SPECIAL REPORT

Export diversification in Latin America

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1. INTRODUCTION

The extraordinary profits obtained between 2002 and 2014 can no longer justify the perpetuation of export-oriented economies, which usually center around one or two products. The economic dependence resulting from this model creates extraordinary vulnerability, as it means Latin American economies are at the mercy of fluctuations in commodity prices in the international market. A lower degree of product diversification or higher degree of export concentration to a few markets leaves an economy overly exposed. For this reason, all international agencies, without exception, agree this economic model is unsustainable.

The IDB, for example, not only agrees with this opinion, but also warns of an additional problem because, as reported, efforts to diversify exports over the past decade have revolved around commodities and their derivatives—hence the persistent vulnerability to downturns in international prices[1] .

After years of economic growth thanks to the high prices of raw materials, a period of crisis and sharp decline in prices for these products in the international market has begun, which explains the contraction—or, depending on the country, crisis—in Latin American economies.

Regarding the decline in global demand, if annual import growth rates from Latin America's main trading partners during the boom period (2003-2008) and stagnation period (2011-2014) are compared, it becomes evident the annual growth of demand from China dropped by 46 % age points; the intraregional and that European Union demand fell by 26 points; and U.S. demand declined by 10 points[2] .

[1] IDB, Annual Report, "Trade and Integration Monitor 2014: Facing Headwinds" http://www19.iadb.org/intal/intalcdi/PE/2014/14879es.pdf

[2] IDB, "Trade and Integration Monitor 2015: Double-dip - Latin America and the Caribbean Facing the Contraction of World Trade," https://publications.iadb.org/bitstream/handle/11319/7243/Monitor-2015-La-reca%C3%ADda-Am%C3%A9rica-Latina-y-el-Caribe-frente-al-retroceso-del-comercio-mundial.pdf?sequence=1,

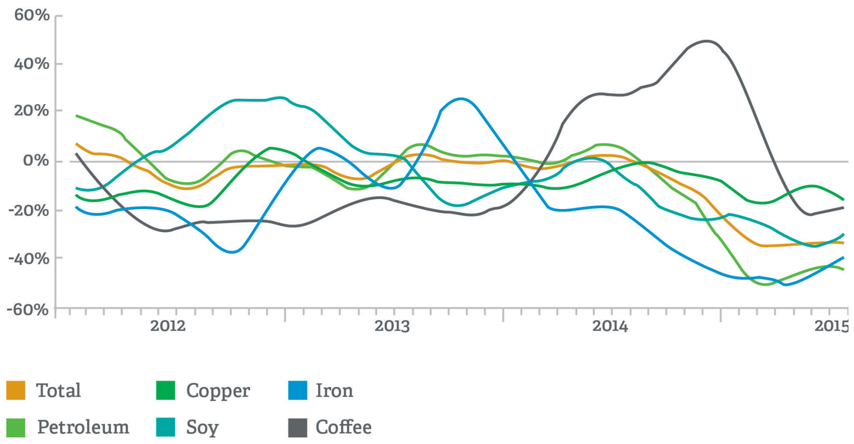
In fact, this international market contraction has caused a fall in prices (-15 %) and, furthermore, has meant there has been no increase in export volumes to offset this price decline. This has made 2013-2015 the worst triennium for regional exports since 1931-1933, during the Great Depression[3] .

In light of this situation, the future of Latin American economies depends on their diversification in order to open up new markets. However, this requires an extraordinary effort, involving a change in the economic model and the very concept of development. It is not about selling more raw materials in order to avoid relying on one or two products; in reality it is about breaking away from this type of economy by changing its structure altogether.

Economic diversification should guarantee independence from raw materials, which are characterized by an increasingly unfavorable trade relationship, low added value and minimal growth in productivity. Hence, export diversification means changing both the economic model and very concept of development. This requires investing in training, technology and innovation, all with the objective of producing more competitive goods with greater added value to enable economic—and, consequently, export—diversification.

Due to this overdependence, it was predictable and unsurprising, given fluctuations in the international market, the sharp decline in demand had a serious and immediate impact on vulnerable Latin American economies. This is a situation that may worsen in response to the international market, upon which many Latin American economies depend, since "economic growth in Latin America could be even lower

Figure 1. Main Latin America and Caribbean Exportation Product Prices (Annual rate of variation reflecting quarterly average, % age 2012-2015)



Source: IDB Trade and Integration Sector and IMF data.
Note: The total corresponds to the weighted average of the basic product price indexes included in the IMF's estimate.

