

Can services improve Latin America's manufacturing competitiveness?

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ABSTRACT

Latin America's share in global exports of manufactures stagnated around 5% from 2000 to 2015, which contrasts developing Asia's performance (which share rose from 23% to 37%). The former region's underperformance is often explained by its growing specialization in natural resources, largely due to the rising demand for these products by China. This paper analyzes another potential explanation of the region's stagnant performance: the insufficient incorporation of domestic and foreign intermediate services as a source of value added. A growing literature shows that a country's manufacturing export performance depends on its degree of servicification. We compare the performance of Latin America with that of developing Asia in terms of direct exports and imports of intermediate services. Subsequently, we estimate the domestic and imported intermediate services value added contents of exports of manufactures using international input output tables between seven Latin American countries and six Asian countries between 2000 and 2011. Panel regressions are carried out to test whether the above intermediate services intensities of manufacturing sectors help to explain their export performance in terms of global export market shares, export goods prices and degree of diversification. The paper concludes with suggestions on how to promote the development of intermediate service providers.