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## comercio internacional

# **L**atin American and Asia Pacific trade and investment relations at a time of international financial crisis

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## Abstract

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The global economic crisis has put an end to a period of worldwide expansion and halted the integration of Latin America and developing Asia with the international economy. Current and expected economic weakness in the advanced economies has led us to look elsewhere for sources of growth. Emerging economies in Asia and Latin America have increased their contributions to world production, finance, and trade in the past decades. In doing so, the two regions have deepened their economic ties with significant implications for the recovery of their respective economies. In this paper we discuss the impact of the crisis on the commercial patterns inside and outside the Forum for East Asia Latin American Cooperation (FEALAC) bloc.

We describe the FEALAC economy and identify existing trade and investment structures, and find important structural shortcomings such as a high dependence on inter-industry trade between Asia and Latin America. We argue that this is also an opportunity for greater integration into bi-regional value-added chains and that trade and cooperation between the two regions can be an effective means to counterbalance the adverse effects of the current financial turmoil.





## Introduction

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The recent severe deterioration of the global economic environment follows a period of sustained expansion and greater integration of Latin America and developing Asia with the world economy. Over the last three decades, the countries of both regions have successfully expanded their trade in goods and services, foreign direct investment and other capital flows, playing a major role in world production and trade but also in global finance. In addition, when compared with the former financial crises that the two regions faced, this time Latin America and developing Asia are better prepared macro-economically to adopt counter measures. As such, the international financial crisis is unlikely to result in any significant retreat of the integration gains seen in recent years.

While the current crisis puts a strong break on the ongoing globalization process of countries in both regions and threatens the previous sense of resilience and invulnerability that earlier characterized the economies of both regions, Asia's quick recovery to a sustained economic growth path and even closer trade and investment relations between the two regions are a prerequisite for Latin American countries' return to sustained development as well. In this regard, South-South trade and cooperation between the two regions can, and should be, an effective means to counterbalance and/or soften the adverse effects of the current financial turmoil. With appropriate policies in place, both regions may leave the crisis even more economically strengthened.

Trade and investment between Latin America and the Asia-Pacific region, which had recovered after the Asian crisis and continued to expand up until mid 2008, thanks especially to the upsurge of trade flows with China, has weakened significantly since then into 2009. Against the backdrop of an adverse environment in which the global economy finds itself, there is an urgent need to address the opportunities and challenges

that lie ahead not only in revitalizing bi-regional trade and investment relations but also in even deepening them, in the present context of international financial crisis.

Notwithstanding an impressive rise in bi-regional trade prior to the crisis, Latin American and the Caribbean trade with Asia-Pacific still suffers from important structural shortcomings; for most of the countries in the region, the Asia-Pacific region has remained still largely unexploited, apart from a few South American primary products. In addition, bi-regional trade continues to be characterized by its inter-industry nature, with Latin America mainly exporting commodities while importing exclusively manufactures of varying technological intensities. The impressive export performance in recent years has been primarily based on China's steady demand for several commodities, prices of which begin to deteriorate in the face of severe weakening aggregate demand in major industrialized and emerging economies. The dramatic decline in export earnings in recent months testifies to the narrow product composition of the region's exports and the sensitivity and volatility of export earnings to economic cycles of importing countries.

Latin America and the Caribbean must, as a matter of urgency, reorient and realign its relations with Asia-Pacific in order to sustain its future commodity exports, while producing more value-added and technologically more complex manufactures for that market. The strategy in this regard should be: i) promote the Latin American and Caribbean region's participation in Asian supply with a view to boosting the value-added and technology/knowledge content in its exports (de facto integration approach); and ii) implement instruments such as free trade agreements (FTAs) in order to address market-access problems (the de jure approach). The public and private sectors must be prepared to allow companies to build ties with successful Asian firms by forming part of the supply chains, including those natural-resource-based manufactures that are currently being exported to Asia Pacific.

A number of important events have been organized in recent years to address the nature and scope of inter-regional ties between Latin America and Asia-Pacific. However, these initiatives stopped short of institutionalizing high-level political talks or implementing plans and programs aimed at strengthening economic, political and cultural ties. There have been few coordinated strategies between countries or regional grouping for seeking closer trade and investment links with the Asia-Pacific region.

From this perspective, Forum for East Asia Latin American Cooperation (FEALAC) is the only forum of cooperation dialogue that goes beyond the concept of the Pacific Rim. Latin American countries especially should identify the Forum as an important channel to Asia-Pacific and an alternative to APEC for its non-member states and as a key forum of policy dialogue. FEALAC should provide a forum for countries in both regions to discuss the changing bi-regional relations in an adverse international economic environment. FEALAC can serve to promote public-private-partnership initiatives on various fronts, covering bi-regional trade and investment, trade facilitation and other bi-regional cooperation issues, especially in the present context of international financial crisis.

In addition, as FEALAC is composed of 15 Asian-Pacific<sup>1</sup> and 18 Latin American countries,<sup>2</sup> most of which are developing countries, the Forum has a potential to be a platform for sharing issues and experiences common to developing countries, exploring a cooperative mechanism, and building a complementary relation based on each region's comparative advantages. In fact, when measured in terms of Purchasing Power Parity (PPP), the Latin America and the Caribbean region has a GDP of US\$ 5.6 trillion, about four-fifths of that of China (US\$ 7.0 trillion), and about 40% of that of developing Asia, which has a GDP of almost US\$ 13.1 trillion. No other region comes close to these two areas in terms of size and stage of economic development. In order to bring about concrete results in this forum, it might be necessary to place it in a new perspective of formal "South-South cooperation" where inter-regionalism functions as a bridge between regionalism and multilateralism. That is to say, FEALAC should constitute itself as another pillar of worldwide inter-regional cooperation schemes, such as APEC and Asia-Europe Meeting (ASEM).

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<sup>1</sup> Australia, Brunei Darussalam, Cambodia, China, Indonesia, Japan, Republic of Korea, Lao People's Dem. Rep., Malaysia, Myanmar, New Zealand, Philippines, Singapore, Thailand, and Viet Nam.

<sup>2</sup> Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Mexico, Panama, Paraguay, Uruguay and Bolivarian Rep. of Venezuela.

## **I. International financial crisis and its possible impacts on FEALAC bi-regional trade and investment relations**

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In 2003-2007, world economic activity was at its most vibrant in 40 years, with high growth rates –at an average of about 5% per year, the highest sustained rate since the early 1970s–, low inflation, low interest rates, fluid financing and buoyant international trade. The major emerging countries (Brazil, the Russian Federation, India and China —the so-called “BRIC” group) accounted for almost half of world economic growth. This favourable international context, combined with improvements in the region’s macroeconomic policies, enabled the Latin American and Caribbean region to achieve its best economic performance in 40 years.<sup>3</sup>

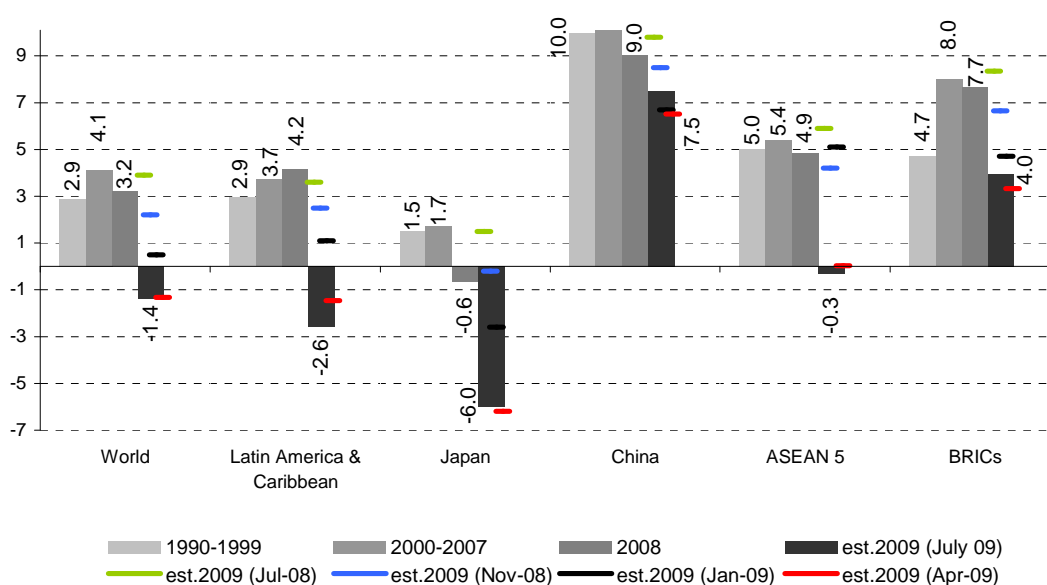
An important factor in this positive regional performance was high world demand for energy, food and other commodities, which boosted the region’s exports. However, the year 2008 broke the upward phase of the cycle of the economies of the region with powerful interrelated shocks. Recessory pressure in many parts of the world economy and deep recession in major industrialized countries have since led to a fall in raw material prices, especially those of oil, copper and other commodities of interest to the region. As a result, international institutions are revising

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<sup>3</sup> During 2003 and 2007, the general economic performance of Latin America and the Caribbean was characterized by: i) per capita income growing over 3%; ii) unemployment falling from 11% to 7.7%; iii) creation of better-quality jobs with a substantial increase in formal-wage labour; iv) more fluid access to external financing, thanks to low interest rates and low country risk; v) rising world demand for commodities resulting in improvement of terms of trade of a magnitude of 33%; and v) increased remittances, which constitute an important part of the regional GDP: 2002 (1.8%), 2006 (2.2%), 2007 (2.0%) and 2008 (1.5%).

down their estimates of growth for most regions and countries of the world. In mid-2008, the IMF expected global GDP to increase by 3.9 percent in 2009. It has since revised its forecast and now expects a decline of 1.9% in its latest World Economic Outlook update (IMF, 2009), a sharp deceleration from the 3.1% growth experienced in 2008 (Figure 1).

**FIGURE 1**  
**GDP GROWTH OF SELECTED COUNTRIES AND REGIONS <sup>a</sup>**  
(Percentages, year-on-year real growth rates)



Source: Economic Commission for Latin America and the Caribbean based on IMF World Economic Outlook (IMF, 2008c, 2008b, 2008a, 2009c, 2009b, 2009a)

<sup>a</sup> Period averages. 2009 estimates show the progressively worse revisions at each World Economic Outlook update, dated July 15, 2008, November 6, 2008, January 28, 2009, and April 22, 2009 (latest).

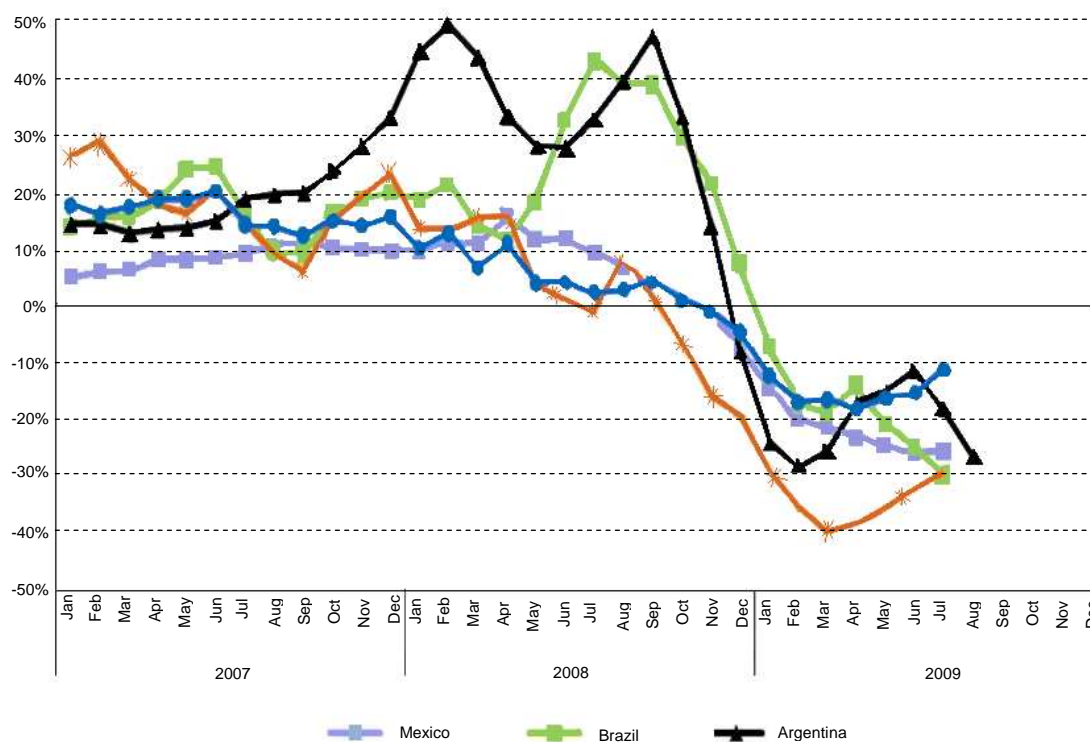
The growing economic difficulties in the industrialized and larger emerging economies present both immediate and longer-term challenges for Latin America and the Caribbean. The region, however, is much less vulnerable than in the past, with a current account surplus, sounder public finances, a lower level and better profiles of public and external debt, and larger international financial reserves (Machinea and Kacef, 2008). Nonetheless, the factors driving growth in this region in the past few years have all but disappeared and governments must be vigilant to the transmission of economic conditions through falling trade flows, weak growth of remittances, difficult financial markets, and fluctuations in global commodity prices.