[3] Ibid.

"It will be possible for the region to compete with other emerging powers if it transitions to a new production model"

in light of a greater slowdown in China and, to a lesser extent, quickly tightening financial conditions in the United States."[4]

TRANSFORMATION TOWARDS A NEW PRODUCTION MODEL

The main problem is no structural reforms were made during the boom years to gradually change the Latin American production model. Far from it—these economies have continued to focus on raw materials. It is true that significant achievements were made during the high price cycle, such as reducing poverty, addressing inequality and growing the middle classes through social policies, which have been financed by tax revenues from the raw materials boom in recent years.

This social transformation, in turn, has opened up new markets and extraordinary economic opportunities, which have further contributed to the process of development and prosperity. However, due to the extent to which some of these policies have focused on welfare and were achieved thanks to profits derived from extractive economies rather than structural changes, their sustainability is not guaranteed.

With international market prices falling, these policies cannot be financed and there is a risk the social improvements made could experience a setback. With it, the continued advances and progress that drove this prosperity would be paralyzed, or could even take a step backward. The cases of Ecuador, Trinidad and Tobago and Venezuela are particularly significant; In these countries, tax revenues from the oil and gas sector accounted for over 40 % of total revenue from 2010 to 2013, which explains why these governments have currently been forced to implement major spending constraints on social policies implemented in previous years.

It will be possible for the region to compete with other emerging powers if it transitions to a new production model. For this, it is necessary to diversify the economy by investing in technology, expertise, infrastructure, logistics and value-added services, thereby producing a circular economy. The end result would be to create a structure that, through these profound changes, would allow for diversification in the productive system, adding greater value to raw materials. Therefore, it is not about relinquishing either international market or exports, but, on the contrary, about becoming more competitive within it.

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[4] Report: "Latin American Economic Outlook 2015" http://repositorio.cepal.org/bitstream/handle/11362/37445/S1420759_es.pdf

"In recent years regional economies experienced relatively low growth rates of between 2 and 2.5 % of GDP, and the trend is sliding downward"

2. AN OLD MODEL THAT STILL PREVAILS TODAY: EXTRACTIVISM AND LIMITED EXPORT DIVERSIFICATION

The current challenge lies in transforming an economic model that has been applied since the mid-19th century to manage a crisis specific to the 21st century. It is imperative to build more productive and competitive economies with broad product diversification, in which innovation is at the forefront. This implies a need to invest in expertise and new technologies to ensure diversification for a competitive economy.

SYMPTOMS OF THE SYSTEM'S OBSOLESCENCE

The structural problems of economies with limited diversification, whose export products lack added value and have minimal local industrial production, came to light when raw materials prices declined due to the international situation and, more recently, the situation in China. The consequences of this new phase were first seen in 2012, when commodity prices began to fall—and with them, almost automatically, the growth rates in the countries exporting those commodities, including the ones in Latin American.

The ongoing boom of the past decade was immediately reflected in Latin American growth rates. The regional average was already high, given that the rate during this period was 5.4 %, but it became even more striking when compared with the OECD average, which did not exceed 2.3 %.

In light of this situation, in recent years regional economies experienced relatively low growth rates of between 2 and 2.5 % of GDP, and the trend is sliding downward, since 2015 has been the third consecutive year of decline, and in 2016, Latin American and Caribbean countries will show a contraction in their growth rate of -0.8 %—a greater decline than 2015 (-0.5 %)—despite very diverse behavior between countries and sub-regions.[5]

This trend is related to the decline in exports, as both variables evolved in parallel, which highlights the region's overdependence on raw materials and the fluctuations in their prices in the international market.

Certainly there may be amendments to this outlook, such as one from the IMF[6] that indicates positive economic growth, predicting a 0.1 % age

[5] *Economic Survey of Latin America and the Caribbean, 2016* http://www.cepal.org/es/publicaciones/40326-estudio-economico-america-latina-caribe-2016-la-agenda-2030-desarrollo

[6] http://www.infolatam.com/2016/07/19/el-fmi-mejora-las-perspectivas-de-crecimiento-de-latinoamerica-en-2016-y-2017/ 19.07.2016.

"There is no doubt the region as a whole is experiencing this downturn, given that raw materials form the dominant economic model's basis"

point improvement in the region for 2016 and 2017 and a 0.4 % reduction in the contraction expected for Latin America this year. It also predicts an increase in expected growth for 2017 of 1.6 %. This growth, although good news, is actually due to circumstantial issues inconsequential to bringing about structural change.

