of digitalization heralds an expansionary phase for trade in knowledge-intensive services. While the recovery in travel and transport services over the past year has underscored LAC's dependence on its traditional service sectors, the dynamism of business and technology services should not be overlooked. To continue supporting these sectors, which are key to creating jobs, there is a need to promote a broad, complex agenda. In addition to building a stronger knowledge base and coordinating more effectively with the private sector to design public policies, LAC countries urgently need to invest in developing human capital, overhauling domestic regulatory frameworks, and creating a new generation of international treaties to promote regulatory convergence and access to external markets.

More generally, technological progress is revolutionizing both the nature of international trade and how it operates. Some of the challenges facing the region include the parcelization of traditional trade through e-commerce, the dematerialization of trade in goods and services through digitalization, and the application of new technologies such as blockchain and artificial intelligence to logistics and customs procedures. Shortfalls in infrastructure and obsolete regulatory frameworks are crucial areas for action, as is the new institutional architecture needed to reform them. Policymakers need not only to forge national digital strategies but also to enhance regional cooperation, in order to boost their capacity to shape the design of the international rules that will govern e-commerce and competition in the global digital arena.

Finally, the urgency of the reaction to the current turmoil must not overshadow the importance of the response to climate change, undoubtedly the greatest challenge of the coming decades. LAC's adaptation strategies and its trading partners' mitigation strategies will redefine the drivers of competitiveness in the future. Environmental sustainability criteria will become increasingly important, and the region's trade authorities need to include them in their work programs without delay to avoid being at a disadvantage to to advanced economies already making active progress on this front.

However, in addition to these issues, which will become more pressing after the shockwaves subside, LAC must not lose sight of the longstanding challenges it has yet to address. As this report has shown, over the last two decades, the growth in trade in LAC was primarily driven by the commodity price supercycle. This exogenous momentum somewhat undermined the incentives for moving forward on several fronts of the agenda to reduce trade costs. The current rebound in commodity prices may again prompt the region to put off addressing the underlying challenges to international integration.

If LAC is to position itself in an international environment in which tensions among the major economies are proliferating, new pockets of trade, technological, and environmental protectionism are emerging, and public opinion is moving toward nationalism as it grows disenchanted with economic openness, authorities need to make headway on domestic reform agendas while strengthening mechanisms for international cooperation and regional integration. As this report suggests, the region's countries are making progress on building some of the pillars that hold up the physical and trade-related dimensions of integration. However, headway on institutional aspects has remained elusive, and the progress to date has not always led to tangible results for businesses and citizens.

Regional initiatives to complete liberalization, trade facilitation and customs cooperation, regulatory convergence, and programs to support productive integration would enable LAC to develop its intraregional trade in consumer goods and production inputs, especially if supported by domestic policies to stimulate productivity and improve the quality of the export supply. Similarly, a decisive boost to digital agendas would facilitate not only the new forms of trade in goods but would also further the integration of the most promising services markets. The convergence of the trade architecture, the strengthening of regional value chains, and greater density of trade in services would not only favor export diversification in LAC countries, it would also help boost the region's attractiveness to global partners. In short, a more flexible, pragmatic, effective, and higher-profile form of trade integration would enable LAC countries to build up the advantage they need to position themselves in the new, postcrisis global scenario.

At the same time, to compete in external markets, LAC needs to take a region-wide approach to closing the infrastructure gap. Reducing transportation costs is imperative not only for the region's companies to export directly but also for them to become efficient suppliers to global networks. The development of integration road corridors, the growing efficiency and rationalization of ports and airports, and the modernization of logistics systems are now more critical than ever. At the same time, the drivers of the competitiveness of the goods and services industries of the future require investments in a wide variety of areas. These include better broadband, infrastructure for cross-border electronic payment systems, and the extraction, transport, and processing of commodities, the demand for which is bound to grow in response to energy transition.

These are just some of the complex challenges facing LAC following the shockwaves of the last few years. All the same, the slowdown in exports that has followed the recovery from the pandemic shows that if LAC is to prosper in a global context of increasing turmoil, fragmentation, and regionalization, it will need to prioritize and revitalize policies to shore up external competitiveness and support regional integration.

