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# From internationalization to local markets poverty alleviation and competitiveness in the agro-industrial sector of Latin America

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## Abstract

The objective of this paper is to analyse the proposal that the production units of the Latin American agribusiness sector evolve from internationalization to their products offers aimed at “the local”, in response to changes in the world scenario. To achieve the objective, a documentary and secondary source analysis were carried out, regarding the impact of COVID19 on the Latin American economy at the world stage. The main result points to the transversality of the creative industries with the agro-industrial sector to encourage creativity within the local business networks that were originally oriented at indirect internationalization. Value enhancement (revaluation) through creativity of orange economy and recognition of peoples' cultural assets, diversity and intangible heritage generates wealth. This transversality contributes to the alleviation of poverty, sustainability and competitiveness of agro-industrial companies.

## Key words

Complex adaptive system, local development, COVID 19, internationalization.

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## 1. Introduction

The last decades of the 20th century and the first ones of the 21st century were marked by a propensity to trade internationally through global value chains (Calvo, 2020). This propensity was observed also in the agro-industrial sector (Rama, 2016; Stal, Sereia & Silva, 2010; Ates & Sen, 1999).

The small production units (Llambí, 1980) of the agro-industrial sector joined the logic of indirect export, i.e. through local business cooperation networks, which in turn were linked to international networks (Michalus, Pérez & Castro, 2009; González, 2007; Olivares, 2005).

However, the world economy is nowadays in a recessive period, accompanied by a global pandemic which subsequently has effects on international markets and the welfare level of the population (Atkeson, 2020; Bonaccorsi et al., 2020; Li et al., 2020; Martin et al., 2020).

If during periods of economic expansion it was an urgent subject matter to rethink “the local dimension” (Montoya, Juárez & Esteban, 2008; Albuquerque, 2004; Coraggio, 2003; Cárdenas, 2002), the new scenario leads to consider this thought with even greater urgency. The city has been exposed through its most basic elements: food security, health and basic income (ECLAC, 2020).

Guaranteeing a minimum income for the population is a challenge for Latin American countries. Health systems are collapsed in some countries, while in others they have come close to collapse. Food security is in doubt; if the curve is not flattened and if the economies keep their borders closed, it can be difficult to guarantee it. The areas with the highest concentration of population have been those with the most infections and deaths.

It is also these large cities that have the greatest dependence on food brought from abroad. The agro-industrial sector is directly related to the food security, inputs for the health system and job creation as well as general sustainability. For this reason, this paper focuses on the agri-food sector and on the proposal that production units move from internationalization to the offer of their products targeting “local dimension”.

This proposal aims to address the problems of Latin America; but it has an equal importance for Europe and other regions of the world; of course, considering the multidimensional reality that corresponds to the region.

While focusing on the underpinning of proposal for “internationalization towards the local markets” in the agro-industrial sector in order to alleviate poverty and increase competitiveness and sustainability, this study is divided into three parts, apart from the introduction and conclusions.

The first part of the work exposes the impact of COVID19 on aspects of international trade, the situation of companies and socio-labour one. The data provided by the Bank of Spain, the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC) are presented for this purpose.

The second part presents an analysis of the local business network and the orange economy, which stresses the creativity. This part presents the way in which the logic of the local network is congruent with the objectives and nature of the orange economy. Local networks have been used in recent decades by agro-industrial production units to achieve indirect internationalization. These same networks have the possibility to go “local” and achieve greater impact through the orange economy.

The third and last part presents the possible effect of this process on the reduction of poverty and an increase in the competitiveness of the agro-industrial company and sustainability in general. The papers that address the orange economy hardly indicate the possibility of making it transversal with other sectors, more so with the agro-industrial sector. What is more, the flourishing of local agriculture can also bring the revitalization of traditional culture and art.

## 2. COVID19 impact in Latin America and Caribbean region

During the last decades, before the pandemic, global value chains (GVCs) accelerated. The commercial and financial policies of Latin American countries encouraged companies to join the GVCs. Multilateral organizations also suggested their insertion in order to reach greater competitiveness and positive impact on local economic development. This had four situations in favor: 1) technological innovation, which fragmented production and created new services; 2) the improvement of the communications infrastructure that made transportation cheaper and attracted Foreign Direct Investment; 3) trade and financial liberalization, and 4) the successful insertion of China and other Asian economies into the world economy (Calvo, 2020).