There is no doubt the region as a whole is experiencing this downturn, given that raw materials form the dominant economic model's basis. However, some economies are more diversified than others, and, undoubtedly, those that are more diversified are better placed to manage this crisis. The extent to which economies are affected will also depend on the particular commodities they export.

In line with the current international market situation, the slump in oil and mineral prices has been sharper than that of food. This explains the plight of countries that export fossil fuels, whose prices are reaching record lows, such as Bolivia, Colombia, Ecuador and Venezuela. Mining countries such as Chile and Peru will also suffer in this new scenario. However, it must be noted that, beyond the differences between countries and their exports, there is a generalized decline, as shown in the table above.

The year over year performance of goods exports in the first half of 2015 shows further decline in regional exports. For the 24 Latin American and Caribbean countries for which information is available, 20 recorded negative growth rates, with the most affected being South American countries (-17.7 %), as has been mentioned.[7] Similarly, countries with greater economic diversification, such as Brazil, can cope with the crisis better than countries that virtually have a single export product and barely any other exports or industrial fabric, such as Venezuela.

[7] IDB Trade and Integration Monitor 2015: Double-dip; Latin America and the Caribbean Facing the Contraction of World Trade, https://publications.iadb.org/bitstream/handle/11319/7243/Monitor-2015-La-reca%C3%ADda-Am%C3%A9rica-Latina-y-el-Caribe-frente-al-retroceso-del-comercio-mundial.pdf?sequence=1, The aggregate 2.8 % fall in goods exports from LAC in 2014 took the nominal total to US$1.06 trillion. The aggregate result incorporates variations between different sub-regions and countries. Growth was observed in Mexico (4.6 %) and Central America (2.3 %), with improved performance over 2013, and more intense contractions than the previous year in South America (–7.4 %) and the Caribbean (–5.5 %). Of the 26 economies included in Table 1, exports fell in half of them in 2014. The countries with the highest growth rates were Nicaragua (9.7 %), Guyana (8.8 %), Guatemala (7.8 %), Bolivia (5.6 %), Honduras (4.7 %), the Bahamas (4.6 %) and Mexico (4.6%). The steepest declines were seen in Venezuela (–16.8 %), Belize (–13.6 %), Argentina (–11.9 %), Suriname (–10.4 %), Peru (–7.8 %), Trinidad and Tobago (–7.5 %), Brazil (–7.0 %), Colombia (–6.9 %), El Salvador (–4.0 %) and Jamaica (–1.8 %).

Figure 2. Latin America and the Caribbean Goods Exports. (Annual rate of variation and billions of USD, selected periods).

	Billions of US$			Rates of variation			
	2012	2013	2014	2002-2008	2013	2014	Accrued up to June 2015
Latin America and the Caribbean	**1092,3**	**1090,5**	**1060,0**	**16,7**	**-0,2**	**-2,8**	**-10,9**
Latin America	**1071,5**	**1070,2**	**1040,9**	**16,6**	**-0,1**	**-2,7**	**-10,8**
Mesoamerica	**414,4**	**423,9**	**442,4**	**10,2**	**2,3**	**4,4**	**-2,3**
Mexico	370,8	380,0	397,5	10,4	2,5	4,6	-2,2
Central America	**43,7**	**43,8**	**44,8**	**9,0**	**0,4**	**2,3**	**-3,4**
Costa Rica	11,4	11,6	11,3	10,3	1,5	-2,6	-16,0
El Salvador	5,3	5,5	5,3	7,6	2,8	-4,0	6,0
Guatemala	10,0	10,0	10,8	10,9	0,5	7,8	3,1
Honduras	4,3	3,9	4,1	13,6	-10,4	4,7	4,4
Nicaragua	2,7	2,4	2,6	17,5	-10,3	9,7	-2,6
Panama	0,8	0,8	0,8	7,3	2,7	-3,0	-14,8
Dominican Republic	9,1	9,6	9,9	4,1	5,5	3,6	-16,3
South America	**657,1**	**646,4**	**598,5**	**22,1**	**-1,6**	**-7,4**	**-17,7**
Argentina	80,2	81,7	71,9	18,2	1,8	-11,9	-17,9
Bolivia	11,8	12,2	12,9	31,7	3,3	5,6	-30,3
Brazil	242,6	242,0	225,1	21,9	-0,2	-7,0	-14,7
Chile	77,8	76,5	75,7	23,5	-1,7	-1,0	-12,2
Colombia	60,1	58,8	54,8	21,1	-2,2	-6,8	-31,2
Ecuador	23,8	24,8	25,7	24,6	4,6	3,6	-26,8
Paraguay	7,3	9,4	9,7	18,4	29,5	2,4	-17,6
Peru	47,4	42,9	39,5	26,1	-9,6	-7,8	-15,8
Uruguay	8,7	9,1	9,2	21,3	4,1	1,0	-15,1
Venezuela	97,3	89,0	74,0	23,5	-8,6	-16,8	n. d.
The Caribbean	**20,8**	**20,3**	**19,1**	**24,3**	**-2,7**	**-5,5**	**-14,9**
Bahamas	0,8	0,8	0,8	10,3	-2,0	4,6	-34,6
Barbados	0,6	0,5	0,5	13,2	-18,7	1,4	-7,5
Belize	0,4	0,4	0,4	10,6	2,2	-13,6	2,4
Guyana	1,1	1,1	1,1	7,0	0,0	8,8	-0,8
Haiti	0,8	0,9	0,9	11,8	13,9	3,8	n. d.
Jamaica	1,6	1,5	1,5	13,8	-9,9	-1,8	-12,6
Surinam	2,6	2,4	2,1	29,5	-6,6	-10,4	-8.8
Trinidad and Tobago	13,0	12,8	11,8	29,9	-1,6	-7,5	-18,3

