

ITC in South America



Situation Analysis

South America has experienced rapid economic growth in the past decade; most countries have made great strides in liberalizing their economies and integrating into the world trade system. Yet, the region is very heterogeneous, in terms of size, resources and outputs. Brazil is the tenth largest economy in the world, while Bolivia and Paraguay rank around 100th.

Economic growth has been driven by a boom in international prices for the region's commodity exports. Economic conditions have improved, but in the asymmetrical manner characteristic of the region: some countries, such as Brazil and Chile, have significantly improved their social and economic indicators, whereas advances in other countries still need to be consolidated. Export-led growth is expected to continue in the coming years.

Dependency on commodity exports has proved to be extremely resilient, and could lead to vulnerabilities in the longer term. Real exchange rates have appreciated in the past two years. These and other related factors raise concerns for making progress in the areas of income distribution, poverty reduction and export diversification. On the other hand, fiscal indicators are increasingly solid.

After many years of consolidation of democracies, the political situation in some countries has become volatile. The gap between the rich and the poor is high; many sectors of society do not perceive the benefits of reforms and have reacted against globalisation. Although unemployment and productivity indicators have generally improved, the impact has been varied across productive sectors. Income inequality throughout the region is one of the highest in the world, with Gini coefficients ranging from 0.45 to 0.60.

The Andean Community (CAN) and MERCOSUR sub-regional economic blocs encompass all the countries in the region. The countries in each bloc have signed various agreements among themselves and have negotiated a multitude of trade pacts with other countries, both individually and as a group. Chile is an observer in both groups, while Venezuela has recently switched from CAN to MERCOSUR. Brazil and Argentina have been

leading efforts in the context of the Doha Round to gain more market access for agricultural products, while crop substitution is still a significant factor shaping trade relations between Andean countries and the developed economies. Service exports have made headway in most countries, but the sector faces both national and international challenges.

As the region has opened to the world, trade-related institutions in all countries have strengthened at national, local and sectoral levels. Trade support institutions (TSIs) have begun to take advantage of international cooperation and shown increased dynamism in promoting their exports. Diversification of both the export offer and the target markets, and enhancing the competitiveness of enterprises is still an issue.

The emerging situation holds promise, but South America still faces significant challenges in meeting the Millennium Development Goals and reaping the full benefits afforded by globalisation.

South America's export performance

Country	Exports (US\$ million)	Exports to GDP (%)	Exports per capita (US\$)	Growth of export value (% p.a.)	Share of exports to S. America (%)	HDI ranking (out of 177)
Brazil	116,074	19	623	19	18	69
Venezuela	55,479	51	2,087	22	3	72
Argentina	40,074	37	1,034	11	36	36
Chile	38,578	41	2,367	20	12	38
Colombia	21,169	22	464	15	22	70
Peru	17,098	25	611	26	16	82
Ecuador	9,863	33	746	21	19	83
Uruguay	3,399	26	981	13	28	43
Bolivia	2,793	32	304	20	65	115
Paraguay	1,791	25	291	13	60	91
South America	306,317		820	18		
World	10,300,028					

Source: ITC TradeMap, WB, UNDP Human Development Indicators.
Data refer to 2005 and growth rates to 2001-2005. Export figures only include trade in goods.

Trade Challenges

ITC's Strategic Objectives

Trade Policy and Regulations

A multiplicity of trade agreements

South American countries have recently signed many free trade agreements and are concurrently negotiating others. Given resource limitations, this strains the capacity of governments to cover adequately all negotiation fronts. The frantic pace of meetings makes it difficult for negotiators to analyze options properly and adopt optimal negotiating positions. Lack of regional coordination also leads to reduced synergies and weakening of the region's collective strength. The private sector could play a larger role in assisting their governments in their efforts towards regional integration.

The need for coordinated export strategies

With all the efforts on negotiations, initiatives to facilitate a conducive trading environment and to foster the international competitiveness of enterprises do not receive enough attention. Lack of government support to R&D, product upgrading and standards, among others, is proving a limitation to companies, particularly small- and medium-sized enterprises (SMEs). Public and private stakeholders need to increase coordination of micro-level actions.

Support policy-makers in integrating the business sector into the global economy

Trade Development

Strengthening and coordinating trade support institutions (TSIs)

TSIs have increased their presence and are perceived to provide useful services. However, in many cases insufficient coordination and duplication of functions between the various national, local, sectoral and technical TSIs leads to confusion and inefficiencies. Technical resources are limited, particularly to support concerted efforts in areas such as design, branding, certification and supply chains. Existing physical infrastructure and financial providers do not suitably address the needs of trade-oriented enterprises. Although higher-level education is well regarded, there is a need to build export-related managerial skills, particularly among SMEs. Sector support policies and institutional frameworks are not always consistent, especially in the promotion of services, a growing area of economic interest.

Develop the capacity of trade service providers to support businesses

Building Production Capacity

Moving up the value chain

Strong international demand and high prices for mineral and agricultural commodities have yielded short-term windfall profits. Although this has benefited national economies, it has also distracted from longer term objectives to develop higher value-added products and services. Diversification is not considered an urgent agenda; exporters appear satisfied with their existing offer and client base, without exploring specialized niches with potential higher returns. Improvement of market analysis skills, understanding of global supply chains and innovation will become critical.

Strengthen the international competitiveness of enterprises

Strengthening SMEs

The business landscape includes large numbers of SMEs and a few large corporations. The SMEs could be competitive, but find it difficult to develop internationalisation strategies. Their managers lack expertise in international marketing; capacity building opportunities are insufficient. This is particularly urgent for SME service exporters.