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Statistical Annex
Decomposition of Export Growth by Country

This statistical annex provides data for the disaggregated export growth rates for each LA country between 2012 and 2021 shown in Chapter 4.[53] The export growth rate for each country in the region is divided into three structural components (global, product, and destination) and a competitiveness component, where the global component is equivalent to the growth rate for world trade (Table A1). The competitiveness effect is also broken down by product (Table A2) and destination (Table A3).

[53] The simplicity of the shift-share technique has led to it being widely used in the international trade literature. The version used in this publication is based on a similar statistical method to the one used by Piezas-Jerbi and Nee (2009), as the emphasis is placed on the competitiveness component, which is not affected by the method through which the product and destination market effects are derived. For a detailed description of the estimation methodology, see Giordano et al. (2017).

TABLE A1 • EXPORT GROWTH COMPONENTS

(Growth rates, percentages and percentage points, constant 2015 prices, 2012–2021)

		Contribution to Export Growth				
Group	Country	Global	Product	Destination	Competitiveness	Growth rate (%)
Mexico		27.9	3.0	5.3	3.3	39.6
Brazil		27.9	–0.5	–3.3	20.7	44.8
Central America	El Salvador	27.9	–4.6	25.9	–27.7	21.5
Central America	Costa Rica	27.9	10.7	35.7	–37.4	36.9
Central America	Dominican Republic	27.9	–4.2	24.1	0.6	48.4
Central America	Guatemala	27.9	0.4	17.7	–15.9	30.2
Central America	Honduras	27.9	0.8	3.8	–0.7	31.8
Central America	Nicaragua	27.9	5.6	7.9	2.2	43.7
Central America	Panama	27.9	–1.8	5.2	158.2	189.6
Intensive in agriculture	Argentina	27.9	6.5	–3.5	–23.4	7.6
Intensive in agriculture	Paraguay	27.9	6.0	–10.7	1.8	25.1
Intensive in agriculture	Uruguay	27.9	11.2	5.6	–34.7	10.1
Intensive in fuels and energy	Bolivia	27.9	0.1	–0.4	–19.1	8.5
Intensive in fuels and energy	Colombia	27.9	–5.1	25.1	–49.2	–1.2
Intensive in fuels and energy	Ecuador	27.9	–3.9	10.1	25.1	59.3
Intensive in minerals and metals	Chile	27.8	–2.1	–4.9	–22.9	–2.0
Intensive in minerals and metals	Peru	27.9	14.4	1.8	–35.0	9.1

Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

TABLE A2 • EFFECT OF COMPETITIVENESS ON EXPORT GROWTH BY PRODUCT

(Percentage points, 2012–2021)

		Contribution to Competitiveness Effect					
Group	Country	PP	AM	IM	F&E	MM	Contribution to export growth
Mexico		0.4	1.4	7.6	–0.5	–5.6	3.3
Brazil		–3.3	9.9	9.0	7.0	–1.8	20.7
Central America	El Salvador	–5.1	–13.3	–4.9	0.5	–4.9	–27.7
Central America	Costa Rica	–8.7	–17.1	–7.3	–0.1	–4.2	–37.4
Central America	Dominican Republic	–10.3	11.5	–2.3	0.9	0.8	0.6
Central America	Guatemala	–2.0	–5.0	–8.9	–0.7	0.7	–15.9
Central America	Honduras	–9.8	3.8	8.9	–0.8	–2.8	–0.7
Central America	Nicaragua	–13.5	–1.3	20.9	–1.0	–2.9	2.2
Central America	Panama	171.4	–6.7	–0.1	0.3	–6.6	158.2
Intensive in agriculture	Argentina	–8.7	–4.4	–9.0	–0.1	–1.2	–23.4
Intensive in agriculture	Paraguay	4.2	9.5	7.5	–20.3	1.0	1.8
Intensive in agriculture	Uruguay	–12.0	–12.8	–5.6	–1.6	–2.6	–34.7
Intensive in fuels and energy	Bolivia	–3.8	–3.6	–0.3	–9.9	–1.5	–19.1
Intensive in fuels and energy	Colombia	2.7	–1.9	–3.3	–35.6	–11.0	–49.2
Intensive in fuels and energy	Ecuador	25.2	0.0	–3.8	–10.3	14.0	25.1
Intensive in minerals and metals	Chile	0.9	–6.0	–6.1	–0.0	–11.6	–22.9
Intensive in minerals and metals	Peru	–0.7	–6.7	–1.8	–4.6	–21.3	–35.0

Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

TABLE A3 • EFFECT OF COMPETITIVENESS ON EXPORT GROWTH BY DESTINATION MARKET

(Percentage points, 2012–2021)

		Contribution to Competitiveness Effect					
Group	Country	Latin America	China	United States	Eurozone	Rest of World	Contribution to export growth
Mexico		–2.8	0.1	3.8	–1.2	3.4	3.3
Brazil		6.1	10.7	5.2	0.1	–1.4	20.7
Central America	El Salvador	–17.8	1.0	–8.8	–1.0	–1.1	–27.7
Central America	Costa Rica	–31.1	–9.5	2.6	3.6	–3.1	–37.4
Central America	Dominican Republic	–9.8	–1.3	10.5	6.4	–5.2	0.6
Central America	Guatemala	–17.8	2.2	–6.4	5.2	0.9	–15.9
Central America	Honduras	12.5	–2.3	–12.4	–0.7	2.2	–0.7
Central America	Nicaragua	10.9	–2.8	14.1	0.5	–20.4	2.2
Central America	Panama	10.2	61.6	–12.3	35.2	63.4	158.2
Intensive in agriculture	Argentina	–12.8	–0.9	0.6	–2.8	–7.5	–23.4
Intensive in agriculture	Paraguay	77.1	–0.0	–0.1	–10.4	–64.7	1.8
Intensive in agriculture	Uruguay	–9.1	12.2	–0.0	–2.0	–35.7	–34.7
Intensive in fuels and energy	Bolivia	–8.2	1.8	–20.0	5.9	1.4	–19.1
Intensive in fuels and energy	Colombia	–24.9	–2.5	–9.5	–4.1	–8.2	–49.2
Intensive in fuels and energy	Ecuador	–5.9	17.7	–1.9	5.2	9.9	25.1
Intensive in minerals and metals	Chile	–6.4	2.8	–0.5	–6.6	–12.2	–22.9
Intensive in minerals and metals	Peru	–6.7	–1.8	–3.8	–3.0	–19.7	–35.0

Source: IDB Integration and Trade Sector with data from BACI, COMTRADE, and INTEGRA.

Methodological Annex 1
Estimation of the Value of Global and LAC Trade

This annex summarizes the core aspects of the estimation of the world trade series published by the Netherlands Bureau for Economic Policy Analysis (CPB) and the export series for Latin America used in this publication.

CPB World Trade Monitor

The CPB compiles monthly series on trade flows for each country, drawing on selected sources that publish information online. Once collected, this data is standardized in terms of frequency and currency (dollars). This allows for the construction of consistent series of values, prices, and volumes. Different techniques are used to estimate the missing observations at the country level for the most recent months. This country-level data is aggregated regionally, which entails completing missing data for some countries using regional growth rates. The CPB Monitor covers 81 countries. The seasonally adjusted series provided by the primary source are generally used, but when these are not available, seasonal adjustments are made to other available data. Since 2016, the base year for the series has been 2010.

Estimates of Latin American Exports

The series of seasonally adjusted exports covers the 18 LA countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. This series was constructed using national sources and IDB estimates for Venezuela (see Methodological Annex 2). The Caribbean is not included due to the lack of up-to-date monthly data.

Methodological Annex 2
Price, Volume, and Terms of Trade Indices

This annex summarizes the methodology used to estimate the indices on export and import prices, volumes, and terms of trade that are used in aggregate form in Chapters 1 and 2 and are disaggregated by category and country in Chapter 4 and in the application of the shift-share methodology.

Monthly Series

The decompositions of variations in the price and volume of LA exports in the first half of 2022 presented in figures 3 (Chapter 1) and 9 and 10 (Chapter 2) come from a monthly aggregate volume index that includes ten countries: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. The export volume indices were calculated using data from official sources for Argentina (National Institute of Statistics and Censuses), Brazil (Center for Foreign Trade Studies Foundation), Chile (Central Bank of Chile), Colombia (Bank of the Republic), Peru (Central Reserve Bank), and Uruguay (Central Bank). The series for El Salvador was deflated using the Monthly Import Price Index for BEA End Use Excluding Fuels (US Bureau of Labor Statistics). The series for Paraguay was calculated using data on export volumes for the country's main export products as reported by the Central Bank and aggregated according to the export structure in 2010. For Mexico, the export values series was deflated using the import price index published by the US Bureau of Labor Statistics (BLS). Venezuela's export volumes were calculated using OPEC information on Merey-type oil prices. The national series were geometrically aggregated based on countries' shares in total exports valued in US dollars in 2015. For imports, the price and volume indices published by the official sources listed above were used, except in the case of Venezuela. The indices were aggregated using the relative weight of the respective imports in the first semester of 2022.

