Analysis of Central American trade integration from the perspective of intraregional value added

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This article aims to study trade integration in Central America in terms of value added based on the first subregional input-output table, a tool developed by the Economic Commission for Latin America and the Caribbean (ECLAC) in close cooperation with the central banks and statistical institutes of the region. In particular, this article will examine whether the Central American integration strategy, which has been successful with regard to gross exports, has also been effective in incorporating intermediate inputs from within the subregion itself.

Indicators for value added from trade within Central America, based on the first subregional input-output table, enable an innovative analysis that is unprecedented in economic literature. To conduct a comprehensive assessment of trade integration, the methodology used for this study considers both the flow of exports between economies and the imported inputs for the production of exports.

This is achieved by using the indicators proposed by Stehrer, Forter and Vries, which generalize the calculation of vertical specialization by simultaneously estimating the value added created by exports and imports. The method consists of determining the flows of exports and imports from a given country, called the anchor country, and then estimating the value added created by those flows using the Leontief model.

From a regional perspective, the size and composition of value added created by trade show to what degree economies interact in regional productive processes and their dependency on them, making it possible to measure trade integration in terms of value added.

Calculations of the trade-induced value added (exports and imports) show that the share of subregional foreign value added embodied in subregional exports is low, as is the share of multilateral and reimported value added created by imports. The highest share is recorded in Honduras, where the sum of these values is 6%, while the lowest share is recorded in Panama, at just 1.8% of all subregional trade. In contrast, intermediate imports from countries outside the subregion account for an average of 30% of gross exports within the subregion.

In other words, imports from countries of the subregion create very little indirect value added, given the low share of intermediate inputs originating in the subregion, as represented by the low values for the indicators for multilateral and reimported value added. The statistics show that although the gross value of subregional trade is high, Central America is largely dependent on inputs from outside the subregion.

This analysis also shows that there are various profiles as regards trade within the subregion and value creation through exports and imports. In El Salvador, Guatemala, Honduras and Nicaragua, the share of domestic value added embodied in exports to Central America is lower than the share of bilateral value added created by imports; in Costa Rica and Panama, these proportions are reversed.

A more in-depth analysis could look into specific sectors and value chains, such as those of textiles, garments and the agrifood sector, which are extremely important in Central America. Another

avenue for future research would be to conduct a dynamic analysis by updating the subregional input-output table, making it possible to study changes in the indicators over time.