Source: IDB Trade and Integration Sector, with data from INTrade/DataINTAL and national sources.
Note: n.d. means there is no available data.

"It is not the first time that Latin America has faced a crisis of this nature. In fact, cyclical crises have been occurring since the second half of the 19th century"

DEPENDENCE ON CHINA: A SHORT-TERM VISION

The level of dependence on the Chinese economy also explains the fact that certain economies are more affected than others. South America is more dependent on the Chinese market, and therefore its economic indicators are worse than those of Central American countries and Mexico, whose economies depend more heavily on U.S. demand, which is currently starting to enjoy a certain degree of economic upturn. These and other reasons show that, although the region faces a difficult and adverse situation, not all countries are affected the same way. This can be seen in the data for GDP growth, which reflects the diversity characteristic of the region.

It is not the first time that Latin America has faced a crisis of this nature. In fact, cyclical crises have been occurring since the second half of the 19th century, the period in which this production model was established. The most important alternative proposal was an attempt to industrialize through import substitution, adopted in the region after World War II and enforced until the 1990s'. It was a model that yielded poor results and resulted in a very uncompetitive, state-subsidized industry.

Although limitations in the agro-export model and historical experience allowed us to anticipate what would happen when international market prices fell, there are still governments in Latin America that believe the market for raw materials is inexhaustible and there will always be demand. In line with this viewpoint, it was very tempting to leverage these raw materials to help reduce poverty and inequality in the short term through social policies, including welfare measures.

These initiatives have been undertaken by most governments in the region, without exception, regardless of political leanings. The fundamental problem is that, with this, they have continued to promote a focus on Latin American economies' primary products, which has prevented diversification and, consequently, export diversification. Conversely, we have seen the opposite trend, such as with soybeans in Argentina, whose high prices favored the monoculture of this product.

This predominant yet shortsighted vision has made it doubly difficult to address necessary reforms, because the best time to make strong investments aimed at changing production models was when there were resources available to do so.

According to Mario Castillo, head of Innovation and New Technologies at ECLAC, "the region has managed to use some of the surpluses of this boom to reinvest in social policies, human resources training

"Export diversification and increased productivity are the chief pending issues"

and infrastructure... Its main weakness is that it has not been able to develop a sector based on export of natural resources sufficiently compatible with a technological sector that brings added value."[8]

There are two fundamental reasons for this and they have to do with, once again, the predominance of both governmental and business shortsightedness. In regard to the public policies implemented and as has already been pointed out, it is the governments themselves who promoted the economy's focus on commodity export. In addition, considering the natural resources sectors have yielded such high returns without technological investments, incentive to create technology-based companies has been much lower.

It is not possible to delay reforms further, even though this requires a change in mindset. It is imperative to build more productive and competitive economies with broad product diversification and in which innovation is at the forefront.