Annual Series

Formulas

Price Indices

The price indices correspond to Laspeyres estimates for imports and exports:

$$P_t = \frac{\sum_i \quad p_t^i * q_0^i}{\sum_i \quad p_0^i * q_0^i}$$

where $p_t^i = \frac{v_t^i}{q_t^i}$ is the unit value of item *I* in time *t,*

value, v_t^i, (thousands of US$)
volume, q_t^i, (thousands of kg)

The Laspeyres price index compares the value of a basket of products in the base year with the value of the same basket in period *t*. When $P_t = 1$, the basket costs the same as in the base year.

Volume Indices

Paasche volume indices are estimated for imports and exports.

$$Q_t = \frac{\sum_i \quad p_t^i * q_t^i}{\sum_i \quad p_t^i * q_0^i}$$

where $p_t^i = \frac{v_t^i}{q_t^i}$ is the unit value of item *I* in time *t,*

value, v_t^i, (thousands of US$)
volume, q_t^i, (thousands of kg)

The Paasche volume index compares the value of a basket of goods in period *t* valued at the prices of period *t* with the value of a basket in the base year valued at the prices of period *t*. When $Q_t = 1$, the current basket is composed of the same quantities as in the base year.

Terms of Trade

Based on the following formula:

$$TI_t = \frac{p_{x,t}}{p_{m,t}} * 100$$

where $P_{x,t}$ and $P_{m,t}$ correspond to the export and import price indices of the country in year t, respectively.

Specific Methodologies and Data Sources

Two methodologies were used to estimate the annual price and volume indices according to the availability and quality of the disaggregated data. The first draws on the primary microdata available from the INTEGRA information system, which was used to estimate import and export deflators for the countries of South America and the imports of Central America. The second used deflators developed by the BLS, which were applied to the exports of Mexico and Central America. The indicators for Mexico's imports come from the series published by the Bank of Mexico (Banxico). All data was homogenized according to the 1996 revision of the Harmonized System (HS).

Methodology 1: South American Trade Flows and Central American Imports

For the exports and imports of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Paraguay, Peru, and Uruguay, and for the imports of Costa Rica, Guatemala, and Mexico, Laspeyres price indices were calculated at the HS 6-digit subheading level, taking 2015 as the base year. These calculations were based on data for current values and physical volumes reported by national sources to INTEGRA as of September 2022, and on COMTRADE data for imports from Venezuela, which were obtained based on the value of exports to Venezuela reported by other countries.

Methodology 2: Exports from Mexico and Central American Countries

This group includes Costa Rica, Guatemala, and Mexico. Problems that were detected in the data, specifically in the volume data for manufacturers, made it advisable to proceed with estimates at constant prices at the HS chapter (2-digit) level, using BLS price indices for US imports. The disaggregation includes 31 chapters of the HS: 2, 3, 7, 8, 9, 22, 27, 28, 29, 30, 38, 39, 40, 42, 48, 62, 63, 64, 72, 73, 74, 76, 82, 83, 84, 85, 87, 90, 94, 95, and 96. These calculations were based on data for current values and physical volumes reported by national sources to INTEGRA as of September 2022.

Methodology 3: Venezuelan Exports

Price indices were estimated using OPEC data on Merey crude oil, while volume indices were based on primary and secondary data on production volumes.

Additional Notes

At the time of publication, complete data was not available for the Caribbean countries, so the subregion was excluded from the calculation.

The aggregate indicators for the region and groups of countries presented in Figures 3 (Chapter 1) and 9 and 10 (Chapter 2) were obtained from weighted averages of the price and volume indices for each country's trade flows. The relative values of the exports or imports of the countries in each group each year were used as weights.