The ease with which the country in question attenuates the adverse effects of the crisis depends on various factors. The impacts of the crisis will vary across countries depending on: i) solvency of the financial system; ii) debtor or creditor position vis-à-vis the rest of the world; iii) fiscal sustainability and levels of public debt; iv) current account balance; v) relative significance of remittances; vi) diversification of export destinations; and vii) net position as food and energy importers or exporters. Countries with more diversified export structure, by product and by market, will have an easier task in leaving the crisis behind. In this regard, Asia-Pacific markets have an important role to play.

## 1. Trade as a transmission channel

The recession in developed economies and the significant slowdown in the emerging ones —particularly in Asia— is being transmitted very effectively through trade relationships. In Latin America and the Caribbean export growth has slowed significantly since the last months of 2008. In the first months of 2009, some of the region's major economies (Argentina, Brazil, Chile, Costa Rica, and Mexico) experienced a sharp reduction in exports relative to the previous year (Figure 2). The fall in exports is a result of not only a drop in quantity demanded, but also in falling prices for most of the world's commodities.

**FIGURE 2**  
**GROWTH OF TOTAL EXPORTS BY SELECTED COUNTRIES<sup>A</sup>**  
(Year-on-year growth rates, 3 month moving averages)



Source: Authors' calculations based on official national data.

<sup>a</sup> Trailing 3 month average growth rate from the same period in the previous year. Mexico's exports exclude oil.

The impact of this contraction on the region's economic growth will be more deeply felt in economies with greater degrees of trade-openness, and will depend on each country's mix of export products and export markets. In Latin America and the Caribbean, many countries are highly dependent on few products and markets. In Mexico, Ecuador, Chile, Costa Rica, Venezuela (Bolivarian Republic of) and Honduras, trade with developed countries accounts for over 10% of GDP. In Mexico and in Costa Rica, trade is also highly concentrated on manufacturing exports, which account for over 10% of GDP in each.

This heavy degree of concentration has a cost. Official trade data shows that in the first half of 2009, manufactured exports from Latin America and the Caribbean experienced a stronger contraction than exports of agricultural materials regardless of destination (Table 1). Notably, agricultural exports to the European Union increased in the first six months of 2009 relative to the same period in 2008.

**TABLE 1**  
**LATIN AMERICA AND THE CARIBBEAN EXPORTS BY PRODUCT TYPE AND DESTINATION**  
*(January-June 2009, Year-on-year growth rates)*

	United States	European Union (27)	World <sup>a</sup>
Agriculture	-15.4	0.8	-18.5
Mining and Oil	-42.1	-49.7	-52.0
Manufactures	-29.7	-27.5	-23.8
<b>Total</b>	<b>.28.1</b>	<b>-32.3</b>	<b>-34.0</b>

Source: Authors' calculations based on USITC, 2009; EUROSTAT, 2009; and official national data from 15 Latin America and Caribbean countries

<sup>a</sup> Estimated value.

Greater diversification in export markets are an effective way to mitigate the effects of global shocks on a country's export sector and current account. However, smaller countries with greater specialization of exports can also benefit from diversification in export markets. Latin America and the Caribbean has done well in this regard. In the last 8 years, most countries in the region have become less dependent on the United States and on the European Union and have increased their relative exports to Asia (Table 2). Notably, China has increased its importance as a destination of Latin America and the Caribbean exports by 4 percentage points. However, the severity of the crisis in Asia also means that there is little relief from this greater diversification in export markets.

**TABLE 2**  
**EXPORTS FROM LATIN AMERICAN AND CARIBBEAN TO SELECTED COUNTRIES AND REGIONS<sup>A</sup>**  
*(In percentages of total exports)*

Origin	China		Asia Pacific (ex.China, Taiwan)		United States		EU-27		Latin America and the Caribbean	
	2000	2008	2000	2008	2000	2008	2000	2008	2000	2008
South America										
Argentina	3.1	11.4	4.6	5.8	12.2	7.6	18.5	18.8	48.9	40.6
Bolivia (Plur. State of)	0.4	2.2	0.8	7.5	24.3	8.3	17.3	6.6	45.0	73.5
Brazil	2.1	11.6	8.8	8.9	25.5	14.7	29.4	23.3	33.6	24.7
Chile	5.1	16.3	21.0	18.9	18.3	11.6	25.6	22.9	23.5	19.2
Colombia	0.2	2.7	2.4	2.1	50.9	32.7	14.1	16.1	29.5	38.9
Ecuador	-	4.6	9.6	1.3	39.7	45.0	13.4	14.1	32.8	26.4
Paraguay	0.7	0.6	1.8	2.8	4.1	1.9	14.3	15.2	81.2	74.2
Peru	6.7	15.1	9.9	11.2	29.0	19.2	22.4	17.1	19.2	21.5
Uruguay	4.0	9.3	5.2	5.2	8.5	3.5	16.5	23.1	54.8	43.2
Venezuela (Bolivarian Republic of)	0.1	6.5	1.3	3.0	54.9	53.9	5.3	9.6	34.0	21.2
Central America & the Caribbean										
Costa Rica	0.3	13.6	1.6	10.2	38.3	23.8	25.7	26.6	36.1	20.7
El Salvador	0.0	0.2	0.4	1.6	65.8	47.3	5.2	7.6	28.0	41.3
Guatemala	0.1	0.4	3.7	2.6	36.4	39.9	11.0	5.7	41.1	47.1
Honduras	0.0	0.3	5.7	2.0	56.7	63.9	10.4	10.7	26.5	20.0
Mexico	0.1	1.2	1.0	2.2	89.2	73.4	3.5	6.8	3.9	8.2
Nicaragua	-	0.1	0.5	1.0	42.1	61.8	19.6	9.6	34.6	23.8
Panama <sup>b</sup>	0.2	2.7	3.0	4.5	49.9	15.2	25.2	45.8	28.1	26.0
Cuba	5.0	28.0	2.9	1.2	-	-	37.3	17.5	8.9	14.7
Dominican Republic	0.1	1.8	0.8	3.9	87.4	63.9	6.0	18.5	4.0	7.6
CARICOM	0.2	0.5	1.6	5.7	40.3	38.6	25.2	21.9	21.6	23.8
Latin America and the Caribbean	1.1	7.0	3.9	6.0	60.1	39.5	11.8	15.2	19.1	21.4

<sup>A</sup> > 10% INCREASE in the relative share of the destination market in the origin market's total exports

<sup>A</sup> < 10% DECREASE in the relative share of the destination market in the origin market's total exports

Source: Authors' calculations based on UN COMTRADE Database and IMF Direction of Trade Statistics.

<sup>a</sup> Authors estimates based on IMF, 2009c

<sup>b</sup> Panama does not include exports from the Colon Free Trade Zone.

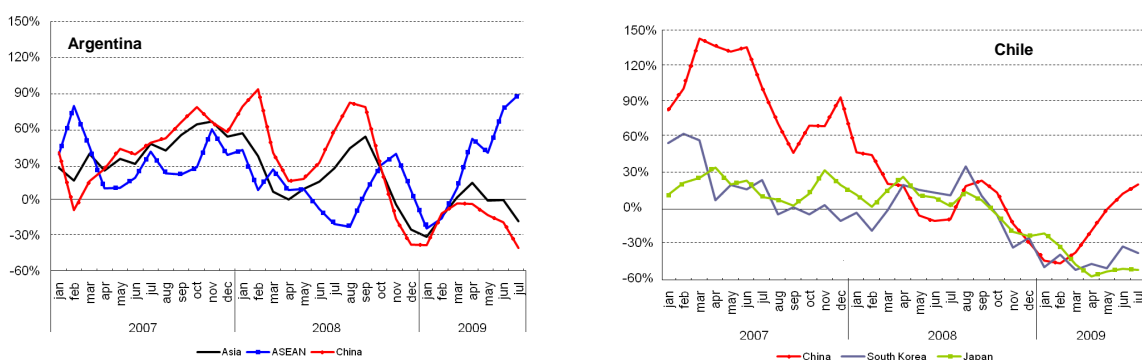
Despite this broad shift towards Asia as a destination for exports, the United States remains a key trading partner to all of the economies of Latin America and the Caribbean, and its economic difficulties are having a strong impact on demand for imports. United States non-oil imports of Mexico's products began to slow in 2007 and continued to fall to the point where they registered a year-on-year contraction since August 2008. Mexico's total agricultural exports has been helped by robust demand in Asia, but this has not been enough to offset weak demand in other sectors. Starting in late 2008 and continuing through April 2009, exports in the extractive and manufacture sectors have contracted at an accelerating rate.<sup>4</sup>

US imports from other sub-regions showed a steep decline in the last months of 2008 and early 2009, led by a 36% year-on-year fall in purchases from Andean countries in the three months ending in March 2009. Imports from MERCOSUR, a large proportion of which consist of commodities, rose in step with commodity prices from mid-2007 until the third quarter of 2008, when they began to decelerate and eventually contract.

The Asia Pacific region is an increasingly important market for many countries in Latin America and the Caribbean. The region benefitted greatly from the rapid growth of China and the Asian economies during the last 5 years. The combination of higher demand and higher commodity prices led to closer trade dependencies by many of Latin American and Caribbean countries on the Asian market. With this growing trade connection with Asia (see Table 2 above), Latin America and the Caribbean exporters are now more vulnerable to the deceleration of the main Asian economies and are not able to rely on new trading partners or products in the region due to the widespread fall in demand. In the fourth quarter of 2008, Japan reported an annualized growth rate of -12.7%, followed by Taiwan (-37.9%), Hong Kong (-8.2%), Singapore (-16.4%), and Indonesia (-3.6%). China reports a year-on-year growth rate of 6.8%, which translates into a nearly stagnant annualized quarter-on-quarter rate. In comparison, the United States reported an annualized growth rate of -6.2%, followed by the UK (-6.1%), and the Euro Zone (-6.1%). Moreover, strong economic interactions between Asian economies in what is known as the "Asian factory" exacerbates the effect of the region's decline on its demand for imports from Latin America and the Caribbean.

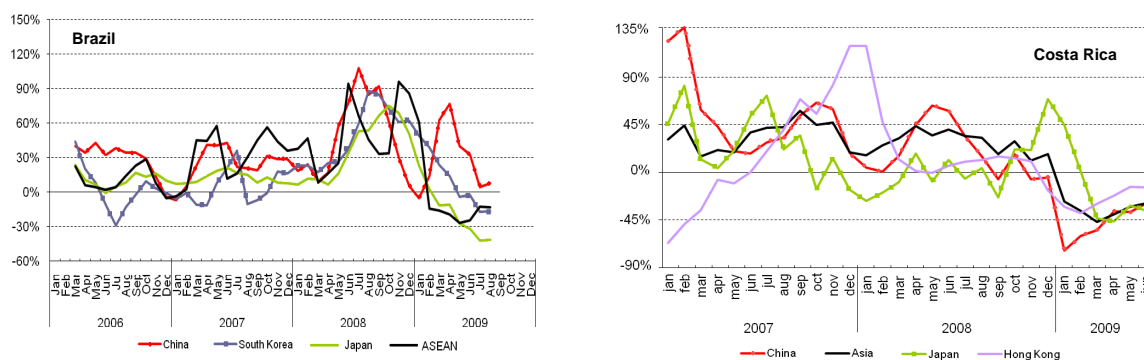
As a result of greater trade linkages, poor economic growth, and falling commodity prices, exports from Latin America and the Caribbean to Asian markets have decelerated since mid-2008 compared to their growth rates in the previous two years (see Figure 3).<sup>5</sup> Costa Rica's exports to Asia have been declining since May 2008. Export growth by Argentina, Chile, and Mexico started to contract in November 2008.