ITC Responses

Addressing the Needs of Policy-makers

ITC can support South American policy-makers with tools to analyze and define negotiating positions. Various databases and methodologies help negotiators to assess scenarios, to incorporate better the views of the private sector, and to allow policy-makers to focus on the actions needed to improve the trade framework. ITC can also provide a forum for public-private dialogue to share experiences on regional integration. Efforts will continue to translate into business language the content of trade agreements to help the private sector understand the opportunities afforded by them.

In this line, ITC can offer its extensive expertise in development of national export strategies, based on a consultative approach between the private and public sectors. This process can identify the critical challenges to successful export promotion and propose efficient mechanisms to address them. ITC also offers specific technical assistance to address macro-level challenges facing enterprises.

One to One to Many

ITC will design activities and coordinate with leading TSIs in all countries, in particular with export promotion organizations, to deliver ITC services to SMEs. This approach will focus on strengthening the capacity of TSIs to disseminate, to the largest possible audience, the services that SMEs need, including:

- access to relevant trade information, statistics, trends and analysis
- assistance to improve quality standards, packaging, product design
- development of sector strategies and integration in international supply chains
- building export-oriented managerial and marketing skills
- fostering the creation of coalitions of export service providers
- developing export programmes for poor communities.

Further efforts will help coordinate the work of individual TSIs, so that their assistance can be more targeted to their specific clients, and their inputs to national strategies better considered.

Building Enterprises for the Long Term

In this area ITC aims to improve the competitiveness of SMEs and supports efforts to add value to products and services for export. Activities will focus on:

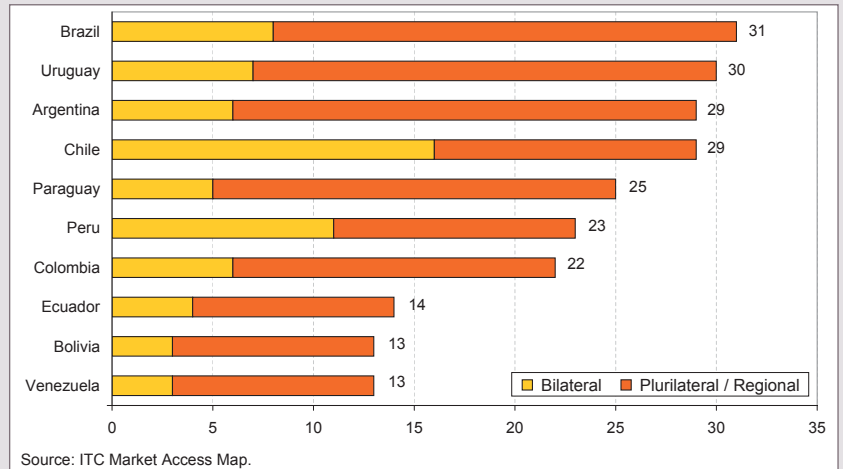
- encouraging the clustering of SMEs in order to enhance their participation in global supply chains
- linking the large national enterprises with local SMEs to increase transfer of know-how and value addition
- strengthening the capacity of enterprises to understand and anticipate demand
- promoting the development of new products and targeting of new export markets
- working with higher-level educational institutions to develop programmes to increase and disseminate export oriented skills
- increase awareness of export opportunities among service providers
- supporting export-ready SMEs to materialize business opportunities and to build long term commercial partnerships abroad
- linking producers in poor communities to export markets.

The dynamism and nimbleness of SMEs will be a key to sustained competitive advantage of South American countries in the emerging world trade system.

■ Strengthening Links

Trade Agreements in Force or under Negotiation

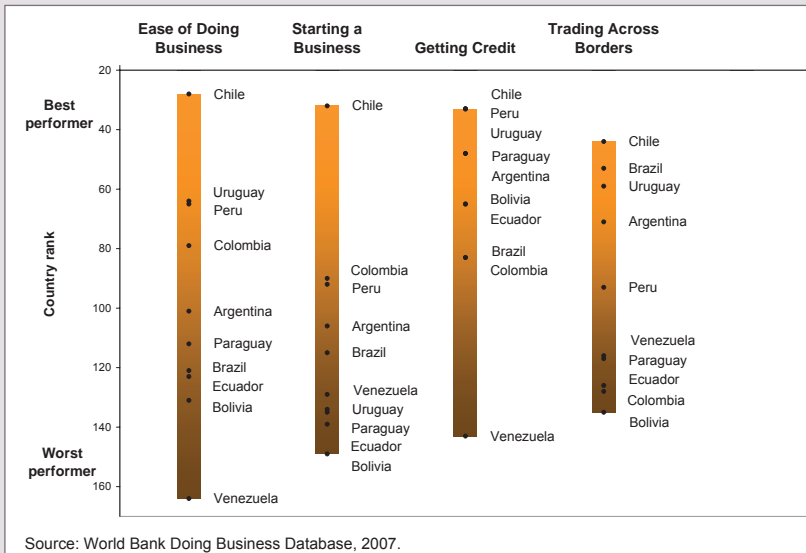
South American countries have been leaders in negotiating trade agreements with other regions.



■ Doing Business

Representative Indicators

Chile's business environment ranks higher than many developed countries. There is a wide range among South American countries.



■ Concentrated or Diversified?

Product and Market Concentration

- Brazil and Venezuela are the two largest exporters, the latter dominated by oil products.
- There is a wide variation in terms of market and export products concentration.
- Venezuela and Ecuador show high concentration, while Brazil is the least concentrated, both in terms of products and target markets.