Data for the last two years is subject to revision by the respective sources and does not necessarily coincide with the figures that are subsequently updated and published by these sources. These estimates should thus be considered preliminary.

Methodological Annex 3
Goods and Services Export Statistics

The figures from 2019 to 2022 in Tables 1, 2, and 3 (Chapter 2) are preliminary and subject to changes by national statistical offices.

Tables 1 and 2

Goods exports are expressed in free on board values, and goods imports are expressed in values that include cost, insurance, and freight (CIF). For Venezuela, exports were estimated based on the price and volume data reported by OPEC (see Methodological Annex 2), and imports were estimated based on IMF mirror data (exports to Venezuela recorded by trade partners). Data for Costa Rica, the Dominican Republic, El Salvador, Guatemala, and Nicaragua include special trade regimes. The data for Panama and Honduras is only for national exports and imports. At the time of publication, data for Caribbean countries was only available for Barbados, Belize, Guyana, and Suriname for the first half of 2022, and for Trinidad and Tobago up to April.

Table 3

The definition of services exports is that of the sixth version of the IMF Balance of Payments Manual. For all years, the series exclude construction services, government services, manufacturing services, and maintenance and repair services. The records for Barbados, Guyana, Haiti, Jamaica, Nicaragua, Peru, Trinidad and Tobago, and Venezuela are estimates of commercial services exports from the WTO and UNCTAD. The value of services exports for the first quarter of 2022 is an estimate that excludes some countries for which no data was available at the time of publication.

Methodological Annex 4
Data Management for the Analysis of Intraregional Trade

Country Groupings by Integration Groups and Blocs

Pacific Alliance (PA): Colombia, Chile, Mexico, and Peru.

Andean Community (AC): Bolivia, Colombia, Ecuador, and Peru. Colombia and Peru, which are members of both the PA and the AC, are included in the estimates for both blocs. However, in totals for LA or LAC, they are included only once to avoid double counting.

Central America and the Dominican Republic (CADR): Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The group includes the Dominican Republic, given that it belongs to the Central American Integration System (SICA) and has trade agreements with the other members of the group. Belize is not included because even though it belongs to SICA, it does not have trade agreements with most Central American countries, except for Guatemala and Costa Rica.

Caribbean Community (CARICOM): Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Monserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Southern Common Market (MERCOSUR): Argentina, Brazil, Paraguay, and Uruguay. Latin America and the Caribbean: includes all the countries mentioned above and Venezuela.

Database and Estimates

The following official data sources were used: Argentina: National Institute of Statistics and Censuses; Barbados: Barbados Statistical Service and Central Bank of Barbados;

Belize: Statistical Institute of Belize; Bolivia: National Institute of Statistics; Brazil: Ministry of Development, Industry, and Foreign Trade; Chile: Central Bank of Chile; Colombia: National Administrative Department of Statistics; Costa Rica: Central Bank of Costa Rica and PROCOMER; Ecuador: Central Bank of Ecuador; Dominican Republic: Customs Authority; El Salvador: Central Reserve Bank of El Salvador; European Union (27 countries, excl. United Kingdom): Eurostat; Guatemala: Bank of Guatemala; Guyana: Bureau of Statistics; Honduras: Central Bank of Honduras; Jamaica: Statistical Institute of Jamaica; Mexico: Bank of Mexico; Nicaragua: Central Bank of Nicaragua; Panama: National Institute of Statistics and Census; Paraguay: Central Bank of Paraguay; Peru: Central Reserve Bank of Peru and National Customs and Tax Administration; Suriname: Central Bank of Suriname; Uruguay: Central Bank of Uruguay; Venezuela: OPEC, IMF, and Central Bank of Venezuela.

Methodological Annex 5
Update of the Economic Integration Indicator

The aggregate integration indicator comprises four dimensions: trade, production, and physical and institutional factors. Each dimension is built upon subindicators that measure different aspects of integration on an annual basis and by country. Giordano et al. (2021) provides details of the methodology and databases used for the calculations. The modifications to the calculation method are explained below.