**FIGURE 3**  
**EXPORTS OF SELECTED COUNTRIES TO SELECTED ASIAN PARTNERS<sup>a</sup>**  
(Year-on-year growth rates, 3 month moving averages)



<sup>4</sup> Starting in March 2009, agricultural exports showed positive growth following 4 months of contraction.

<sup>5</sup> For more on the decline in export prices, see Section 4.



Source: Authors' calculations on the basis on national official statistics.

<sup>a</sup> Trailing 3-month average growth rate from the same period in the previous year.

<sup>b</sup> Includes Hong Kong and Macao

Despite the bad economic news coming from Asia, there are encouraging signs for Latin America and the Caribbean. Asian demand for basic raw materials—particularly soy—has not contracted by as much as its demand for manufactured products, providing some respite for countries such as Brazil and Argentina. As seen in Figure 3, Brazil's exports to Asia, of which 46% are directed to China, have rebounded in early 2009 due to strong sales of basic products, namely soy and mineral exports. The reason is largely China, who's imports from Brazil showed surprising growth in the first four months of 2009. The volume of soy imported by China was up 36% from the same period in 2008. Quantity imported of iron ore, another important product in the Brazilian-Chinese trade relationship, increased by 23% in the same period (Table 3).<sup>6</sup> It is notable that China continues to expand its purchase of Brazilian products while demand in the rest of Asia contracts. Excluding China, Brazilian total exports to Asian partners contracted by 7% and by 12% respectively in the three months ending in March and in April of 2009 compared to the same periods in 2008.

**TABLE 3**  
**GROWTH OF BRAZILIAN EXPORTS TO CHINA**  
(Year-on-year growth rates in percent)

	Share of total exports to China	2006	2007	2008				2009
		IV	IV	I	II	III	IV	I
Capital goods	2.0%	-10.5	14.2	-23.1	135.6	593.4	123.6	397.8
Intermediate goods	86.9%	-7.2	34.7	8.2	76.8	91.8	-5.7	63.7
Durable consumer goods	0.0%	-6.0	-70.4	-38.5	22.6	17.3	199.1	36.4
Non-durable consumer goods	0.7%	-27.3	43.0	27.3	13.2	8.6	-23.0	-19.5
Agricultural products	32.5%	-19.4	72.9	3.0	125.3	149.9	-43.7	96.7
Mineral extracts	32.0%	10.4	29.1	-1.9	38.7	84.2	4.0	107.0
Vegetable oils	5.1%	-40.0	291.6	283.2	292.0	243.2	-15.3	-57.2
Cellulose, paper and graphics	4.5%	-8.0	30.4	104.3	85.3	90.6	8.6	24.7
Siderurgical	3.1%	-55.5	41.3	5.6	184.1	124.9	-15.3	87.2
Improved vegetable products	2.6%	-80.5	211.0	48.1	61.4	-0.7	96.4	-27.0
Shoes and leather products	2.3%	90.5	-10.8	-13.7	-16.0	-16.1	-45.1	-55.2
Parts and other vehicles	2.2%	70.5	-33.7	-33.2	115.3	376.3	77.8	160.2
Machines and tractors	1.2%	8.0	22.6	-29.9	35.7	120.8	8.4	-47.9

(continues)

<sup>6</sup> Agricultural and extractive products account for 65% of Brazil's total exports to China in 2008.



**TABLE 3** (conclusion)

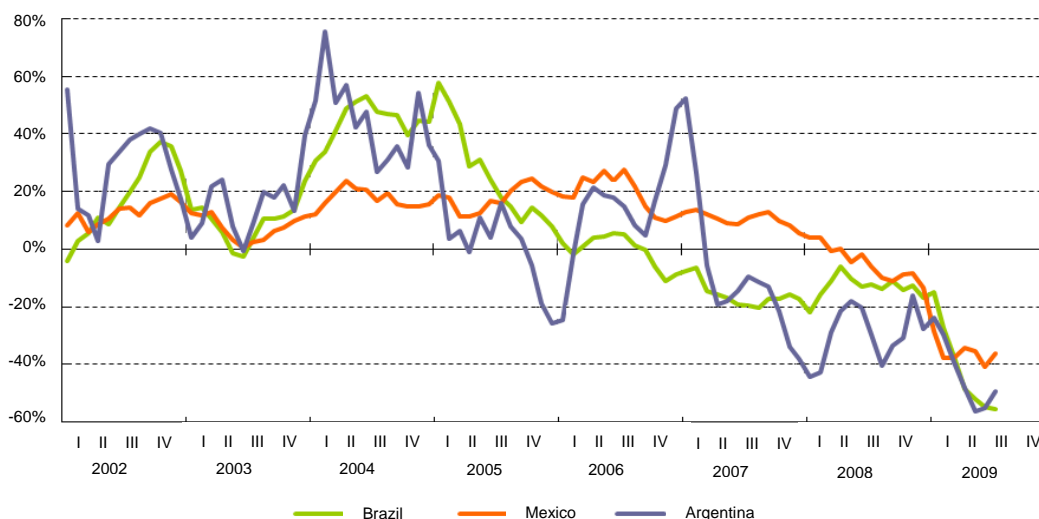
Refined oil products	0.8%	372.3	-53.0	-41.3	64.9	-60.2	-61.7	119.0
Wood and furniture	0.6%	14.4	-29.0	-6.6	-15.4	-39.8	-56.1	-58.0
Others	0.1%	79.6	28.0	-18.7	-51.1	-15.4	-41.6	45.1
TOTAL	100%	-4.9	28.4	11.5	81.1	96.3	7.7	60.4
Price Effect		4.3	21.4	28.6	41.0	68.5	37.0	0.9
Quantity Effect		-8.9	5.7	-13.3	28.5	16.5	-21.4	58.9

Source: Authors' calculations on the basis on national official statistics.

## 2. Impact on falling global demand on key industries

Some key export industries for Latin America and the Caribbean, such as auto parts and electronic circuits, are being particularly hit by economic conditions in the United States and in Asia. The US auto industry (as well as auto manufacturers around the world) has reported significant contractions in sales and revenues, culminating in the bankruptcy of Chrysler and General Motors in early 2009.<sup>7</sup> This crisis has started to impact related exports from Latin America and the Caribbean to the United States, as shown in Figure 4. Exports from Brazil began contracting in September 2006, followed by negative growth in Argentina starting in March 2007 and in Mexico in March 2008. This trend is expected to follow the economic developments in the United States and the performance of the auto sector in specific.

**FIGURE 4**  
**SELECTED COUNTRIES' EXPORTS OF AUTO PARTS TO THE UNITED STATES<sup>a</sup>**  
(Year-on-year growth rates, 3-month moving averages)



Source: Authors' calculations based on data from United States International Trade Commission.

<sup>a</sup> Trailing 3-month average growth rate from the same period in the previous year. "Auto parts" is defined as the sum of commodity codes 7841, 7842, and 7843 of the SITC version 3.

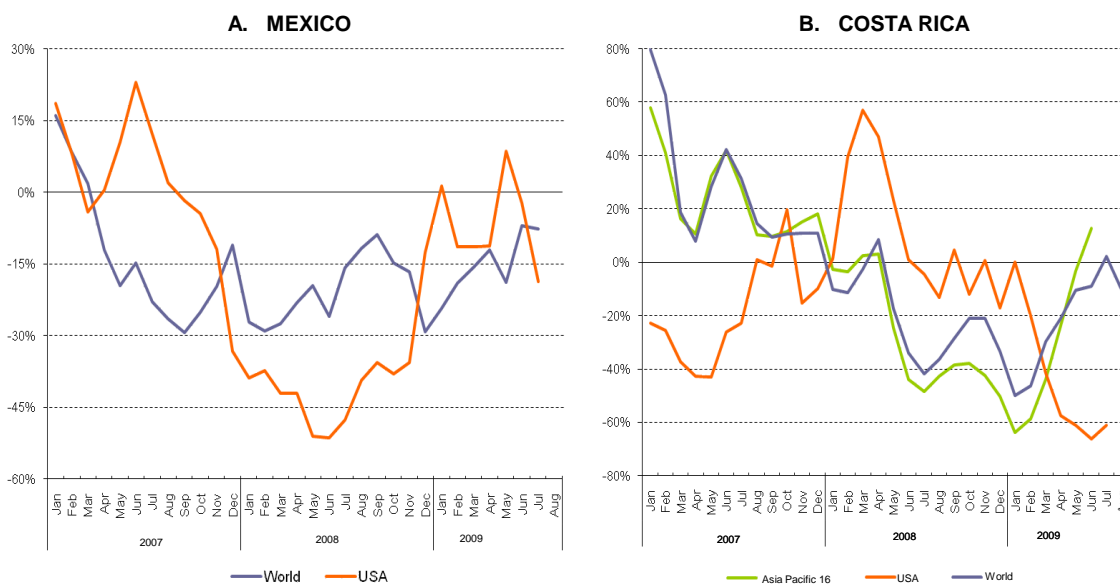
Exports of electronic integrated circuits are an important source of revenue and a key industry for Central America and Mexico. Like the auto industry, this sector has also suffered from falling demand for manufactured products from the United States and from Asia. Exports from Mexico to the United States have been contracting since September 2007 and follow the general pattern of declining total

<sup>7</sup> (Ohnsman, Alan and Ramsey, 2009) *Toyota U.S. Sales Plunge Record 40% as Slump Widens*. Bloomberg, March 4 [online] <<http://www.bloomberg.com/apps/news?pid=20601080&sid=aQTXshkXsagM&refer=asia#>>

exports of integrated circuits by Mexico since April 2007 (Figure 5).<sup>8</sup> Costa Rica is also experiencing a deceleration in its exports of electronic integrated circuits, particularly to the 16 countries of the Asia Pacific bloc, which represent over 80% of Costa Rica's total exports of this product (The other 20% is exported to the United States). Exports to Asia Pacific and to the world have contracted since May 2008. Falling demand from China is also to blame. In the first four months of 2009, China reported a 25% decline in its imports of integrated circuits relative to the same period in 2008. The number of units imported declined by 16% during this period.

In addition to the impact of the global slowdown on the region's exports, some countries will feel a significant reduction in the demand for services, particularly in the tourism sector due to its high income elasticity. Despite declining transportation costs, tourism from developed countries has suffered from the crisis in the industrialized economies and the outbreak of AH1N1 flu in Mexico. Data on tourist arrivals in 7 countries during the first three months of 2009 show a sharp deceleration from the previous year (Figure 6). In the Caribbean, the Caribbean Tourism Organization (CTO) expects a fall of 20-35% in arrivals in 2009. Tourism is of particular concern for Mexico, Central America and the Caribbean where receipts from tourists are a significant source of income. In the Caribbean, exports of tourism-related services represent around 20% of GDP, compared with an average of 5% in Central America (although the figure is just under 10% for the Dominican Republic, Costa Rica and Panama).

**FIGURE 5**  
**GROWTH OF MEXICO AND COSTA RICA'S EXPORTS OF ELECTRONIC INTEGRATED CIRCUITS TO THE WORLD, THE UNITED STATES, AND ASIA PACIFIC<sup>a</sup>**  
*(Year-on-year growth rates, 3-month moving averages)*

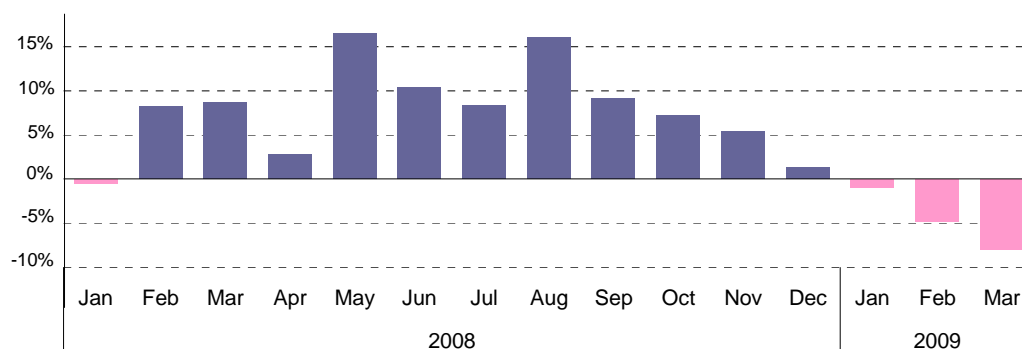


Source: Authors' calculations based on official statistics for Mexico, Costa Rica, and the United States.