However, these chains have been shortened and regionalized (Baiget, 2020) in recent years. The world economy had been showing recessive effects and the symptoms of a depression were clear since the end of the last century (Stiglitz, 2010; Krugman & Wells, 2010; Krugman, 1999).

It is not surprising that, by the beginning of 2019, Latin America and the Caribbean presented possibilities of little growth, while China had also been slowing down its growth (Timini & El-Dahrawy, 2019; Xu, Roth & Santabárbara, 2019; BE, 2019). The slowdown in China only was causing havoc at the global level (table 1), as shown by simulations carried out by the Bank of Spain (of Spain, 2019).

Table 1

**Impact under different perturbations on the real GDP growth (%) / (pp) and (bp)**

	Trade channel				Raw materials channel				Financial channel							
Total Shock	Decrease of 1 pp of potential and final demand readjustment				-6.9% in petrol prices & -7.8% in metals prices				Decrease of 10% on stock markets, 50 bp rise of stock risk premium in stock exchange and 60 bp of long-term interest rates of the economies							
	China	Aver. E.	Emer. E..	World	China	Aver. E.	Emer. E..	World	China	Aver. E.	Emer. E..	World	China	Aver. E.	Emer. E..	World
<b>T+1</b>	-0.69	-0.27	-0.52	-0.41	-0.60	-0.07	-0.27	-0.19	0.07	0.08	-0.04	0.01	-0.09	-0.25	-0.15	-0.19
<b>T+2</b>	-0.68	0.14	-0.29	-0.11	-0.72	-0.04	-0.31	-0.20	0.15	0.18	0.15	0.16	-0.01	-0.02	-0.03	-0.02
<b>Average</b>	-0.68	-0.06	-0.40	-0.26	-0.66	-0.06	-0.29	-0.20	0.11	0.13	0.05	0.08	-0.05	-0.14	-0.09	-0.11

Source: Source: Bank of Spain (BE, 2019). pp – percentage point, bp – basic point.

The scenario simulated by the Bank of Spain (BE, 2019) resulted in a reduction in world growth of 0.4 pp in one year. This impact was given, in equal parts, by the commercial and financial channels, without the relevance of the decline in prices in the raw materials channel. In fact, in advanced economies, this last channel would have an expansionary effect, due to the cheaper imports of raw materials, which would limit the effect of other shocks, so that its joint impact on GDP would be – 0.3 pp.

The contraction in activity would be more pronounced in emerging economies (–0.5 pp). In case of these economies, it would fundamentally affect the producers of raw materials and also some Asian economies with strong interrelations with China. This scenario would generate disinflationary pressures, more pronounced in emerging economies, especially in raw materials producers (BE, 2019). In other words, Latin America would have faced a decrease even in the absence of COVID 19. Perhaps the real surprise is in the GVCs. It could hardly be elucidated that the advantages offered by GVCs would negatively impact the Latin American economies in 2020.

The United States, the European Union and China were introducing increasingly protectionist measures long before COVID19. The large economic blocs had already started a tariff war in strategic sectors, a situation that involved countries from the Middle East, Latin America, Africa and Asia (Castillejo & Silvente, 2020; González, 2020).

Oil marked historical drops in its prices and unprecedented in 2015; however, April 2020 marked the worst results (Ashfaq, Maqbool & Rashid, 2020; Favazza & Mahjoubi, 2020; Salisu, Ebu &

Usman, 2020). This was the scenario in which COVID 19 made its entrance; it did not provoke but it did exacerbate the world situation (Krugman, 2020).

The region in which the pandemic originated, China, was more involved in world events and in the strategies to maintain its economic power, as well as in sustaining social and political cohesion within its regime (La Gran Época, 2020).

