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CONCEPT NOTE

Regular meeting of

Inter-American Council for Integral Development (CIDI)

SEPTEMBER 26, 2023

**THEME: TRADE INTEGRATION: INTRA-REGIONAL TRADE AND VALUE CHAINS IN THE AMERICAS**

1. **Background/Justification**

Countries in the Americas have long sought to deepen their trade ties to integrate their production process and foster domestic industrialization to promote growth and accelerate development.

Early efforts include: a) sector-based tariff reduction or elimination through the Latin American Free Trade Association and ALADI,[[1]](#footnote-1)/ and the U.S.-Canada Automotive Products Agreement;[[2]](#footnote-2)/ b) various sub-regional integration arrangements such as the Central American Common Market, the Andean Pact (now Andean Community), the Caribbean Community and Common Market (CARICOM), and the Common Market of the South (MERCOSUR), c) non-reciprocal preferential trade arrangements;[[3]](#footnote-3)/ d) free trade agreements negotiated bilaterally and regionally;[[4]](#footnote-4)/ as well as e) policy instruments (including free-trade zones)[[5]](#footnote-5)/ to attract foreign direct investment (FDI).

While before the early 1990s achieving industrialization was largely synonymous with building the whole supply chain within one economy, the last three decades have been characterized by a profound transformation at the global level. The emergence and expansion of global/regional value chains (GVCs/RVCs) has given rise to production processes where the various stages required for the production of a good or service take place in different geographical locations, based on the advantages offered by the existence of a complex global network of increasingly specialized firms. Raw materials, parts, and components, as well as services, cross borders several times, before being incorporated into final products. Value chains allow countries to specialize in the production of specific tasks or components rather than entire final products.

Large companies tend to be the leading actors in GVCs, and most exports are driven by a limited number of medium to large firms, often multinational corporations. However, value chains have also become much more fragmented and dispersed with longer and wider-growing networks of small and medium-sized upstream and downstream enterprises (SMEs) around the world.

Global and regional value chains now account for over two-thirds of the trade worldwide. In North America, much of the trade occurs in the context of production sharing, vertical supply relationships and increased trade in intermediate inputs, particularly in the automotive sector, and in electronics, appliances, and machinery.[[6]](#footnote-6)/

Latin America and the Caribbean’s participation in GVCs remains low (18 percent) compared to Asia (28 percent) and Europe (34 percent).[[7]](#footnote-7)/ A report of the Development Bank of Latin America (CAF) also points to the low level of trade integration in the region. CAF notes that Central America is the only Latin American sub-region which increased its percentage of intra-regional trade between 1980 and 2019 (from 12.1% to 13.9%).[[8]](#footnote-8)/

A recent study published by the U.N. Economic Commission for Latin America and the Caribbean (ECLAC) highlights that the low dynamism of intra-regional trade registered since the mid-2010s in Latin America and the Caribbean has predominantly affected manufacturing exports, which depend to a large extent on the regional market. The report also underscores that “there is a considerable gap (between 33% and 46%) between the value of observed and potential export level” in trade in manufactures in Latin America. In absolute terms, this implies around $58 billion in annual exports forgone, considering current production and export structures. [[9]](#footnote-9)/

The implementation of several measures could help increase the region’s intra-regional trade and participation in GVCs/RVCs. Chief among them are the simplification and harmonization of rules of origin[[10]](#footnote-10)/ and the streamlining of procedures (elimination of “red tape”) required to move goods from seller to buyer, as well as investment in physical infrastructure and improved transportation and logistics. Although necessary, these measures may not be sufficient to help countries “move up” to higher value-added goods and close the development gap. Complementary policies and instruments, including investment in quality education (to reduce the skills gap) and digital infrastructure, and targeted industrial policy, must also be promoted. A recent study published by the Konrad Adenauer Foundation and ECLAC also reveals that gender policies and incentives would help reduce the gender gap because women tend to benefit less from RVCs and trade. They are more active than men in sectors, segments and occupations with lower-added value than men.[[11]](#footnote-11)/

While increasing participation in value chains can help countries in the region improve productivity, knowledge and technology transfer, growth, and development, it may also increase their vulnerability to all types of shocks, as demonstrated by the COVID-19 pandemic and recent geo-political events. These new developments have encouraged countries to promote reshoring and nearshoring strategies to strengthen their supply chains and improve their economic resilience.[[12]](#footnote-12)/

1. **Purpose of the Meeting**

 The purpose of the meeting is to analyze the current state of regional trade integration in the Americas. The meeting will provide member states the opportunity to highlight sectors that have achieved greater integration with partners in the region and to discuss the ongoing restructuring of supply chains.

 Questions for member states will feature:

1. How important is trade integration to foster development in OAS member states?
2. What are the key strategies governments can put forward for helping small and medium-sized enterprises reap the benefits of trade integration?
3. Based on your country’s experience, how can trade integration contribute to the attainment of the SDGs?
4. What role should governments play in strengthening supply chains?
5. **Relevance to SEDI**
* Promote the access of SMEs, and in particular women-owned SMEs, to GVCs/RVCs to expand their markets and increase employment opportunities, contributing to poverty reduction, and enhancing livelihoods
* Strengthen the implementation of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs)
* Foster regional dialogue, cooperation and knowledge sharing on trade integration, intra-regional trade and value chains, including mechanisms for sharing good practices and lessons learned
1. **OAS mandates**

 Under the strategic line “promoting inclusive and competitive economies,” the 2022 OAS General Assembly resolution “AG/RES. 2988 (LII-O/22) Advancing Hemispheric Initiatives on Integral Development: Promoting Resilience” establishes the following mandate:

9. “To urge SEDI to continue to support the implementation of activities during the 2022-2024 period for the strengthening of small business development center (SBDC) networks in the hemisphere to assist MSMEs in leveraging opportunities within and among regional and international supply chains for digital skills and technology upgrading, market expansion, and access to finance.”