<sup>a</sup> Trailing 3-month average growth rate from the same period in the previous year. Electronic integrated circuits are commodity code 7764 of the SITC version 3.

<sup>8</sup> While the United States represents only 13% of Mexico's exports of circuit boards, official statistics from Mexico do not provide enough detail to allow for an analysis by trading partner at the product level. Statistics for exports to the United States are derived from mirror data from the United States International Trade Commission.

**FIGURE 6**  
**TOURIST ARRIVALS IN 7 LATIN AMERICAN AND CARIBBEAN COUNTRIES, 2008-2009<sup>a</sup>**  
*(Year-on-year growth rates, 3-month moving averages)*



Source: Authors' calculations based on official data.

<sup>a</sup> These 7 countries were selected according to data availability: Brazil, Chile, Colombia, Dominican Republic, Jamaica, Mexico, and Peru.

## 2.1. Falling demand in Latin America and the Caribbean

Imports from Latin America and the Caribbean from Asian countries have also been affected by the deteriorating economic conditions. Latin American and Caribbean imports from Asia decelerated sharply from an average growth of 32% during the first three quarters of 2008 (compared to the same period in 2007) to just 5.8% in the fourth quarter (Table 4). In the first three months of 2009, imports declined by 18%. Imports of Chinese products had a smaller deceleration and contraction in the same period compared to the rest of Asia.

**TABLE 4**  
**IMPORTS OF SELECTED COUNTRIES FROM ASIA AND CHINA<sup>a</sup>**  
*(Year-on-year growth rates in percent)*

Importing country	2007	2008	2008				2009	
			I	II	III	IV	I	II (est.)
Argentina	63.1	39.5	57.1	69.0	48.3	1.8	<b>-30.4</b>	<b>-43.0</b>
Brazil	57.9	58.8	70.1	73.1	67.4	33.7	<b>-12.8</b>	<b>-33.4</b>
Chile	37.3	35.9	27.6	50.5	43.4	25.4	<b>-9.9</b>	<b>-33.5</b>
Colombia	49.9	36.7	45.8	37.6	37.6	29.2	<b>-7.9</b>	<b>-21.3</b>
Costa Rica	33.5	27.5	17.6	35.6	31.5	25.4	<b>-9.0</b>	<b>-20.1</b>
Ecuador	38.7	55.2	45.8	64.4	98.4	14.2	47.8	5.2
El Salvador	21.0	19.9	29.0	20.0	15.3	16.5	<b>-33.0</b>	<b>-44.8</b>
Guatemala	30.6	8.0	<b>-1.9</b>	17.2	20.3	<b>-4.6</b>	<b>-25.0</b>	<b>-34.9</b>
Honduras	59.2	38.9	19.1	64.2	45.7	31.8	9.6	<b>-5.8</b>
Mexico	21.7	16.6	21.7	28.9	18.8	0.8	<b>-7.3</b>	<b>-23.2</b>
Nicaragua	21.9	33.4	30.1	71.2	37.7	5.7	27.0	<b>-12.1</b>
Paraguay	23.1	34.5	28.8	52.1	72.3	<b>-4.4</b>	<b>-14.8</b>	<b>-19.5</b>
Uruguay	53.9	68.1	80.6	126.9	67.9	32.4	<b>-10.9</b>	<b>-18.8</b>

(continues)

**TABLE 4** (conclusion)

	Total	35.6	33.0	29.3	37.8	31.2	7.8	-9.5	-27.1
Brazil	21.3	51.3	50.6	72.2	69.9	19.6	-20.3	-40.5	
Chile	45.6	24.2	63.9	29.3	38.1	-12.8	-33.5	-40.8	
Colombia	30.3	-6.3	1.3	-3.3	-15.5	-7.7	-33.0	-32.3	
Costa Rica	38.6	22.0	28.9	50.8	15.9	4.0	-36.5	-45.9	
Ecuador	4.9	57.9	13.1	36.9	116.6	71.6	-35.4	-49.3	
El Salvador	1.8	4.0	13.2	16.2	2.3	-13.6	-41.9	-50.2	
Guatemala	-5.6	-12.1	-0.8	-8.6	-13.4	-25.5	-46.3	-43.0	
Honduras	43.8	8.9	21.2	30.0	-2.2	-7.0	-19.1	-34.6	
Mexico	11.7	3.4	7.7	9.4	10.9	-11.9	-26.9	-30.3	
Nicaragua	17.5	36.0	90.4	52.9	-8.6	24.0	-67.6	-65.2	
Paraguay	-82.5	50.7	68.9	61.3	95.1	3.0	-100	-100	
Peru	42.2	59.5	62.7	63.2	70.9	44.2	-8.8	-26.2	
Uruguay	26.9	40.8	42.3	53.9	32.4	38.9	-16.6	-29.0	
Total	17.6	18.8	19.4	23.0	26.2	-3.5	-25.0	-34.3	

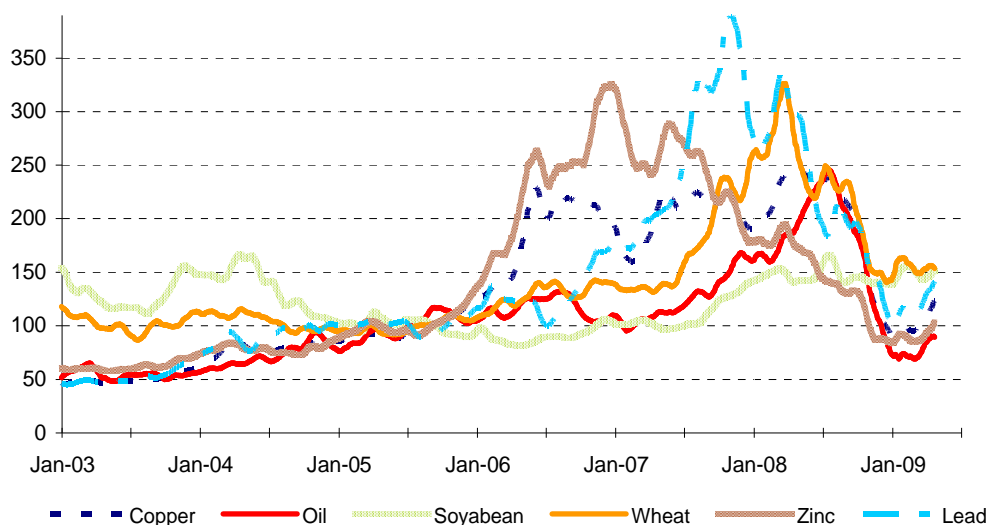
Source: Authors' calculations on the basis on national official statistics.

<sup>a</sup> Asia region includes ASEAN countries, Australia, China, Japan, Korea, and New Zealand.

### 3. Commodity prices

Prices for the world's main commodities have retreated from their recent highs. Oil, minerals, and agricultural commodities have all seen relatively large price declines from the levels since 2006 (Figure 7). Beginning in mid-2008, sharp declines in global prices ushered in the new recessionary and deflationary phase of the international crisis. In the case of petroleum, prices at the end of September 2009 were similar to those recorded during 2006 and 2007, while metal prices were similar to those observed at the end of 2005. Food prices also fell and by September 2009 were at levels equivalent to those of mid-2007. Soybeans are an exception, in that prices have continued to increase since mid-2007.

**FIGURE 7**  
**PRICES OF SELECTED COMMODITIES**  
(30-day moving averages, 2005 = 100)



Source: Authors' calculations based on Bloomberg.

The reasons can be traced back to a number of factors, including falling global demand, a stronger United States dollar, and a reallocation of investment portfolios from high yielding commodity-related securities to safer instruments. Recent data seems to suggest that prices have stabilized and even rebounded in 2009 —helped by strong demand from China and India for basic commodities— though a seasonal effect cannot be ruled out.

For most of the region's countries, commodities make up a considerable proportion of the export basket and, for many countries they are a significant source of public funds. For these countries (particularly those in South America and Mexico) commodity price patterns over the next year are expected to cause one of the region's recent engines of growth to come to a standstill

With the fall in global commodity prices, terms of trade in the region have declined from their peaks in mid-2008. (Table 5). Brazil and Uruguay have seen improvements in their terms of trade as import prices have fallen faster than export prices in the first four months of 2009. In contrast, as Central America and the Caribbean are net importers of commodities, the fall in oil, metal and cereal prices alleviates and partially offsets the consequences of the world economic slowdown and the fall in remittances (below, Section 5). The terms of trade in Central America are expected to rise by almost 8% in 2009, which compensates for over a third of the decline observed in recent years.

Within countries, terms of trade volatility will have a stronger effect in export industries with higher domestic value-added and a lower dependence on imports as production inputs, in sharp contrast to the maquila sectors of the region.

**TABLE 5**  
**TERMS OF TRADE FOR SELECTED ECONOMIES**  
(January-April of each year, Year-on-year variation in percent)

	Export Prices			Terms of Trade		
	2007	2008	2009	2007	2008	2009
Chile	10.64	14.45	-34.34	8.59	-3.52	-23.65
Peru	5.42	18.65	-31.63	3.13	-4.27	-21.39
Mexico	1.91	16.22	-21.73	-3.18	7.75	-20.60
Colombia	-3.76	47.04	-25.34	-23.07	16.37	-18.44
Argentina	7.62	31.90	-15.42	6.56	21.03	-11.71
Uruguay	0.08	13.83	-0.06	6.42	-1.60	0.82
Brazil	9.65	22.03	-6.15	5.14	-0.08	2.04
El Salvador	-3.58	2.42	24.13	-11.09	-8.21	22.62

Source: Authors' calculations, based on official statistics.

For Latin America as a whole, it is estimated that the terms of trade will fall by 10.8% in 2009. For Chile and Peru, which are both metal exporters, the terms of trade are expected to deteriorate by around 20.6% in 2009. For countries that export fuel, the terms of trade are expected to fall by almost 28.3% in 2009. As for MERCOSUR, where food accounts for an extremely significant proportion of exports, prices are also expected to decline in 2009 by 5.9. In Mexico, the terms of trade are expected to drop by over 4.8% in 2009 (CEPAL, Estudio Económico de América Latina y el Caribe 2008-2009).

## 4. Remittances

Since the beginning of its recession in December 2007, the United States has reported a loss of over 4.3 million jobs. This performance has been mirrored in many developed economies, which will have an adverse effect on the remittances that emigrant workers send back to their families in their home country. Remittances have been an extremely important source of external revenues in Latin America and the

Caribbean, particularly for certain Central American and Caribbean countries where they represent between 15% and just under 40% of GDP. These countries are, in decreasing order, Haiti, Honduras, Jamaica, El Salvador, Nicaragua and Guatemala. Other countries that will also suffer from reductions in remittances include Bolivia, Ecuador, Belize, the Dominican Republic, and Grenada, where remittances account for between 5% and 10% of GDP. In absolute terms, the largest recipients of remittances in Latin America and the Caribbean are Mexico and Brazil.

Recent data already point to a deteriorating situation in most countries and for the region as a whole. In Mexico (the largest recipient of remittances in the region in absolute terms) incoming remittances declined by 3.6% relative to 2007, and a significant change from the 18% growth in 2006. Guatemala also experienced a contraction in 2008, but growth of incoming remittances into the other countries of the region remained positive for the year. Monthly data show, however, that the deceleration started to take a broader tool starting in the last months of 2008. With the notable exception of Brazil, all of the analyzed countries in the region experienced a deceleration or a contraction in their inflows of remittances relative to the previous year (Table 6).

**TABLE 6**  
**INCOMING REMITTANCES TO SELECTED COUNTRIES<sup>a</sup>**  
(Year-on-year growth rates)

	2008 % of GDP	2007 <sup>b</sup>	2008 <sup>c</sup>	2008				2009
				I	II	III	IV	I
Honduras	19.6	10.0	9.3	9.9	14.2	8.4	5.2	
El Salvador	17.1	6.5	2.5	6.1	7.1	2.6	-5.4	-7.6
Guatemala	11.1	13.7	-8.6	-4.2	-4.0	-5.9	-19.2	-5.9
Dominican Republic	6.8	10.8	2.6	5.6	4.9	5.0	-4.5	-7.1
Mexico	2.4	2.0	-3.6	-2.6	-1.1	-8.2	-2.1	-5.0
Colombia	2.0	15.5	7.8	20.1	19.1	10.4	-11.6	-4.1
Brazil	0.2	-2.8	3.7	0.7	-4.6	-5.6	24.9	-14.6
<b>Total (6)</b>		5.0	-1.6	0.9	1.2	-4.2	-4.0	-6.0

Source: Authors' calculations based on official statistics.