For the physical dimension, the calculation was limited to a simple average of two indicators: the ratio between the average score for the maritime transport connectivity index and an index tracking infrastructure quality and coverage. The trade cost indicator was excluded because there were no 2021 updates for the ESCAP-World Bank Trade Cost Database. The connectivity index is derived from the UNCTAD Liner Shipping Connectivity Index, consulted in September 2022. Unlike the index used in Giordano et al. (2021), it does not include bilateral records. The second indicator is based on the infrastructure factor from the IMD World Competitiveness Center's World Competitiveness Ranking. This replaces the infrastructure pillar from the World Economic Forum's Global Competitiveness Report, which was used in previous editions but has not been updated. Tariff costs are excluded from the institutional dimension because there was no 2021 update to the ESCAP-World Bank Trade Cost Database.

INDICATOR COVERAGE, BY COMPONENT AND REGION

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
Africa												
MAR		x	x	x		x	x	x		x	x	x
AGO		x	x	x		x	x	x		x	x	x
BDI		x	x	x		x	x			x	x	x
BEN	x	x	x	x	x	x	x	x		x	x	x
BFA	x	x	x	x	x	x	x			x	x	x
BWA	x	x	x	x		x	x			x	x	x
CAF		x	x				x			x	x	x
CIV		x	x	x		x	x	x		x	x	x
CMR		x	x				x	x		x	x	x
COD		x	x	x		x	x	x		x	x	x
COG		x	x	x		x	x	x		x	x	x
COM		x	x	x		x	x	x		x	x	x
CPV		x	x	x		x	x	x		x	x	x
DZA		x	x				x	x		x	x	x
EGY	x	x	x	x	x	x	x	x		x	x	x
ERI		x	x				x			x	x	x
ETH		x	x	x		x	x			x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermedi-ate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
GAB		x	x				x	x		x	x	x
GHA		x	x	x		x	x	x		x	x	x
GIN		x	x				x	x		x	x	x
GMB		x	x	x		x	x	x		x	x	x
GNB		x	x				x	x		x	x	x
GNQ		x	x				x	x		x	x	x
KEN	x	x	x	x	x	x	x	x		x	x	x
LBR		x	x				x	x		x	x	x
LBY		x	x				x	x		x	x	x
LSO		x	x	x		x	x			x	x	x
MDG		x	x	x		x	x	x		x	x	x
MLI		x	x	x		x	x			x	x	x
MOZ		x	x	x		x	x	x		x	x	x
MRT		x	x	x		x	x	x		x	x	x
MUS	x	x	x	x	x	x	x	x		x	x	x
MWI		x	x	x		x	x			x	x	x
NAM		x	x	x		x	x	x		x	x	x
NER		x	x	x		x	x			x	x	x

(continued on next page)

INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
NGA	x	x	x	x	x	x	x	x		x	x	x
RWA	x	x	x	x	x	x	x			x	x	x
SDN		x	x				x			x	x	x
SEN	x	x	x	x	x	x	x	x		x	x	x
SLE		x	x				x	x		x	x	x
SOM		x	x				x	x		x	x	x
SSD										x	x	x
STP	x	x	x	x		x	x	x		x	x	x
SWZ		x	x	x		x	x			x	x	x
SYC		x	x	x		x	x	x		x	x	x
TCD		x	x				x			x	x	x
TGO	x	x	x	x	x	x	x	x		x	x	x
TUN		x	x	x		x	x	x		x	x	x
TZA	x	x	x	x	x	x	x	x		x	x	x
UGA		x	x	x		x	x			x	x	x
ZAF		x	x	x		x	x	x	x	x	x	x
ZMB		x	x	x		x	x			x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermedi-ate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
ZWE		x	x	x		x	x			x	x	x
REU								x		x	x	x
DJI								x		x	x	x
Asia and Oceania												
AFG		x	x	x		x	x			x	x	x
ARM	x	x	x	x	x	x	x			x	x	x
AUS	x	x	x	x	x	x	x	x	x	x	x	x
AZE	x	x	x	x	x	x	x			x	x	x
BGD		x	x				x	x		x	x	x
BRN		x	x	x		x	x	x		x	x	x
BTN		x	x				x			x	x	x
CHN	x	x	x	x	x	x	x	x	x	x	x	x
HKG	x	x	x	x	x	x	x	x	x	x	x	x
IDN	x	x	x	x	x	x	x	x	x	x	x	x
IND	x	x	x	x	x	x	x	x	x	x	x	x
JPN	x	x	x	x	x	x	x	x	x	x	x	x
KAZ		x	x	x		x	x		x	x	x	x
KGZ	x	x	x	x	x	x	x			x	x	x
KHM		x	x	x		x	x	x		x	x	x