This situation led to a slow and disjointed international response to the pandemic and a lack of connection between what was really happening in Wuhan and what China communicated to multilateral organizations (WHO, 2020). It is possible that in any other part of the world they would have reacted in the same way. Almost nobody thought that a virus of such capacity could appear on the world stage. No government or nation, except the scientific community that had already published something about it in 2003 (Nguyen-Van-Tam & Hampson, 2003).

Facing the global crisis nations were distracted; looking perhaps more for a way that could give them an opportunity to take a strong position both politically and economically on the world stage. Little by little, a greater understanding has been reached of how COVID19 behaves and what effects it causes, which in turn has led to changing lifestyles worldwide.

Among the immediate effects on the economy is the increase in the new poverty profiles. This occurs due to a reduction in non-essential jobs (Argyriades, 2020). There is a greater destruction of jobs compared to those that have been created in the new normal.

Another factor that influences, and that was also affected, is migration. The closure of borders worldwide harmed the migrant population. By preventing border crossing, many are literally left in "limbo." In addition, the pandemics encourages migration, thus worsening the situation (IDB, 2020).

In 2020, world output registered its largest contraction since World War II. In May 2020, the volume of world trade in goods fell by 17.7% compared to the same month in 2019 (ECLAC, 2020a). In the first five months of the year the drop was widespread, affecting more the exports from the United States, Japan and the European Union. China experienced a slower contraction than the world average because it "controlled" the COVID19 outbreak and reopened its economy relatively quickly. Latin American and Caribbean region is the most affected developing area (ECLAC, 2020a). (Table 2).

In case of Mexico, only the agricultural sector and extractive activities other than oil showed a slight increase, of 3.5% and 5.2% respectively (ECLAC, 2020a). Four Central American countries increased their exports. Costa Rica is one of them, due to the increase in demand for medical devices to face the pandemic, especially from the United States. Guatemala and Honduras also increased their exports of personal protective equipment, especially masks, and agricultural products. Nicaragua benefited from the rise in the price of gold and the export volumes of agricultural and livestock products (coffee, sugar cane, beans, tobacco, among others).

Table 2

**Comparison of the value of exports of goods in Latin America (January-May 2018-2020, in percentage)**

Region/subregion/Country	Jan-May 2018	Jan-May 2019	Jan-May 2020	April 2020	May 2020
<b>Latin America and Caribbean</b>	10.7	-0.3	-16.6	-29.5	-37.1
<b>MERCOSUR</b>	5.8	-4.1	-12.4	-11.7	-16.2
<b>Argentina</b>	7.0	3.2	-11.5	-18.4	-15.9
<b>Brazil</b>	6.6	-2.1	-6.5	-5.8	-13.1
<b>Paraguay</b>	7.5	-18.4	-8.2	-18.8	-11.2
<b>Uruguay</b>	4.5	1.0	-21.4	-21.0	-38.1
<b>Venezuela</b>	-1.0	-27.0	-65.0	-53.1	-47.7
<b>ANDEAN COMMUNITY</b>	16.6	-2.8	-23.1	-52.8	-41.4
<b>Bolivia</b>	24.3	-8.7	-23.8	-62.1	-58.5
<b>Colombia</b>	14.5	0.4	-25.0	-52.3	-40.6
<b>Ecuador</b>	13.6	3.1	-15.2	-44.4	-27.2
<b>Peru</b>	18.5	-7.3	-25.3	-56.3	-36.3
<b>PACIFIC ALLIANCE</b>	13.9	1.7	-19.8	-37.6	-49.4
<b>Chile</b>	21.3	-6.6	-8.8	-6.3	-15.2
<b>Mexico</b>	12.2	4.3	-20.8	-40.7	-56.7
<b>COMMON CENTROAMERICAN     MARKET</b>	2.5	-1.8	0.4	-13.9	-8.0
<b>Costa Rica</b>	7.0	1.3	2.2	-11.6	-3.6
<b>El Salvador</b>	5.2	-1.0	-23.6	-51.0	-31.3
<b>Guatemala</b>	-1.3	-1.9	3.2	-8.1	-1.6
<b>Honduras</b>	-1.2	-8.5	2.3	-3.5	-5.7
<b>Nicaragua</b>	0.0	-4.1	14.1	14.7	14.6
<b>Panama</b>	11.7	0.7	-11.5	-30.8	-52.3
<b>Caribbean Countries</b>	11.2	4.5	-10.0	-32.1	-33.3
<b>Cuba</b>	-32.1	9.5	-29.8	-38.3	-51.6
<b>Dominican Republic</b>	7.8	4.9	-8.5	-27.4	-28.4
<b>Caribbean Community</b>	17.5	4.0	-9.7	-34.2	-35.2

Source: Source: Cepal (2020a).