<sup>a</sup> Based on quarterly data

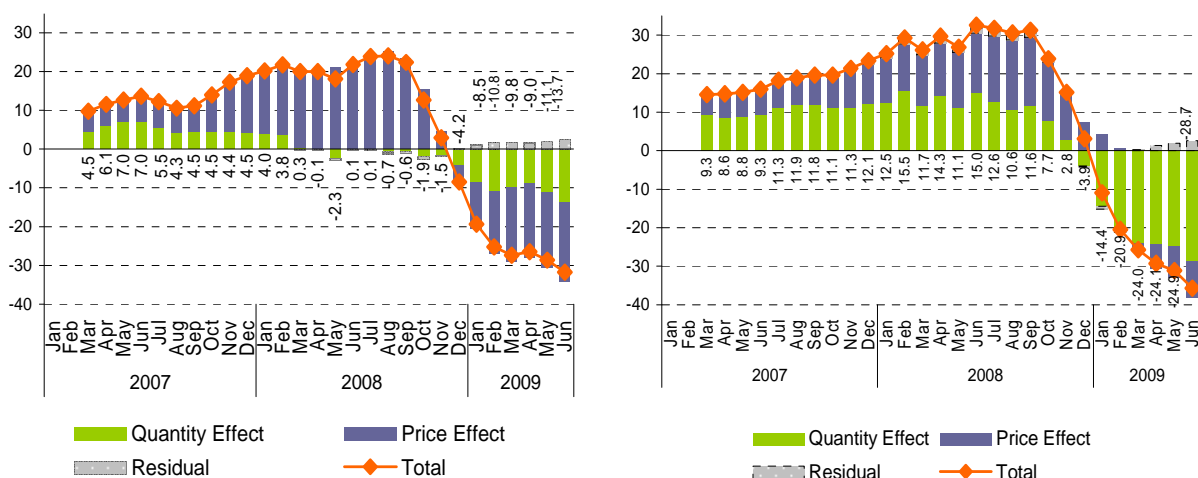
<sup>b</sup> 2007 (full year) data

<sup>c</sup> 2008 (full year), based on official estimated data.

## 5. Current account

Prior to the onset of the global economic crisis, the region saw an unprecedented period with economic growth and a surplus on external accounts. The region benefited from the combined effect of greater export volumes and higher prices for the exports of most of the region's countries. During 2008 volume growth slowed and price effects were solely responsible for the rise in exports. Imports, on the other hand, benefitted from the pace of economic growth in the region and remained robust throughout 2008 (Figure 8).

**FIGURE 8**  
**LATIN AMERICA EXPORT AND IMPORT GROWTH<sup>a</sup>**  
EXPORTS IMPORTS



Source: Authors on the basis of national official statistics.

<sup>a</sup> Eight countries: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Peru, and Uruguay

Note: Trailing 3-month average growth rate from the same period in the previous year.

As the crisis developed in the industrialized countries, weak global demand for exports from Latin America and the Caribbean coupled with sustained import demand from the region resulted in a deterioration of the current account relative to GDP in most countries. In 2007, all but three countries had worse current account results than in 2006 (shaded boxes in Table 7). In 2008, only 5 countries had some improvement over the previous year. In 2008, the 19 countries studied went from a surplus of 0.5% of GDP to a deficit of 0.8%, a decline of 1.3 percentage points. Large downward swings happened in Brazil, Chile, Mexico, and Costa Rica, among others. The current account deficit is expected to widen in 2009 to around 2.3% of regional GDP due to a worsening trade balance and slower flow of remittances (CEPAL, Estudio Económico de América Latina y el Caribe 2008-2009).


**TABLE 7**  
**CURRENT ACCOUNT BALANCE**  
(In percentage of Gross Domestic Product)

	2002	2003	2004	2005	2006	2007	2008
Argentina	8.6	6.3	2.1	2.9	3.6	2.7	3.0
Bolivia (Plur. State of)	-4.5	0.9	3.8	6.5	11.5	13.4	12.9
Brazil	-1.5	0.8	1.8	1.6	1.3	0.1	-2.2
Chile	-0.9	-1.1	2.2	1.2	4.7	4.4	-3.2
Colombia	-1.4	-1.1	-0.8	-1.3	-1.8	-2.8	-2.6
Costa Rica	-5.1	-5.0	-4.3	-4.9	-4.5	-6.2	-8.1
Dominican Republic	-3.2	5.2	4.8	-1.4	-3.5	-5.4	-11.3
Ecuador	-5.1	-1.5	-1.7	0.9	3.9	3.6	3.7
El Salvador	-2.8	-4.7	-4.0	-3.3	-3.6	-5.5	-5.9
Guatemala	-6.1	-4.7	-4.9	-4.6	-5.0	-5.1	-4.6
Haiti	-2.8	-1.6	-1.5	0.1	-1.5	-1.3	-2.4
Honduras	-3.6	-6.7	-7.6	-3.0	-4.7	-9.9	-11.8

(continues)

**TABLE 9** (conclusion)

Mexico	-2.0	-1.2	-0.9	-0.6	-0.2	-0.6	-1.8
Nicaragua	-18.5	-16.2	-14.5	-15.1	-12.8	-18.3	-25.7
Panama	-0.8	-4.5	-7.1	-6.6	-3.1	-7.3	-9.2
Paraguay	1.8	2.3	2.1	0.2	1.3	0.4	-2.2
Peru	-2.0	-1.6	0.0	1.4	3.0	1.4	-1.1
Uruguay	3.1	-0.8	0.0	0.3	-2.1	-1.0	-3.4
Venezuela (Bol. Rep. of)	8.2	14.1	13.8	17.5	14.7	8.8	12.0
South America (10)	0.5	2.0	2.5	2.9	3.0	1.5	0.2
Mercosur (4)	0.3	1.8	1.8	1.8	1.6	0.5	-1.4
Central America (8) <sup>a</sup>	-4.3	-3.3	-3.5	-4.0	-4.3	-6.3	-8.7
Latin America (19)	-0.8	0.5	1.0	1.4	1.6	0.5	-0.8

 Shaded area represents declines from the previous year.

Source: Authors' calculations based on official sources

<sup>a</sup> Includes Haiti and Dominican Republic

As seen above, commodity prices have shown some sign of stability and could help forestall further deteriorations in the trade balance of the region. Nonetheless, if global economic conditions deteriorate further the region could lose one of its main strengths: its independence from external financing.

## 6. Financial turmoil

It is estimated that the loss of financial wealth at a worldwide level may amount to US\$ 50 trillion, equivalent to one year world GDP. Asia excluding Japan probably lost about \$9.6 trillion, while the Latin American region saw the value of financial assets drop by about \$2.1 trillion.<sup>9</sup> Prior to the crisis, financial assets in Emerging Asia rose from 250% of GDP to 370% between 2003 and 2007, while that for Latin America from 135% to 175%. These estimated losses are very large, more than 109% and 57% of regional GDP of Emerging Asia and Latin America, respectively (Loser, 2009).

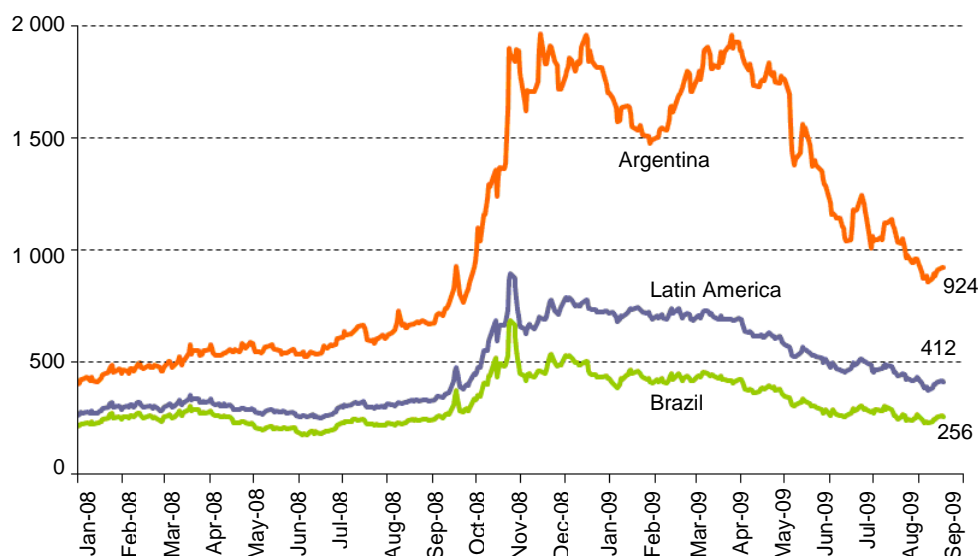
The turmoil in financial markets across the globe caused investors to shift their portfolios to lower-risk assets in a “flight to quality”, increasing risk premiums for Latin America. In the final four months of 2008, portfolio flows into the region experienced a slowdown and started to decline. This was matched with huge falls in regional stock markets and drastic depreciations, attributable in part to previous speculative positions based on expectations of appreciation for Latin American currencies.

The cost of international borrowing soared for businesses and for sovereign debtors, which is of particular concern for countries that have significant debt needed to be rolled over in the near-term (such as Argentina) and for those that are starting to implement fiscal spending plans to contain the effects of the global crisis. To a large extent this was less an indicator or risk in Latin American markets than of lack of liquidity in global credit markets (Figure 9).

<sup>9</sup> The estimates consist of the impact of currency depreciations, the decline in stock prices, the loss of value of private and public debt, and the effect of depreciation on deposits. The assets considered include collateralized financial instruments (mortgage-backed securities and collateralized debt obligation). They do not include financial derivatives. The estimates do not include the loss in the value of assets held by local investors abroad.



**FIGURE 9**  
**EMBI+ INDEX FOR SELECTED REGIONS AND COUNTRIES <sup>a</sup>**



Source: BLOOMBERG.

<sup>a</sup> December 31, 1993=100. The EMBI+ is a weighted index that tracks the returns of traded foreign currency denominated debt instruments in emerging markets. Daily returns are calculated and aggregated, then applied to the previous day's index value. For a full methodology, see "Introducing the J.P. Morgan Emerging Markets Bond Index Global (EMBI Global)".

Although the region's financial activity has not been exposed to toxic assets, the problems existing on the interbank market and the impact that the tightening of external credit has had on local credit markets are two ways in which turmoil in the financial markets of developed countries are being transferred to the region. Already there has been an impact on credit lines for trade operations. In Brazil, Argentina, and many of the region's main economies, interest rate spreads and default rates on trade-related credits increased, forcing national financial authorities and regional institutions to take measures to increase the availability of capital for trade finance.

Aggravating this situation, companies with debt in foreign currency have seen their balances negatively impacted by the devaluations of several of the region's currencies in the latter part of 2008. This is a striking and somewhat unprecedented feature of this cycle as, unlike the situation in previous crises, it is the private sector that is the most exposed to exchange-rate volatility in many countries.

The current financial crisis will dampen FDI flows, at least in the short-run. FDI flows that had grown at a very rapid rate until very recently allowed for a sharp increase in available capital from the private sector and resulted in a relative decline in lending by International Financial Institutions. While total FDI flows towards developed economies retained the lion's share of the total inflows, both Asia and Latin America and the Caribbean became increasingly important as sources and destination of FDI. In portfolio investment as well, emerging economies became increasingly important investors, in contrast to the previous experience when these outflows reflected mainly capital flight.

Preliminary figures indicate that by early 2008 capital flows to developing countries had started to slowdown, and these flows fell sharply in the second half of the year, with sharp declines in both Asia and Latin America and the Caribbean. According to the World Bank (World Bank, 2009a), net private capital flows to emerging markets are estimated to have declined to US\$ 467 billion in 2008, half of their 2007 level. A further sharp decline to US\$165 billion is forecast for 2009, with just over three-quarters of the decline due to deterioration in net flows from commercial banks. The Bank estimates that in 2009, 104 of 129 developing

countries will have current account surpluses inadequate to cover private debt coming due. For these countries, total financing needs are expected to amount to more than \$1.4 trillion during the year.

Weak global demand is also compounded by a drying-up of trade finance. Traditionally, some 80% of world trade is financed through open account transactions, leaving about US\$ 2.8 trillion to be financed by various trade financial instruments. Emerging evidence suggests that the demand for traditional instruments such as letters of credit is strong since international traders are increasingly requiring means of payment that are more secure than open account transactions (World Bank 2009).