3. IT IS NECESSARY TO DIVERSIFY THE ECONOMY IN ORDER TO DIVERSIFY EXPORTS

Export diversification and increased productivity are the chief pending issues. According to ECLAC, only five products, all primary, accounted for 75 % of the value of regional shipments to China in 2013. Chinese investment in the region reinforces this pattern, since between 2010 and 2013 almost 90 % of its investments went to extractive industries—namely mining, oil and gas operations.

STAGNATION OF THE VALUE CHAIN

ECLAC's latest annual report, "Foreign Direct Investment (FDI) in Latin America and the Caribbean 2016,"[9] states that in the past 15 years, the average relative weight of natural resources in the total flows of FDI increased from 16.6 and 17.1 % in the 1990s' and 2000s', respectively, to 22.3 % between 2010 and 2014. During that four-year period, US$170.555 billion entered the region as FDI toward

[8] http://www.infolatam.com/2015/10/01/mario-castillo-cepal-la-ralentizacion-economica-va-a-favorecer-la-innovacion-tecnologica/.

[9] http://www.cepal.org/es/publicaciones/40213-la-inversion-extranjera-directa-america-latina-caribe-2016-documento-informativo.

"When commodity prices were at their most stable, there was no diversification whatsoever"

all sectors of natural resources, going into operations carried out by major global transnational mining corporations.

According to Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) Alicia Bárcena, "our region, which could have taken better advantage of the natural resources boom, had not advanced in developing value chains by the end of this upsurge cycle."

The best example to demonstrate the limitations of this model is the comparison with China, which, even as an importer of metals purchased in Latin America, is able to sell them for a higher value because it has invested in refining and smelting, thus moving up the mining and metallurgy value chain.

This is also true for copper, a metal China buys from Latin America and sells elsewhere, since the country has applied an industrialization strategy in which it processes copper and exports it as a finished metal, with consequent value added to the goods.

Thus, as stated by the General Secretary of ECLAC, "China has a medium- and long-term industrialization policy, one that seeks to provide greater added value to raw materials. Even when not producing, it is adding value to raw materials purchased and accumulated. We already have these raw materials, so we do not need to import them—we could implement an industrial policy based on our large reserves of natural resources."

In fact, the region possesses 66 % of global reserves of lithium, 47 % of copper, 45 % of silver, 25 % of tin, 23 % of bauxite, 23 % of nickel and 14 % of iron. However, China's participation in refined copper production amounts to 34.8 % of the global total, versus only 16 % for Latin America and the Caribbean—the region that continues to lead copper production in mines.[10]

This, as has been said, is just one example that can be generalized to a trend supported by regional data. According to this data, when commodity prices were at their most stable, there was no diversification whatsoever. In fact, the countries that entered new markets and offered more products were still primarily focused on raw materials. To this it must be added that, ever since the onset of the crisis and contraction in international market demand, there has not only been a drastic decline in traditional export products to

[10] http://www.cepal.org/es/noticias/impulsar-la-industrializacion-cadenas-valor-es-crucial-aprovechar-recursos-naturales-la.

the same long-standing clients, but that those initiatives aimed at new markets have been paralyzed.[11]

The contraction of the international market compels structural changes. During the decade of growth, it was sufficient to export traditional products (raw materials in a concentrated basket) to traditional markets, as well as China. At present and in light of shrinking international demand, it is indispensable to change export supply and seek new markets. In other words, it is necessary to offer value-added, diversified products in new commercial spaces.

"Investment aimed at adding value to raw materials will contribute to an essential diversification process"

4. NEW POSSIBILITIES FOR A DIFFERENT MARKET REQUIRE DIVERSIFICATION OF VALUE-ADDED GOODS

Investment aimed at adding value to raw materials will contribute to an essential diversification process envisioned in the new U.N. sustainable development model.[12] The mining example graphically illustrates the possibilities that lie in changing the economic model, while still exploiting raw materials.

TOWARDS A COMPETITIVE MODEL

The goal is not to recover the growth of the past decade, but rather to achieve development. Structural change is needed in the development model, which must be based on competitiveness, and this will be achieved through education, infrastructure and investment in higher technologies, with the objective of diversifying the productive system in order to give greater value to raw materials and, ultimately, become more competitive in the international market.

The options inevitably lead to changing the production model, since it is not possible to continue to live off raw materials. This would neither be the most realistic option nor the best.

Firstly, because there are no prospective powers on the horizon to demand a similar volume of raw materials as China, for example, has over the past decade. In fact, the global economic slowdown persists and all forecasts confirm this downtrend.