(continued on next page)

INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
KOR		x	x	x		x	x	x	x	x	x	x
LAO		x	x	x		x	x			x	x	x
LKA	x	x	x	x	x	x	x	x		x	x	x
MAC	x	x	x	x	x	x	x			x	x	x
MDV		x	x	x		x	x	x		x	x	x
MMR	x	x	x	x	x	x	x	x		x	x	x
MNG	x	x	x	x	x	x	x		x	x	x	x
MYS	x	x	x	x	x	x	x	x	x	x	x	x
NPL		x	x	x		x	x			x	x	x
NZL	x	x	x	x	x	x	x	x	x	x	x	x
PAK	x	x	x	x	x	x	x	x		x	x	x
PHL	x	x	x	x	x	x	x	x	x	x	x	x
PRK		x	x				x			x	x	x
SGP		x	x	x		x	x	x	x	x	x	x
THA		x	x	x		x	x	x	x	x	x	x
TJK		x	x	x		x	x			x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
TKM		x	x				x			x	x	x
TUR	x	x	x	x	x	x	x	x	x	x	x	x
TWN								x	x	x	x	x
UZB	x	x	x	x	x	x	x			x	x	x
VNM		x	x	x		x	x	x		x	x	x
Latin America and the Caribbean												
ARG	x	x	x	x	x	x	x	x	x	x	x	x
ATG		x	x	x		x	x	x		x	x	x
BHS		x	x				x	x		x	x	x
BLZ	x	x	x	x	x	x	x	x		x	x	x
BOL	x	x	x	x	x	x	x			x	x	x
BRA	x	x	x	x	x	x	x	x	x	x	x	x
BRB	x	x	x	x	x	x	x	x		x	x	x
CHL	x	x	x	x	x	x	x	x	x	x	x	x
COL	x	x	x	x	x	x	x	x	x	x	x	x
CRI	x	x	x	x	x	x	x	x		x	x	x
DMA		x	x				x	x		x	x	x
DOM	x	x	x	x	x	x	x	x		x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
ECU	x	x	x	x	x	x	x	x		x	x	x
GRD	x	x	x	x	x	x	x	x		x	x	x
GTM	x	x	x	x	x	x	x	x		x	x	x
GUY	x	x	x	x	x	x	x	x		x	x	x
HND	x	x	x	x	x	x	x	x		x	x	x
HTI		x	x				x	x		x	x	x
JAM		x	x	x		x	x	x		x	x	x
KNA		x	x				x	x		x	x	x
LCA		x	x	x		x	x	x		x	x	x
MEX	x	x	x	x	x	x	x	x	x	x	x	x
MSR		x	x	x		x	x	x		x	x	x
NIC	x	x	x	x	x	x	x	x		x	x	x
PAN	x	x	x	x	x	x	x	x		x	x	x
PER	x	x	x	x	x	x	x	x	x	x	x	x
PRY	x	x	x	x	x	x	x	x		x	x	x
SLV	x	x	x	x	x	x	x	x		x	x	x
SUR	x	x	x	x	x	x	x	x		x	x	x
TTO	x	x	x	x	x	x	x	x		x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
URY	x	x	x	x	x	x	x	x		x	x	x
VCT		x	x	x		x	x	x		x	x	x
VEN		x	x				x	x	x	x	x	x
Europe												
AUT	x	x	x	x	x	x	x		x	x	x	x
BEL	x	x	x	x	x	x	x	x	x	x	x	x
BGR		x	x	x		x	x	x	x	x	x	x
CHE	x	x	x	x	x	x	x		x	x	x	x
CYP	x	x	x	x	x	x	x	x	x	x	x	x
CZE	x	x	x	x	x	x	x		x	x	x	x
DEU	x	x	x	x	x	x	x	x	x	x	x	x
DNK	x	x	x	x	x	x	x	x	x	x	x	x
ESP	x	x	x	x	x	x	x	x	x	x	x	x
EST	x	x	x	x	x	x	x	x	x	x	x	x
FIN	x	x	x	x	x	x	x	x	x	x	x	x
FRA	x	x	x	x	x	x	x	x	x	x	x	x
GBR	x	x	x	x	x	x	x	x	x	x	x	x
GRC	x	x	x	x	x	x	x	x	x	x	x	x