## 7. Opportunities and strategic policies

The size of stimulus packages announced so far by countries in both regions, with the exception of China (7% of GDP), Japan (6 %) and Singapore (6%) is relatively smaller than that to be implemented by the United States (6%). In Latin America, the two countries that have announced larger packages are Chile (US\$ 4.0 billion equivalent to 2.2% of GDP) and Peru (US\$ 3.2 billion equivalent to 2.5% of GDP), who have considerably low level of net debt. In the case of Chile, the authorities have been using a successful stabilization fund to this effect. All other countries in that region have announced packages amounting to roughly 1% of GDP: Argentina, US\$ 3.8 billion (1.2% of GDP); Brazil, US\$ 16 billion (1.0%) and Mexico, US\$10.8 billion, (1.1%) (Loser 2009). All these stimulus packages should be closely knitted together into a global joint effort in recuperating confidence.

In the context of a fluid and volatile global economic scenario, it is essential for governments in the region to maintain macroeconomic stability by reinforcing the countercyclical components of fiscal policy and closely monitoring trends in the external accounts. It is also important that governments maintain their commitments to responsible credit management to avoid a return to the high risk premium seen in the region in the past. While countercyclical policies will necessarily result in greater fiscal outlays, governments should nonetheless stress the temporary nature of these measures in order to maintain their hard-won sound fiscal balances over the longer term. This is a particular risk in countries which have a greater dependence on exports.

The main challenge with regard to the fall of commodity prices is to avoid the pitfalls of creating drastic distortions to producers and consumers. This is in contrast with policy measures designed to smooth short-term consumption and production behavior, particularly for key sectors. This is also an opportunity for governments in the region to increase their economic integration as a way to stimulate intra-regional growth. The relative strength of the region's economies provides a great incentive for greater economic ties, particularly as demand from the rest of the world will remain soft.

The growth achieved between 2003 and 2007 was in large part due to the strong performance of exports to Asian economies. However, the region was unable to make significant inroads into higher value added exports. In this regard, there is an important chance for countries in Asia and in Latin America to increase their economic interaction, particularly at the intra-industry level. Changes in competitive positions brought about by the crisis will offer ample opportunities for more production-chain integration between the regions. As an example of the possibilities that exist for bi-regional trade, currently, approximately 60% of world trade in transport equipment and machinery, including parts and components is conducted within the region. In this way, with China at its center, the Asia Pacific region has become the "world's factory" of transport equipment and machinery. With its relative strength in the sector, Latin America intends to increase its participation in this production chain.

## **II. The FEALAC economy at the onset of the crisis**

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The FEALAC (Forum for East Asia-Latin America Cooperation) region, composed of 33 economies, encompasses widely diverse countries in terms of population, economic scale, geographic location, stage of development, and cultural backgrounds, although the more densely populated and highly developed countries are concentrated in the Asia-Pacific region. These regions together account for more than 2.5 billion inhabitants, or 40% of world population: 32% of world population lives in FEALAC-Asia-Pacific (AP) and 8% in FEALAC-Latin America (LA) in 2006 (Table 8).

### **1. Importance of FEALAC: some world indicators**

#### **1.1 World GDP**

Total FEALAC GDP in current prices is estimated to be US\$ 14,289 billion for 2007, or more than one quarter of the world GDP. FEALAC-AP accounts for more than 20%, while FEALAC-LA contributes approximately 6% of the total. Measured in terms of Purchasing Power Parity (PPP), these regions' relative share of world output is even greater at close to 33%. Moreover, in terms of PPP, the GDP of FEALAC surpasses that of the United States or the European Union (Table 8).<sup>10</sup>

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<sup>10</sup> Among the countries in Asia-Pacific, China stands out; despite the downscaling of the PPP by IMF in 2008, that economy still accounts for almost 11% of world output. FEALAC includes both developed and developing countries of vastly different economic strengths, and as a result, the region's combined GDP is unequally distributed; four countries, Japan, China, Republic of Korea and Australia each accounted for more than 1% of the world output in

**TABLE 8**  
**FEALAC: SOME WORLD INDICATORS POPULATION, OUTPUT, TRADE AND FDI, 2007**  
*(In percentages of world total)*

Regions	Indicators Population	Gross Domestic Product		Trade		Foreign Direct Investment	
		Current PPP	Nominal current	Exports	Imports	Inward stock	Outward stock
<b>FEALAC</b>	<b>39.7</b>	<b>32.4</b>	<b>26.1</b>	<b>29.7</b>	<b>26.2</b>	<b>16.3</b>	<b>10.0</b>
FEALAC – AP	31.5	24.3	19.9	24.3	21.1	10.0	8.6
FEALAC – LA	8.2	8.0	6.2	5.4	5.1	6.3	1.3
United States	4.6	21.0	25.4	8.5	14.5	13.8	15.7
European Union (27)	7.5	22.4	30.8	39.1	39.9	45.2	57.2
Rest of the World	48.2	24.2	17.6	22.7	19.5	24.7	17.1

Source: Authors' calculations based on UN, 2009; World Bank, 2009b; UNCTAD, 2009; WTO, 2009.

The share of FEALAC in world exports and imports reaches almost 30% and 26% respectively, to which FEALAC Latin America contributes a minor share close to 5%. The weight of FEALAC in the world stock of FDI is much less; FEALAC member countries account for 16% and 10% of world inward and outward FDI worldwide. As recipients, FEALAC-AP represents almost 10% while FEALAC-LA, roughly 6%. In sum, regardless of the measure considered, FEALAC is already a formidable regional grouping worldwide.

## 1.2 Global finance

The importance of Asia-Pacific is becoming abundantly clear, not only with regard to production and world trade, but also in terms of global finance. The countries in this region are the main economies sustaining the growing current account deficits of the United States (US\$ 740 billion in 2007) and the European Union (US\$ 220 billion). The current account surplus of Japan, China and the Asian newly industrialized economies (Hong Kong SAR, Republic of Korea, Singapore and Taiwan Province of China) in 2007 was US\$ 213 billion, US\$ 361 billion and US\$ 102 billion, respectively. The sum of the surpluses recorded by Japan, China, Asian newly industrialized economies and ASEAN (5), US\$ 727 billion, was practically enough to cover the current account deficit of the United States in that year. China's surplus alone was greater than that of the Middle East, which stood at US\$ 275 billion. Latin America and the Caribbean reported a current account surplus of US\$ 11 billion in 2007.

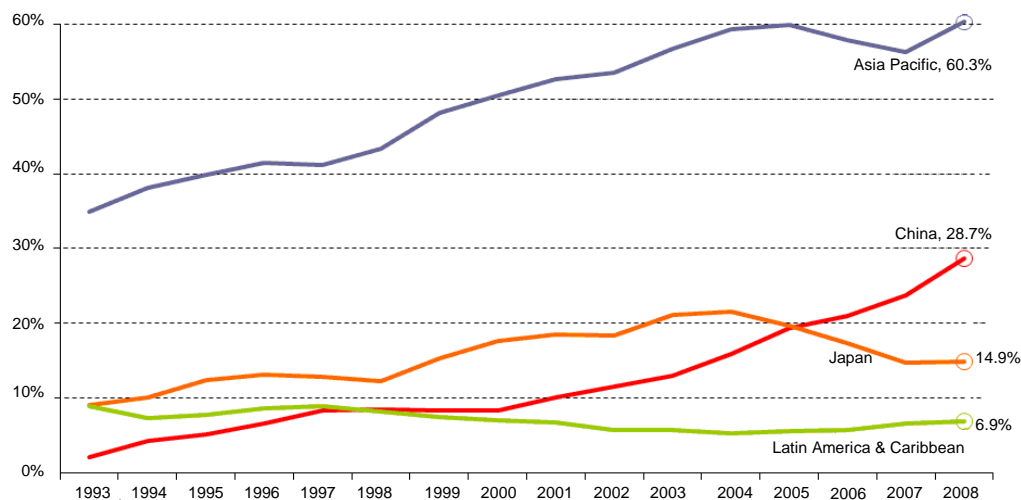
Not only China and Japan but also the newly industrialized economies (NIEs), and to a lesser extent, ASEAN, provide the United States with cheap savings, keep interest rates low and accumulate international reserves through the purchase of Treasury bonds, thus helping to finance its current account deficit. As of December 2008, Japan and China held US\$ 744 billion and US \$662 billion, respectively, in United States Treasury bonds, (Figure 10). Eight of the top 27 holders of United States Treasury securities (mainly T-bonds and notes) are of Asian origin. Not only China and Japan but also Hong Kong SAR, Taiwan Province of China, Singapore Republic of Korea and Thailand, appear among the top 20. The major holders in Latin America are Brazil, Mexico, Chile and Colombia, the former being the fourth largest, with a sum of US\$ 131 billion. The Caribbean financial centres, as a group, hold just over US\$ 189 billion.

Asian countries are also the major holders of foreign reserves worldwide: Asia, including Japan, accounts for 56% of world reserves minus gold. The share of China alone was roughly 24% at the end of 2007, at US 1.53 trillion (Figure 10). The seven Latin American countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico and Peru) accounted for 9% of the world stock

2007 as measured in nominal dollars or PPP, respectively. Within FEALAC-LA, Brazil and Mexico are the only countries whose share in world GDP surpassed the 1% threshold.

of foreign reserves. The amount in the hands of Chinese authorities is continuing to rise: as of March 2008, Chinese reserves exceeded US\$ 1.682 trillion, surpassing those of Japan (US\$1.016 trillion).

**FIGURE 10**  
**GLOBAL SHARE OF FOREIGN EXCHANGE RESERVES, 1993-2008**  
(Percentages in total)



Source: Authors' calculations based on EIU, 2009.

The United States, with low rates of internal savings, embarked in consumption spree and a fast growing fiscal deficit, experienced growing current account deficits, which have, in turn, been financed by the surpluses of China, Japan, other Asian countries, oil producing countries, and to a lesser extent, Latin America and the Caribbean. As a result, the slightest hint of action regarding these enormous reserves in the hands of Asian and Latin American countries has had immediate repercussions in global financial markets.

The growing importance of the FEALAC countries in the world financial market is reflected in the recently created G-20 membership, which incorporates not only the G-8 countries but also the largest emerging, newly industrialized economies, including China, India, the Republic of Korea, South Africa, and in Latin America, Argentina, Brazil, and Mexico.

### 1.3 World trade

Countries in both FEALAC regions are highly integrated into the international trading system. FEALAC accounted for 29.7% of world exports and 26.2% of imports in 2007, a steady increase from 21.0% and 6.6% in 1990, respectively. Over a decade and half, trade originating from and destined to FEALAC has expanded much faster than world trade, and total exports from the Asian Pacific members contributed 24.3% of the world exports and 21.1% of the imports while the Latin American members made up 5.4% of world exports and 5.1% of imports. At present, FEALAC-AP trade is almost four and a half times as great as that of FEALAC-LA. This dynamic growth has resulted in strong intra- FEALAC trade, which accounted for 11.0% of world exports and 12.8% of world imports in 2007.

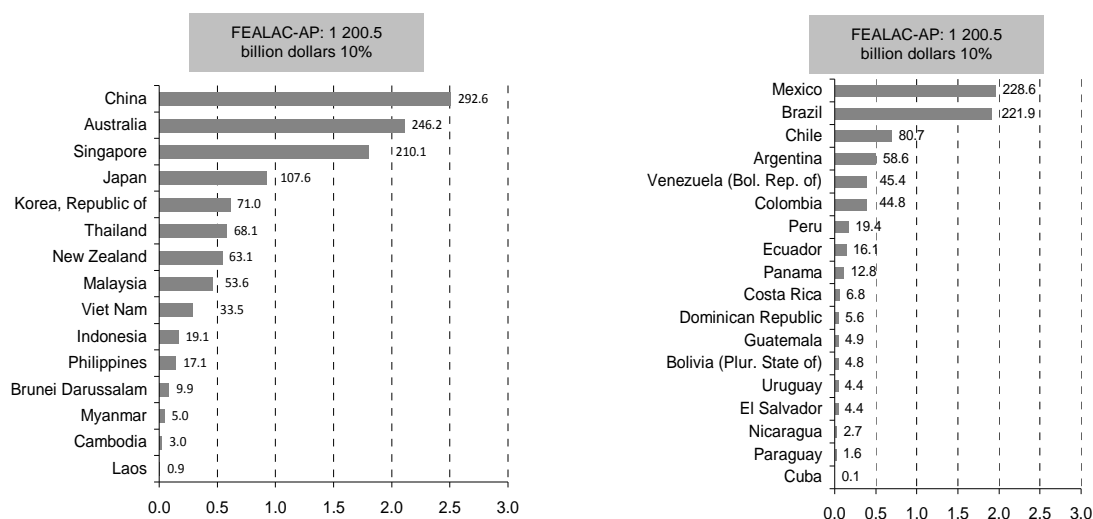
### 1.4 World inward and outward FDI

Developing countries have been absorbing an increasing share of world FDI —about 35% of world totals, up from 25% in 1990. In the 1970s, Latin America accounted for 40% of FDI inflows into developing countries. In the second half of the 1990s, when national firms were privatized, Latin America once again became one of the major choices for investors. Developing Asia has since taken over from Latin America

as the destination of choice for foreign investors, and absorbed about half of the FDI flowing into developing countries in the first half of the 1990s and more than 40% in the second half of the decade.