 The 2021 OAS General Assembly resolution “AG/RES. 2967 (LI-O/21) Advancing Hemispheric Initiatives on Integral Development: Promoting Resilience” establishes the following mandate:

5. “To urge member states to support the implementation of the priorities for Post-COVID**-**19Recovery in the Americas identified at the XI Americas Competitiveness Forum (ACF) to reduce vulnerability and buildresiliency, with short, medium and long term actions on: i) Digital Transformation, MSMEs and Citizenship Readiness, ii) Innovation-driven Business Development and Empowering Entrepreneurs; iii) Improving the Regulatory Environment, Trade Facilitation, and Regional Value Chains; and, iv) Climate Adaptation and Post-COVID-19 recovery.”

The OAS Charter mandates CIDI to promote cooperation among OAS member states to achieve integral development and, in particular, to help eliminate extreme poverty. The Charter also directs CIDI to “promote, coordinate and assign responsibility for the execution of development programs and projects to the subsidiary bodies and relevant organizations, on the basis of the priorities identified by the member states, in areas such as economic and social development, including trade, tourism, integration and the environment.”

1. **Structure of the meeting**

 For the purposes of the meeting, various speakers will be invited to explore the role of trade integration, intra-regional trade and value chains in the Hemisphere as well as their potential to contribute significantly to the economic recovery of OAS member states and the attainment of the SDGs. Member states will have an opportunity to take part in an interactive dialogue guided by the Chair of CIDI.

 After a question-and-answer session with the guest speakers, the Chair will invite delegations to share their best practices on trade integration, intra-regional trade and value chains.

 Invited Panelists - TBD

1. **Outcome of the meeting**
2. Better understanding of the trade integration-development nexus in OAS member states
3. Specific challenges faced and solutions identified by member states in promoting access to value chains by small businesses shared
4. Opportunities for cooperation on strengthening value chains identified
5. Contribute to the dialogue and support member states’ efforts to reach attainment of the SDGs

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1. . Asociación Latinoamericana de Libre Comercio (ALAC). ALADI (Asociación Latinoamericana de Integración) replaced ALAC in 1980. [↑](#footnote-ref-1)
2. . The U.S.-Canada Automotive Products Agreement (1965) liberalized trade in cars, trucks, tires, and automotive parts and created an integrated North American automotive sector. [↑](#footnote-ref-2)
3. . Non-reciprocal preferential arrangements are one-way concessions involving the elimination or reduction of tariffs and other barriers to imports on a selected group of products originating in beneficiary countries. [↑](#footnote-ref-3)
4. . For more information, please visit the OAS Foreign Trade Information System (SICE): [www.sice.oas.org](http://www.sice.oas.org) [↑](#footnote-ref-4)
5. . Free-trade zones are areas within a country’s borders designed to encourage economic development by allowing goods to be imported and exported duty-free.  [↑](#footnote-ref-5)
6. . One report estimates that 40% of the content of U.S. imports from Mexico and 25% of the content of U.S. imports from Canada are of U.S. origin. See Koopman, Robert, William Powers, and Zhi Wang, et al. 2010. *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*, National Bureau of Economic Research, Working Paper 16426, Cambridge, MA. [↑](#footnote-ref-6)
7. . Alviarez, Vanessa. 2022. *Global and Regional Value Chains in Latin America in Times of Pandemic*. Washington, DC: Inter-American Development Bank, October. [↑](#footnote-ref-7)
8. . Development Bank of Latin America (CAF). 2022. *Integración económica de América Latina, clave para el desarrollo regional*. [↑](#footnote-ref-8)
9. . U.N. Economic Commission for Latin America and the Caribbean (ECLAC). 2023. *International Trade Outlook for Latin America and the Caribbean 2022: The Challenge of Boosting Manufacturing Exports*. ECLAC: Santiago, January. [↑](#footnote-ref-9)
10. . Parties to a trade agreement grant each other preferential access. To ensure that goods containing materials from a third country have undergone sufficient processing within the preferential trading area, trade agreements include provisions on rules of origin. A good that satisfies the rules of origin is classified as “originating” and therefore is entitled to preferential tariff treatment. [↑](#footnote-ref-10)
11. . Bidegain Ponte, Nicole, Karina Stark-Fernández, Nanno Mulder, and Winfried Weck. 2023. *Brechas de género en las Cadenas Globales de Valor de América Latina y el Caribe: nuevos y viejos desafíos en un contexto de incertidumbre.* Santiago, Chile: Konrad Adenauer Fundación and ECLAC, April. [↑](#footnote-ref-11)
12. . Reshoring gives companies direct control over their domestic operations as they are brought back within their own country. Nearshoring is the practice of transferring a business operation to a nearby country. [↑](#footnote-ref-12)