Part of the economic resilience of these countries is explained by the importance of trade within the subregion itself. These contribute to cushioning the lower demand in its extra-regional partners (ECLAC, 2020a). In relation to the three large sectors, agricultural and livestock products were the least affected in the region (Table 3) as they are also essential products to a large extent.

Table 3

### Year-on-year change in the value of exports in goods (January to May 2018 to 2020)

Sector	Participation in total (2019)	Jan-May 2018	Jan-May 2019	Jan-May 2020	April 2020	May 2020
<b>All Sectors in total</b>	100.0	10.7	-0.3	-16.6	-29.5	-37.1
<b>Agriculture and Agroindustry</b>	13.4	3.8	2.7	0.9	-5.2	-4.2
<b>Mining and Oil</b>	20.8	17.5	-5.1	-25.8	-41.6	-43.0
<b>Manufacturing</b>	65.8	10.3	1.0	-18.5	-31.2	-43.1

Source: Source: Cepal (2020a).

One possible explanation that ECLAC (2020b) offers for what is happening in the agricultural sector is that the demand changes due to the pandemic have favored this sector even if reduced consumer income and uncertainty have led to a drop in consumption in general.

It has also caused changes in consumer behavior. This has had a positive impact on the demand for goods and services related to cleaning products, disinfectants, durable foods and on communication and information technologies (Cepal, 2020b). In Mexico, the food industry registered an increase of 2.5%; in Argentina it grew 1%; and in Colombia, 6.1% (ECLAC, 2020b).

Social distancing is an important instrument to reduce the negative impact on the population welfare and on the world economy because it reduces the probability of contagion and allows economic reactivation while overcoming pandemics.

This social distancing comes to modify not only the way in which we conceive the interactions with others but also the manner in which transactions are carried out in the market. This measure to mitigate the effects of the pandemic has profound repercussions on consumer habits, the purchase decision and customer expectations regarding service satisfaction.



The proceedings to face the health emergency increased the companies use of digital technologies in their relationship with consumers, suppliers and employees, as well as in the organization of internal management processes (ECLAC, 2020b).

COVID19 has remodeled the capitalist system functioning, and a timely and clear understanding on the part of companies will allow them a rapid adaptation, which in turn, will increase their competitiveness. It is always good to remember that behind almost every social relationship there is an economic relationship. It implies that social distancing has to transform economic relationships as well as social ones.

This premise leads to propose the adaptation of the company to the new economic reality based on the logic of the local business network.

Based on what is stated in this section, the importance of the agro-industrial sector cannot be underestimated, mainly the production units or enclaves, initiating a process of localization and regionalization through the same local business network that at the time allowed them to internationalize.

This process is in line with the trend related to short circuits (CEPAL, FAO, IICA 2014) or proximity agriculture that, in addition to ecological benefits, especially savings in transport and packaging and its negative impact on the environment, allows the benefits to be focused on the farmers who receive a higher price due to the limitation of the role of intermediary companies and consumers in obtaining fresh, more ecological products by not having to endure long times before consumption (and the processing that it entails).

It is considered propitious to encourage the orange economy within these networks. New technologies can help to facilitate the creation of local business models consistent with social distancing. The fusion between the traditional and creative cultivation, production, processing, packaging and presentation of products, mostly organic, and the application of ICT to reach the consumer market will have a positive effect on alleviating poverty and increasing the competitiveness of companies operating in the agro-industrial sector. The transversality of the creative industries offers this possibility for this kind of local business network.