According to (UNCTAD, 2009), inward FDI into FEALAC-AP has increased steadily over the years, averaging US\$ 110 billion per year during 2000 and 2006, almost twice the amount recorded during the 1990s. More than half of this total was invested in China. Meanwhile, Australia, Singapore and other ASEAN countries, together with the Republic of Korea, have emerged as important FDI recipients. As of 2006, cumulative FDI in Asia-Pacific exceeded US\$ 1.2 trillion, equivalent to 10% of world FDI stock (Figure 11).

**FIGURE 11**  
**STOCK OF INWARD FDI TO FEALAC ECONOMIES 2006**  
(Billions of dollars and Percentages)



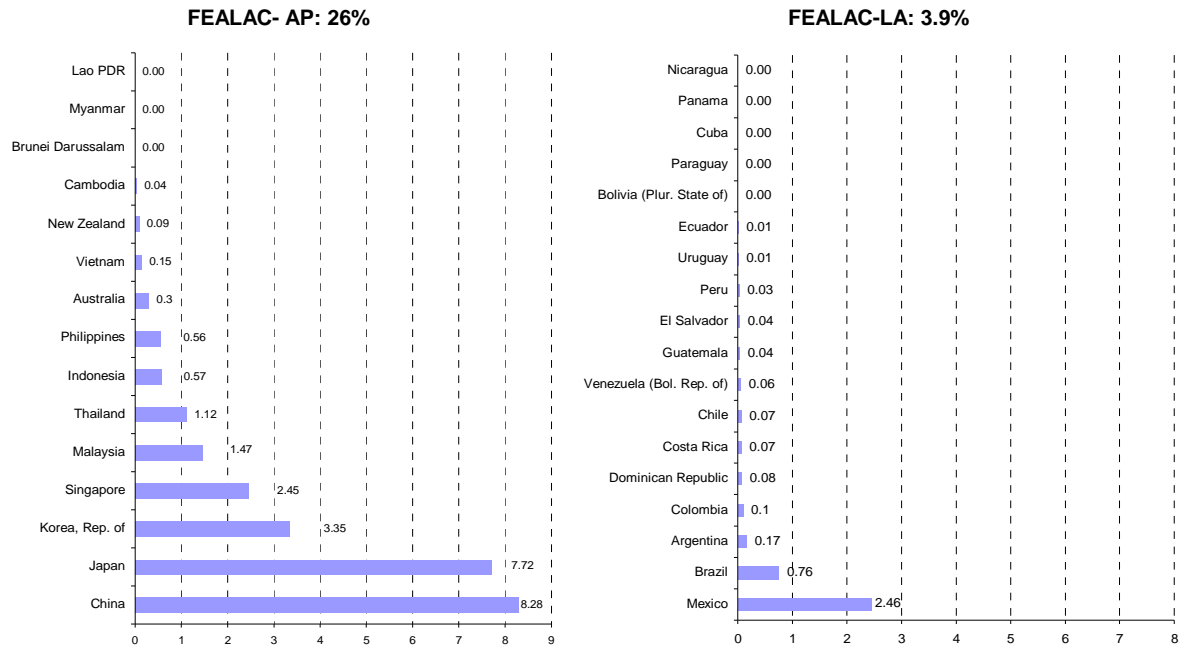
Source: Authors' calculations on the basis of official information from the database of UNCTAD, 2009.

The corresponding figures for FEALAC-LA are also impressive: an annual average inflow of about US\$ 63 billion in the current decade. Their stock at the end of 2006, estimated at US\$764 billion, represented 6.2% of the world total. In short, FDI flows into Asia-Pacific, especially to China and ASEAN, are continuing to increase. Latin America and the Caribbean's share of total inflows to developing countries is gradually shrinking, with higher concentrations of that share being invested in Brazil, Mexico and Chile.

## 1.5 Manufactured exports and manufacturing value added

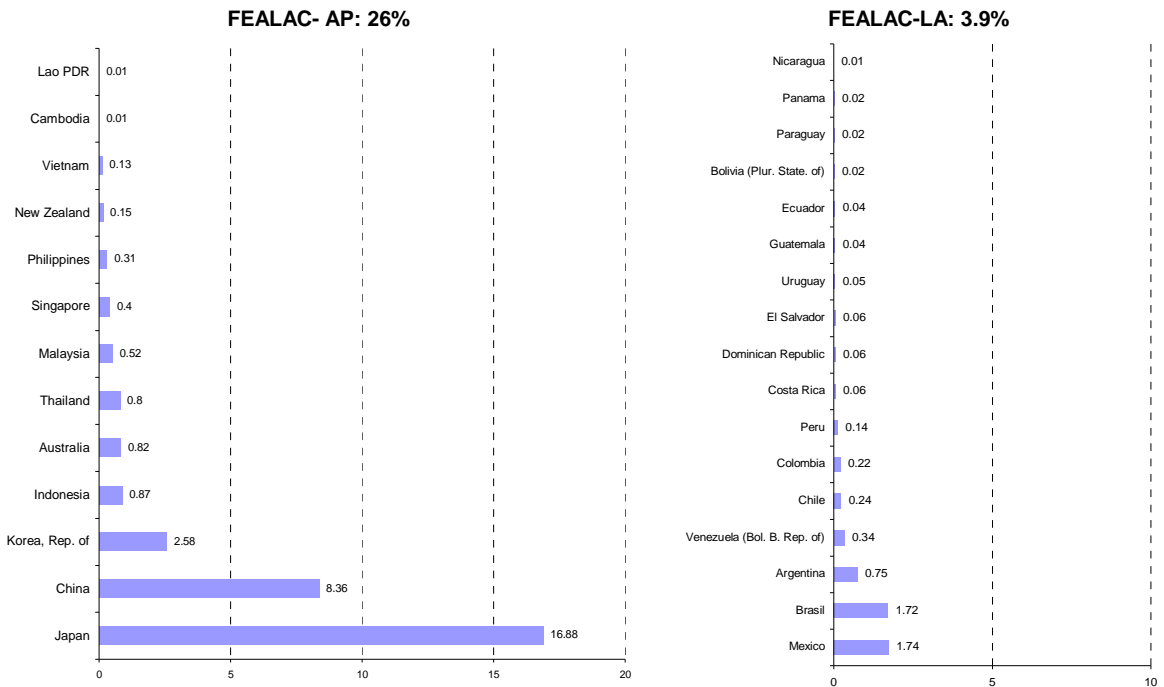
FEALAC-AP excels not only in the volume of trade and FDI flows in which the manufacturing sector serves as its primary driving force but also in the generation of manufacturing value added (MVA). As Figure 13 shows, the share of FEALAC-AP in world exports of manufactures has increased in the last two decades, from 20% in 1985-1990 on average to 26% in 2001-2006. The share of FEALAC-LA also slightly increased to almost 4% in the present decade. What is striking is that the MVA share for FEALAC-AP reached roughly 32% of world total during 2001-2004, for which sufficient data are available (Figure 14). This share compares favourably with their share in world manufactured exports of 26%. Among the countries in this sub-region, Japan has been the most important contributor to world MVA, followed by China and the Republic of Korea. In contrast, FEALAC-LA share in world MVA has declined somewhat over the years, contributing 5%, level not far distinct to that in world manufactured exports. In this sub-region of FEALAC, Brazil and Mexico each contribute close to 1.7% of world MVA total. In short, FEALAC-AP as a group has been able to progress on both fronts, not only in increasing the export values of manufactures but also the manufacturing value added in the world economy.

**FIGURE 12**  
**SHARE OF FEALAC COUNTRIES IN MANUFACTURED EXPORTS, 2001-2006**  
*(In nominal dollars)*



Source: WTO, 2009; UNIDO, 2009

**FIGURE 13**  
**SHARE OF FEALAC COUNTRIES IN MANUFACTURING VALUE ADDED**



Source: WTO, 2009; UNIDO, 2009.

The link between manufacturing exports and manufacturing value added (MVA) can be considered in the following manner. If the developing country is not equipped with a critical mass of linkages that provide “pecuniary externalities” to individual firms, because of the lack of domestic intermediate inputs or insufficient domestic demand from either other industrial firms or final consumers, it will import a large fraction of production inputs and export the bulk of output without much domestic value added. As a result, the country’s manufactured exports will strongly rise, while MVA will go up marginally. By contrast, a developing country with established domestic linkages will provide a large share of intermediate inputs from domestic production and a large share of output will go into further domestic production or consumption. As a result, at the initial stage, the country’s manufacturing exports will rise much less, while its MVA will rise much more than in the first case. But at subsequent stages, solid domestic production bases start to serve as another growth engine by taking advantage even further of economies of scale in production and exportation, with concomitant increases in manufacturing exports. This has been the case of FEALAC-AP developing countries who are exploiting the fragmentation process of production and trade.

## 2. FEALAC intra-regional trade dynamics

Despite the remarkable dynamism observed in recent years, the bi-regional trade between Asia-Pacific and Latin America still remains at a very low level: exports of FEALAC-LA exports to FEALAC-AP reached only US\$ 53 billion in 2006, while exports of the latter to the former totaled US\$ 93 billion. The combined total of these two flows (US\$ 146 billion) accounted for only little over 1% of world merchandize exports in that year.

Intra-regional trade plays an important role in each region, but especially in FEALAC-AP. In 2006, 37.3% of its exports and 49.3% of imports were intra-regional. These numbers have increased considerably since 1990. In contrast, intra-regional trade in FEALAC-LA is modest: less than 16% of that region’s exports and 19% of its imports were intra-regional in 2006 and those figures are almost as the same as those for 1990. It is noteworthy that the percentages of Latin America’s imports from Asia-Pacific have expanded from 8.7% in 1990 to 21.0% in 2006, surpassing not only the level of the intra-FEALAC-LA values but also that of Latin American imports originating from the European Union.

There are marked differences in the importance of FEALAC trade at the country level. For almost all the countries of FEALAC-AP, its intra-Asian trade is highly important and in some cases, the share of intra Asia-Pacific is over 50% of total trade. On the other hand, the share of FEALAC-LA is extremely low for all the Asian countries considered and in some cases is almost non-existent. From the viewpoint of FEALAC-LA, in contrast, Asia-Pacific has emerged as one of the principal trade partners and it is the case especially for their imports. In short, inter-regional exports to and imports from Asia are important for Latin America, especially South American countries such as Argentina, Brazil, Chile, Ecuador, Peru, and Uruguay. On the other hand, the relative importance of FEALAC-LA as trade partners for Asia Pacific economies remains small.

Intra-FEALAC trade by countries of origin and destination indicates a relatively high country concentration. In the case of FEALAC-AP exports to the Latin American counterparts, Mexico, Brazil, Panama, and Chile, in that order of importance, are the major importers absorbing on average 76% of AP exports to FEALAC-LA during 2005-2007. The rest of Latin American countries did not reach the 5% threshold in the overall total (Table 9).<sup>11</sup> When analyzed from the viewpoint of FEALAC-LA exports, country concentration appears once again to be a concern. With the exception of several bilateral flows, China, Japan and Republic of Korea are almost always the top three export destinations (Table 10). China has transformed into the most important buyer among the AP countries displacing

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<sup>11</sup> Among the 255 possible combinations of bilateral flows (15 FEALAC-AP and 17 FEALAC-LA countries excluding Cuba, for almost all Asia-Pacific countries, Mexico, and to a lesser extent, Brazil are the two major export destinations for Asia-Pacific countries. For Australia, Indonesia, Singapore and Thailand, Brazil is the most preferred destination, while for Brunei Darussalam and Myanmar, Argentina weights heavily in their total. It should be reminded, however, that these exports to FEALAC-LA represent, in almost all cases, a very low share in the overall exports of the Asia-Pacific countries.