[11] IBID, 2015, https://publications.iadb.org/bitstream/handle/11319/7243/Monitor-2015-La-reca%C3%ADda-Am%C3%A9rica-Latina-y-el-Caribe-frente-al-retroceso-del-comercio-mundial.pdf?sequence=1

[12] Horizons 2030: Equality at the Center of Sustainable Development, ECLAC, http://www.cepal.org/es/acerca-de-la-agenda-para-el-desarrollo-post-2015

"Current market requirements also compel us to change the yardsticks for measuring prosperity"

Secondly, since this economic model is not sustainable, even in the unlikely event a similar new power were to surface, sooner or later we would return to a situation of crisis like the current one, but with an added problem: while the rest of the world moved forward, Latin America would have remained behind thanks to this economic model.

COMMITMENT TO A SUSTAINABLE AND INCLUSIVE DEVELOPMENT

Undoubtedly, current market requirements also compel us to change the yardsticks for measuring prosperity. For a long time development has been measured quantitatively. Accordingly, GDP was a major benchmark.

For several years, though, this has not been enough; first of all because the concept of development has changed, and secondly because in order to achieve this development other factors—such as competitiveness—are needed. This development concept purports to be fundamentally sustainable and inclusive, and to this end it is essential for achieving economic diversification through competitiveness.

Using data from the 2015-2016 Global Competitiveness Report as a reference, it is evident economic growth, even if spectacular, is not enough, since it does not guarantee sustainable and inclusive development. Comparing data on growth with data on competitiveness highlights this issue, because we see that despite positive GDP data, the region has stagnated over the past five years. Considering Latin America's intermediate position in relation to other countries of the world, it is interesting to see that its competitiveness index hardly changed during years of high growth. Thus, despite its growth, "weak institutional functioning, poor infrastructure and inefficient allocation of production factors" have persisted. These weaknesses, which afflict Latin American economies as a whole, account for the competitiveness data because the disparities in training, technology and innovation

"Major investments in technology will be needed to achieve the required levels of productivity"

"prevent many companies and nations from moving toward higher value-added activities."[13]

Taking some of the small and medium economies in the region as a reference point, it is true they achieved competitive positions in the world market even during the most recent export stagnation. However, export growth was not due to supply of new products, but instead to the same long-standing product supply being exported to new markets. Most countries in the region have not made significant progress regarding diversifying their products in search of new demands.

For this, major investments in technology will be needed to achieve the required levels of productivity, which, in turn, will make the region's products competitive in markets with sustainable demand. This is a requirement that continues to be a challenge when we take the regional technology sector's state of affairs into account.

TECNOLOGIC TRANSFORMATION: THE TRUE CHALLENGE

The starting point is not easy if we compare data to countries like the United States. To close the productivity gap between the region's countries and the developed world, it is necessary to incorporate activities and sectors with higher technological intensity into the productive structure of countries that are lagging behind.

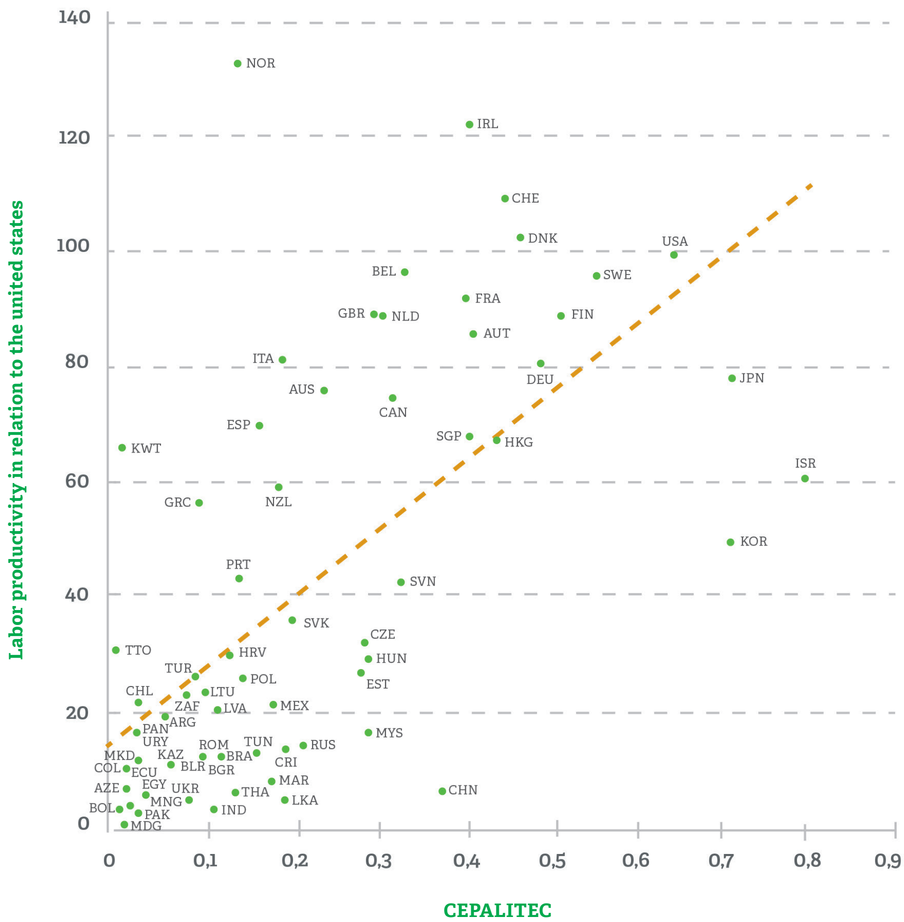
The following graph shows the relative productivity of different countries compared to the United States alongside a measure of technological intensity (CEPALITEC), which combines information on high-tech exports, patents, research and development expenditure and the weight of engineering industries in value-added manufacturing.