### 3. Local business network in the orange economy

The way in which a network is established and its basic operation is applicable to business ties (Harrell, Melamed & Simpson, 2018; Melamed & Simpson, 2016; Brolos, 2009; WU & GU, 2008;) that originate in “the local base” (a specific territory, enclave, niche; it can be a cluster or industrial district, determined in time and space). These links are in place due to various reasons that are not necessarily related to cooperation (González, 2007).

The more companies are part of a local network, the more links are created within it, with a greater probability that acts of opportunism or expediency will arise (Hill, 1990). Local networks are not weakened by acts of opportunism, because there is an interest on the part of businessmen to

remain close due to other reasons which are more relevant than opportunism (Santos, Pacheco & Lenaerts, 2006).

Local networks are maintained even when they are characterized by a greater existence of competitive links because there are centripetal forces independent from these links that keep companies concentrated in the same geographic area (Fujita, Krugman & Venables, 2000).

Although local networks are articulated with international networks, and vice versa, they are markedly different phenomena and the study of the former must be done considering these particularities without losing, or undermining, the importance of the latter (González, 2007).

This writing focuses on business networks that are local because it is in them that the orange economy should operate. In these networks, the production units or enclaves of the agro-industrial sector have worked over the years with the aim of exporting and internationalizing indirectly. These local networks have the possibility of directing efforts towards the national market in order to face and to adapt to the new reality. This allows the creation of new jobs in the locality, guarantees food security for the population and contributes to economic reactivation.

One of the centripetal forces that strengthens local networks is the learning, apprenticeship system. Businesses stay involved in the relational web because it offers learning. Knowledge can be recognized as “a commons” in the local networks of the agro-industrial sector (IN308008, PAPIIT, 2008; Ostrom, Hess 2007).

Learning facilitates the adaptation of economic agents to changes in the environment, no matter how unfavorable they may be (González & González, 2020). This works best when it comes to cultures in which the learning system has fostered creativity, knowledge as “a commons”, and family cohesion. These are characteristics of the local networks that operate in rural areas of Latin America. Thus, this is the reason why the orange economy model is considered viable in these localities (Benavente & Grazi, 2017). But what is the orange economy?

The orange economy is made up of the creative and cultural industries (Benavente & Grazi, 2017). Creativity is associated with aesthetics, that is, the appearance of goods and services and the emotional changes that these products generate in consumers. The fact that a good or service is aesthetically or emotionally desirable on a social or personal level does not mean that it lacks economic value or that it does not comply with economic rules; on the contrary, its production process requires working capital and knowledge (Benavente & Grazi, 2017). Thus, in the agro-industry the introduction of creative or author cuisine can be significant, especially when it remasters and relaunch the traditional gastronomy.

This economy refers to the set of activities that in an articulated way (in a local network), allows ideas to be transformed into goods and services, whose value is based on intellectual property (Benavente & Grazi, 2017), especially such as designation of origin, trademarks registry, trade secrets and also creative commons.

This economy requires the local network to have a learning system that have a positive impact on the locality. This is because talent and creativity are the main elements of the orange economy. To

be part of a locality, to be capable of generating employment, wealth and improving the quality of life, it is important for the orange economy to emerge among the economic agents that are part of the local network.

A local network of companies with a learning system that encourages creativity and talent requires being part of a larger ecosystem. This calls for the articulation of the local network of companies with other networks that include agents from the public and private sectors; with the local community; with end users and educational and even environmental institutions.

This articulation with other networks should not lose sight of the fact that the catalyst for creativity, for the impact to be greater, must be originated by the local network of companies. It is indeed companies that urgently require successful adaptation to the new reality and that offer workplaces. Placing the responsibility of the ecosystem on other economic, political or social agents can divert attention from reality and produce results beyond those required, reducing or nullifying the positive impact on local development.

Benavente and Grazzi (2017) suggest the national innovation system as an ecosystem for the orange economy, referring to the fact that public and private agents are the catalysts of the orange economy. However, in economies in which the national innovation system is disjointed (González, 2015) and its mechanisms for creativity and innovation are incipient, it is better if the local networks can be the catalysts. Finally, the latter is in congruence with endogenous development rules. Furthermore, the articulation of the local network with international networks will expand endogenous development, bringing better adaptation in periods of high protectionism, as well as in periods of greater openness (González, 2006).