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INDICATOR COVERAGE, BY COMPONENT AND REGION *(continued)*

	Trade dimension				Productive dimension			Physical dimension		Institutional dimension		
Country ISO	Share of intraregional goods exports	Share of intra-regional goods imports	Intra-regional trade intensity index	Number of products exported extra-regionally	Intra-regional intra-industry trade index	Share of intermediate goods exports in total intra-regional trade	Share of intermediate goods imports in total intra-regional trade	Maritime transport connectivity index	Infra-structure	Share of countries with trade agreements	Share of countries with investment agreements	Share of countries with double taxation agreements
HRV	x	x	x	x	x	x	x	x	x	x	x	x
HUN	x	x	x	x	x	x	x		x	x	x	x
IRL		x	x	x		x	x	x	x	x	x	x
ISL	x	x	x	x	x	x	x	x	x	x	x	x
ITA	x	x	x	x	x	x	x	x	x	x	x	x
LIE										x	x	x
LTU	x	x	x	x	x	x	x	x	x	x	x	x
LUX	x	x	x	x	x	x	x		x	x	x	x
LVA	x	x	x	x	x	x	x	x	x	x	x	x
MLT		x	x	x		x	x	x		x	x	x
NLD	x	x	x	x	x	x	x	x	x	x	x	x
NOR	x	x	x	x	x	x	x	x	x	x	x	x
POL	x	x	x	x	x	x	x	x	x	x	x	x
PRT	x	x	x	x	x	x	x	x	x	x	x	x
ROU	x	x	x	x	x	x	x	x	x	x	x	x
SVK	x	x	x	x	x	x	x		x	x	x	x
SVN	x	x	x	x	x	x	x	x	x	x	x	x
SWE	x	x	x	x	x	x	x	x	x	x	x	x

Methodological Annex 6
Estimation of Trade Flows at Constant Prices

This annex summarizes the methodology used to estimate world trade and imports for a select group of countries at constant 2012–2021 prices, disaggregated using the categories from Giordano et al. (2016). The data for 1999–2008 is from Giordano et al. (2016). These volume indicators are used in Chapter 4, as the corresponding readings for LA exports, which were estimated as described in Methodological Annex 2. The primary data sources used were: BACI, which was developed by CEPII based on the United Nations International Trade Database (COMTRADE), and COMTRADE. The LA countries included in the analysis are listed in the Methodological Annex 2, except Venezuela, as there is no data available disaggregated by partner for this country. For the same reason, Caribbean countries are also excluded.

Volume of World Trade

The volume of world trade uses primary data from BACI for 2012–2020 and COMTRADE for 2021.

Different methodologies were used for commodities, commodity derivatives, and manufactures, as these segments were contemplated in the classification by category. BACI data on value and physical volume were identified for world commodity imports at the subheading level (6-digit HS). Using this information, Laspeyres-type price indexes were estimated (2005=100), which were used to deflate the corresponding annual series in current US dollars. The disaggregated indexes were grouped according to the headings for this segment: primary products (PP), agricultural manufactures (AM), mineral manufactures (MM), and fuels and energy (F&E). Industrial manufactures (IM) were deflated at the HS chapter level (2 digits)—or at the section level when the corresponding chapter was not available—using the price indexes for US imports published by the BLS.

Imports into China, the United States, and the Eurozone

The volume of imports into China, the US, Japan, and the Eurozone (excluding intrazone trade) was calculated using the values at current prices from BACI (2012–2020) and COMTRADE (2021), following the guidelines described above for total world trade. For the US, total trade was deflated using price indices at the HS chapter level (2 digits)—or at the section level when the corresponding chapter was not available—using the price indexes for US imports published by the BLS.

The 2022 Trade and Integration Monitor identifies the factors underlying recent developments in trade flows from Latin America and the Caribbean, assesses the risks present in the current scenario, and notes that the rebound in exports is weakening sooner and faster than expected. It argues that in a global environment of increased turmoil and fragmentation, the region should prioritize and revitalize policies to shore up external competitiveness and support regional integration.

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