Latin American countries are concentrated in the lower left corner of the graph, reflecting low technological intensity

[13] Global Competitiveness Report, 2015-2016, CLADCDS, http://www.incae.edu/es/nuestros-proyectos/clacds/informe-global-de-competitividad-2015-2016.php. According to the regional ranking, the positions are as follows: At the top is Chile (35), followed by Panama (50) and Costa Rica (52). Mexico and Colombia are closely behind the top three, improving by four and five positions, respectively. The respective progress of Colombia, +5 (61°); Mexico, +4 (57); Uruguay, +7 (73); and Honduras +12 (88) have been highlighted. 11 countries show regression: Chile, -2 (35), Panama, -2 (50); Costa Rica, -1 (52); Brazil, -18 (75); El Salvador, -11 (95); Argentina, -2 (106); Nicaragua, -9 (108); Bolivia, -12 (117); Guyana, -4 (121); and Venezuela, -1 (132).

Three Latin American countries are experiencing dramatic declines this year: Bolivia, Brazil and El Salvador. All three are suffering from the breakdown of institutions and instability in macroeconomic performance. At the bottom of the region are Venezuela (132) and Haiti (134).

Figure 3. Selected economies: Relative labor productivity in relation to the United States and technological intensity index, 2012.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), United States Patent and Trademark Office (USPTO), United Nations Educational, Scientific and Cultural Organization (UNESCO), Organization for Economic Cooperation and Development (OECD), Ibero-American Network of Science and Technology Indicators (RICYT) and ECLAC.

Note: CEPALITEC is an unweighted average of three indicators with values standardized between zero and one: medium- and high-tech exports as a % age of total exports (high-tech exports according to the Lall classification); the number of patents per million inhabitants; and spending on R&D as a % age of GDP.

and low relative productivity. Their productivity levels reflect the greater weight of natural resources when it comes to sustaining productivity as compared to human capital.[14]

The comparison demonstrates that the transformation, although essential, should only be carried out in the medium and long terms, as it involves a change in mentality. The vision and concept of development goes beyond where economic activity should be focused and to the way in which it should be carried out. It is therefore worth insisting that, for the required structural change to take place, it is neither necessary to abandon exports nor production activity in the primary sector, nor to concentrate development on the secondary sector or on developing a national industry.

PRODUCTIVE MATRIX REFORM

Since the 20th century, the debate has been based on whether economic activity should focus on export of agricultural products or development of a national industry. Current challenges are different; the solution does not necessarily involve the introduction of industrialization.

[14] IBID, 2015, https://publications.iadb.org/bitstream/handle/11319/7243/Monitor-2015-La-reca%C3%ADda-Am%C3%A9rica-Latina-y-el-Caribe-frente-al-retroceso-del-comercio-mundial.pdf?sequence=1.

"The changes to be introduced do not necessarily imply a transformation of the productive matrix, but rather its reformation"

Economic activity may remain linked to the export of agricultural products, while export products must have high added value and be addressed to a variety of markets. It is not necessarily about changing the production matrix, but about changing the economic model based on diversifying the economy and providing value-added products. This requires education, technology and infrastructure, which, ultimately, would make export diversification possible.