#### **4. A snapshot of the local dimension: alleviation of poverty, sustainability and greater competitiveness for the company**

Creative industries alone do not guarantee development. Transversality with other sectors is required to achieve the orange economy. Hence the importance of local networks that consider learning and knowledge as a commons (Figure 1). This “a commons” approach facilitates transversality. The link between economic agents of the creative industries with agents of the agro-industrial, technological and educational sectors leads to a diversified impact. This is an attempt to link the abstract and symbolic dimensions (art and culture), with concrete and pragmatic dimensions (economy, market) (Vélez, 2013).

Figure 1

**Impact of the orange economy on the economic agents of a local network**

Source: Own elaboration.

**4.1 Entrepreneurship**

Formalization and business development are built through transversal entrepreneurship (linking creative industry agents with agents from other economic sectors). It opens the opportunity for new economic activities that contribute to sustainability, increase investment levels, grant access to specialized training and the strengthen local business networks (Olaya, 2018).

**4.2 Resilience**

A local business network is a complex adaptive system. It interacts with the environment, learns from experiences and adapts. The adaptative cycle (Holling, 1986) describes four phases in the change processes of complex systems as a result of their internal dynamics and external influence: growth, conservation, liberation or creative destruction and reorganization (Walker et al. 2006; Castillo & Velázquez, 2015).

The transversality of the creative industries with the agro-industrial sector, particularly with local networks of companies, contributes the creativity to guarantee the economic growth and sustainability of the local system in the face of highly unfavourable changes in the environment, particularly in the face of changes in nature (COVID 19).

The articulation of the local business network with other networks; as well as transversality contribute to panarchy. The latter refers to the adaptive and evolutionary nature of adaptive cycles that are nested with one another across space-time scales. The word panarchy derives from the Greek god Pan - universal god of nature - and represents the omnipresent and spiritual power of nature - role of creativity - and its paradoxical personality of destabilizer - destructive creative role - (Holling, Gunderson & Peterson, 2002; Castillo & Velázquez, 2015).

### 4.3 Employment creation

Entrepreneurship originated by transversality encourages the creation of formal jobs; while resilience helps to reduce job losses when unfavourable situations arise for the local economy. It also implies the quality, providing for a decent employment and in general improvements related to Future of Work.

### 4.4 Poverty alleviation

In a resilient system, individual nodes - people, businesses, communities, and also entire countries - are able to draw support and resources from elsewhere but are also self-sufficient to meet their essential needs in case of emergency. It is much more difficult for the local economic system to fall into the poverty trap. (Castillo & Velázquez, 2015).

### 4.5 Value and wealth generation

Value enhancement (revaluation) and recognition of peoples' cultural assets, diversity and intangible heritage generates wealth. It is necessary to assign an important place to culture as a constitutive force for exploitation, accumulation and economic growth. It implies the recognition and appreciation of human resources, the strengthening of solidarity in civil society, the innate wealth of communities based on culture; this is a transition towards self-management of communities and individuals based on culture (Vélez, 2013).

## 5. Conclusions

The world economic reality and the position of Latin America on the international scene lead to rethinking the tendency in terms of local economic systems towards internationalization. Global value chains were paralyzed by the COVID19 pandemic, which further affected the economies of Latin America.

The latter shows the importance of non-exclusivity of foreign marketplaces focus and maintenance of balance between international, regional and local markets. It is particularly important in sectors that are strategic for food security and supplies for the health system. The agro-industrial sector is fundamental in this extent. For this reason, it is considered important to direct the process of

internationalization of Latin American production units towards local markets supplies. This process is in line with the promotion of short circuits and their contribution to sustainability.

The transversality of the orange economy accompanied by the insertion of economic agents belonging to the creative industries in local networks increases the positive impact on the locality. This is understood under the consideration that these are local business networks with decades of existence, that have served for indirect internationalization and that have accumulated experience in articulating with other networks, as well as learning from situations of opportunism and from failure. Creativity within the local network facilitates adaptation to the new economic scenario, reducing poverty in the locality, addressing Future of Work and increasing the competitiveness of companies as well as sustainability.

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