Perhaps the key area for investment lies in the concept of a circular economy more than in the productive sector. Indeed, it is necessary to implement this economic concept in order to ensure better use of natural resources in the region. By investing in these areas, it is possible to prevent natural and mineral resources—such as gold, copper and silver, among others—from leaving the region in their raw form.

The goal is not only to avoid depleting reserves of raw materials, but also to prevent them from being used in other sectors to ensure the creation of this circular economy because, to date, everything is exported in the exact form in which it is extracted. This concept of economy allows us to leave behind an ongoing debate that thus far has not provided substantial solutions, because until recently the discussion revolved around whether development should be focused on agricultural or industrial economic activity.

In other words, the changes to be introduced do not necessarily imply a transformation of the productive matrix, but rather its reformation. This means that Latin America could be competitive and develop a sustainable economy while maintaining prominently agricultural and mining economies. But whatever the economic activity is, it is necessary to add value to the products and ensure diversification margins. To achieve this, knowledge, technology and a skilled workforce are essential elements.

REGIONAL COMMERCIAL INTEGRATION

Another key aspect in this regard, as recognized by Executive Secretary of ECLAC Alicia Bárcena, is regional integration, because this would multiply the potential for expanding markets and give the region negotiating power, in this case with extra-regional powers such as China, the region's main client during this past decade.

However, in more general terms, despite progress in achieving numerous bilateral trade agreements and agreements between subgroups of countries, the region has not

"There is no need to renounce either the primary sector or exports, but it is essential to end the productive mono-dependence and "China-dependence" "

made the necessary progress in terms of integration. The regional markets' potential is undeveloped, and only a few companies participate in the regional value chain, which, in turn, limits their participation in global value chains. Interregional trade is currently at 17 %; In Europe it is at 68 %, in Asia 52 % and in Africa 10 %.

One reason for this is the connectivity problems caused by lack of infrastructure. Improvements in airports, ports, road and rail transport and other infrastructures, such as those relating to water and sanitation, re necessary. The creation of a common regional market would allow companies to take advantage of a larger scale, helping them compete against global players more effectively.

5. LATIN AMERICAN ECONOMIES HAVE TO KEEP LOOKING OUTWARDS

There is no need to renounce either the primary sector or exports, but it is essential to end the productive mono-dependence and "China-dependence." This will require more competitive, productive and innovative economies that, in turn, require investment in both human capital (education) and physical capital (infrastructure).

NEW SYSTEM OF COMMERCIAL RELATIONS

For all these investments, partners and extra-regional powers are needed. In line with what has been said, Latin American economies should continue to focus on international trade and follow demand of potential extra-regional clients, such as China, Europe or the U.S., very closely. The key is to change the terms of trade relations. "What we've learned so far is that world trade or receiving foreign direct investment is not enough—more must be done to fully maximize that trade and investment," said Enrique Garcia, President of the Latin American Development Bank (CAF). This necessarily means the relationship between Latin America and its potential partners, including China, must be "more symmetrical."

In this new relationship, "a more competitive model, one involving integration in global chains with more added value, technology, innovation and job creation of better quality," would be favored, continued Garcia.

"It is necessary to analyze the international market and develop the productive activity this market demands"

DIVERSIFICATION AND AGGREGATE VALUE: NEW CHALLENGES AND OPPORTUNITIES

Diversifying export products and markets while adding value to sales abroad is a fundamental task. Under these criteria it is necessary to analyze the international market and develop the productive activity this market demands. In this regard, agricultural production should not be renounced, as under the proposed criteria it could be a competitive alternative.

Consequently, agriculture and agro-industry comprise a market full of opportunities for Latin America, especially for countries with a consolidated or growing middle class, such as predominantly urban emerging powers. This social group demands a diverse and high-quality diet, and it is for this reason an increase in demand for protein, processed foods, increased quality requirements and special properties has been observed.

The services sector is another area of great opportunity the region cannot afford to miss, and, like tourism, it is also focused on the middle class. It has extraordinary potential, but has barely begun to be exploited.

Economic transformation must be understood in light of this new market and its numerous opportunities as a transition that could well take place without changing the production model, but that must ensure diversification, value addition and agricultural product processing, for which knowledge, technology, productive infrastructure, transport and logistics will all be essential.

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