Japan as the most important destination; in the case of Argentina, Costa Rica and Panama and Peru, China absorbs more than half of exports directed to FEALAC-AP.<sup>12</sup>

An analysis on distribution of intra FEALAC exports, based on all the possible 992 (32x 32 minus 32) bilateral trade flows among the FEALAC members, shows each country's high dependency on its own subregion as export destination (Table 11). MERCOSUR member countries show a high coefficient for trade with their neighbour countries. Such is also the case for the Andean Community and Central American members. Chile's trade is more diversified with several Asian countries. Mexico has emerged as an important destination especially for Latin American exporters. The Asia-Pacific countries in general rely heavily on their neighbours, especially Japan, China, and the Republic of Korea and, to a lesser degree, the ASEAN members.

The major export destinations in terms of intra-FEALAC trade are China, Japan, Korea, Singapore, Malaysia, and Thailand, in the order of importance, each representing more than 5% of total intra FEALAC exports (Tables 11 and 12). These six countries, together with Indonesia and Australia (4.9% each), accounted for roughly 80% of such trade. In contrast, the share of major Latin American countries such as Mexico and Brazil in total intra FEALAC exports does not reach 3%. In short, although this trade is becoming important for Latin American countries as a whole, Asia Pacific countries, who are less dependent on such trade, are precisely the ones that determine the overall trade structure of FEALAC.

The intra FEALAC export matrix provides additional evidence to the following two elements: there are only few nucleuses of intra regional trade concentrated in FEALAC-AP. As shown in Table 12, during the period 2004-2007, of the 992 combinations of bilateral trade in FEALAC, there were only 49 cases, which reached the threshold of a 0.5% share in intra FEALAC exports (highlighted green). And of those 49 cases, there was only one case –trade between Argentina and Brazil—in intra FEALAC Latin America.

Behind this dynamic trade between the two regions, China is playing an increasing role in both exports and imports, rapidly displacing Japan as the largest trade partner in Asia-Pacific at the start of the decade, despite Japan's slight recovery in recent years on the export side. In addition, the ASEAN (5) grouping has reached a level similar to that of the Republic of Korea or overtaken it as a source of imports for Latin America and the Caribbean and as a destination for its exports. In fact, with the exception of Ecuador, Honduras, and four Caribbean countries, export revenues to Asia Pacific have increased relative to those going to other regions for all the Latin American and Caribbean countries (see Table 1 in Chapter II). This shift increases the importance of the dynamic Asian continent for Latin American and Caribbean trade.

**TABLE 9**  
**FEALAC ASIA –PACIFIC EXPORTS TO FEALAC LATIN AMERICA, 2005-2007**  
(Shares in total exports to FEALAC Latin America, in percentages)


	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela (Bolivarian Republic of)	FEALAC Latin America
Australia	6.6	0.0	38.9	9.1	1.2	1.0	0.3	0.3	1.0	1.1	34.5	0.1	0.5	0.1	3.6	0.7	0.9	100.0
Brunei	99.3	0.0	0.1	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Cambodia	5.5	0.0	3.5	6.8	3.1	0.7	0.1	1.0	0.0	0.2	49.1	2.8	9.4	1.3	15.9	0.0	0.6	100.0
China	6.7	0.2	23.0	9.4	4.6	1.2	1.1	2.1	0.8	1.9	25.4	0.5	12.3	1.0	3.2	1.3	5.3	100.0
Indonesia	9.8	0.1	38.3	8.5	6.2	0.9	1.0	2.4	0.5	0.7	20.2	0.3	4.0	0.3	2.2	0.4	4.2	100.0

(continues)

<sup>12</sup> On the other hand, during 2005-2007, on average, Japan was a more important buyer for Bolivia, Dominican Republic, and Guatemala. Another case noteworthy is the case of Malaysia, which has become a significant trade partner for Costa Rica and El Salvador. Thailand is also an important export destination for Paraguay and Uruguay.

**TABLE 9** (conclusion)


Japan	2.6	0.2	12.3	4.6	4.0	2.0	1.1	1.6	0.5	1.0	33.4	0.3	30.4	0.2	1.5	0.3	4.1	100.0
Korea, Rep. of	2.2	0.1	17.3	11.3	5.1	1.3	0.7	2.2	0.5	2.8	33.9	0.9	13.5	0.4	2.1	0.4	5.4	100.0
Lao PDR	3.9	0.2	18.8	1.3	5.5	0.5	0.0	0.3	0.0	5.3	54.9	0.4	0.0	0.0	7.1	1.0	0.8	100.0
Malaysia	6.8	0.1	25.2	4.3	2.5	2.2	0.6	0.6	0.7	0.8	45.5	0.2	5.0	0.2	2.6	0.6	2.1	100.0
Myanmar	57.7	0.0	3.9	1.0	0.2	0.1	0.0	0.0	0.0	0.0	35.0	0.1	0.0	0.1	0.2	1.7	0.0	100.0
New Zealand	1.8	0.2	7.6	5.2	0.7	0.2	2.1	0.3	2.2	3.2	46.4	2.0	3.6	0.1	2.7	0.6	21.2	100.0
Philippines	6.3	0.1	22.3	6.5	1.4	9.2	0.8	0.4	0.3	0.8	42.0	0.1	4.5	0.6	1.8	0.8	2.1	100.0
Singapore	1.7	0.0	21.4	1.0	0.8	0.4	0.2	0.2	0.1	0.3	19.4	0.0	53.3	0.1	0.4	0.1	0.7	100.0
Thailand	12.4	0.2	24.8	8.6	5.3	1.3	2.0	6.5	1.0	2.1	24.1	0.6	4.7	0.3	2.7	0.4	3.1	100.0
Vietnam	4.5	0.1	8.7	8.3	2.8	0.5	1.2	4.4	0.4	0.3	51.6	0.4	11.5	0.4	2.2	0.6	1.9	100.0
FEALAC Asia Pacific	4.6	0.1	19.3	7.7	4.2	1.4	1.0	1.9	0.6	1.7	29.7	0.5	19.2	0.5	2.3	0.7	4.6	100.0

 share > 5%

Source: Author's calculations based on United Nations Commodity Database (COMTRADE)

**TABLE 10**  
**FEALAC LATIN AMERICA EXPORTS TO FEALAC ASIA-PACIFIC, 2005-2007**  
*(Shares in total exports to FEALAC Asia-Pacific, in percentages)*

	Australia	Brunei	Cambodia	China	Indonesia	Japan	Korea, Republic of	Lao PDR	Malaysia	Myanmar	New Zealand	Philippines	Singapore	Thailand	Vietnam	FEALAC Asia Pacific
Argentina	2.4	0.0	0.0	57.2	5.3	6.6	7.2	0.0	7.4	0.0	0.3	5.0	0.4	4.7	3.6	100.0
Bolivia (Plurinational State of)	0.8	0.0	0.0	7.9	0.1	65.3	21.9	0.0	3.8	0.0	0.1	0.0	0.0	0.1	0.1	100.0
Brazil	2.8	0.0	0.0	46.5	3.0	20.9	10.6	0.0	3.1	0.0	0.3	1.6	5.7	4.6	0.7	100.0
Chile	1.0	0.0	0.0	38.9	1.2	35.5	19.0	0.0	0.6	0.0	0.1	0.9	0.5	1.6	0.6	100.0
Colombia	1.6	0.0	0.0	45.7	0.3	32.5	13.9	0.0	0.3	0.0	0.4	0.6	3.4	1.3	0.0	100.0
Costa Rica	0.9	0.0	0.0	64.3	0.1	7.4	7.5	0.0	13.6	0.1	0.1	1.7	3.4	0.5	0.5	100.0
Dominican Republic	3.9	0.0	0.0	20.4	0.0	23.3	40.7	0.0	4.0	0.0	0.5	0.0	5.2	1.4	0.5	100.0
Ecuador	2.7	0.1	0.0	34.5	1.3	43.3	9.9	0.0	0.3	0.0	4.7	0.4	0.7	0.6	1.5	100.0
El Salvador	2.8	0.0	2.8	14.3	10.0	41.1	8.2	0.0	14.9	0.0	0.7	0.5	0.3	0.5	3.9	100.0
Guatemala	1.1	0.0	0.0	24.2	7.7	27.1	27.9	0.0	6.3	0.0	0.5	0.1	4.0	0.8	0.4	100.0
Mexico	9.3	0.0	0.0	32.6	1.1	34.4	9.5	0.0	1.9	0.0	0.6	1.2	6.3	2.6	0.5	100.0
Nicaragua	11.0	0.0	0.0	24.8	0.0	49.7	2.0	0.0	0.3	0.0	0.5	10.7	0.0	0.1	0.9	100.0
Panama	1.0	0.0	0.0	78.8	1.4	10.1	5.3	0.0	0.4	0.0	0.0	0.0	0.3	1.6	1.2	100.0
Paraguay	0.2	0.0	0.0	41.9	0.9	26.9	4.3	0.0	5.9	0.0	0.0	0.3	0.8	15.7	3.1	100.0
Peru	1.4	0.0	0.0	53.1	0.7	29.8	12.3	0.0	0.1	0.0	0.2	0.5	0.1	1.0	0.8	100.0
Uruguay	0.3	0.0	0.1	49.6	0.4	12.1	8.8	0.0	2.7	0.0	0.1	2.5	1.7	16.7	4.7	100.0
Venezuela (Bolivarian Republic of)	0.0	0.0	0.0	36.3	1.3	42.0	9.6	0.0	1.5	0.0	0.0	0.1	9.0	0.2	0.0	100.0
FEALAC Latin America	2.6	0.0	0.0	44.5	2.2	26.1	13.0	0.0	2.6	0.0	0.3	1.6	2.9	3.1	1.0	100.0

 share > 5%

Source: Authors' calculations based on United Nations Commodity Database (COMTRADE)





### **III. De facto trade integration in and between Asia Pacific and Latin America**

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#### **1. Intra-regional trade dynamism: an overview**

The dynamism of intra FEALAC-AP trade has been characterized by a strong and increasing presence of products categorized as “high” and “medium,” technology-intensity, which account for more than 55% of the total (Table 13-A). This roughly coincides with its world share, indicating its strong specialization in these products worldwide. The combined intra FEALAC-AP share of primary products and natural resource-based manufactures, on the other hand, reach less than 30% of the total. Exports of these countries to FEALAC-LA also shows an even more dominant position of these products; exports of Asia-Pacific to Latin America consist mainly of manufactures, and together with “low” technology-intensity manufactures goods, the share of manufactures reaches over 70% of total exports to FEALAC-LA. This overall picture of the region as a world export platform of medium and high technology intensity manufactures hides, however, a great heterogeneity that exists among these countries.

Intra FEALAC-LA trade can be characterized, though to a much lesser extent, by a significant presence of manufactures, especially of those belonging to both “medium” and “high” tech categories, which account for approximately 43% of total exports traded among these countries (Table 13-B). This trade pattern does not replicate itself in exports to the world, market in which 35.5% and 17.8% of total exported

consist of primary products and natural resource-based manufactures, respectively, despite an important share of “medium” (23%) and “high” tech (12%) products in their total. With respect to exports to FEALAC-AP, in strong contrast, products belonging to primary products (60%) and natural resource-based manufactures (23%) account for 84% of exports. In addition, the share of the former category has been increasing over the years. Latin American exports to FEALAC-AP in primary products have been buoyant in recent years, propelled primarily by higher prices resulting from the strong demand of China of these products. The low technology sector, which includes textiles and apparel, is still a significant segment of manufactures exports for several countries in that region. Besides, several AP countries are still major exporters of primary products and natural resource-based manufactures, sectors in which the comparative advantage of many Latin American countries lies.

**TABLE 13-A**  
**EXPORT PATTERNS BASED ON TECHNOLOGICAL INTENSITY, FEALAC-ASIA PACIFIC**  
(Percentages and millions of dollars)

	Intra FEALAC Asia-Pacific			To FEALAC-Latin America			World		
	1990	2000	2006	1990	2000	2006	1990	2000	2006
Primary products	22.4	12.2	11.3	6.4	2.7	2.9	12.2	7.4	6.9
Manufactures based on NR	18.2	14.9	17.8	7.6	8.1	7.2	12.3	11.1	12.8
Low technology	13.9	13.9	13.0	11.7	15.6	17.7	16.8	16.1	16.7
Intermediate technology	27.5	24.3	26.2	54.8	51.4	43.3	35.3	30.2	29.9
High technology	15.5	32.1	29.1	18.5	21.5	25.2	21.0	32.8	30.9
Others	2.5	2.6	2.6	1.1	0.7	3.7	2.4	2.4	2.9
Total	188 126	508 195	1 041 925	12 940	41 105	92 811	606 727	1 399 972	2 820 726

**TABLE 13-B**  
**EXPORT PATTERNS BASED ON TECHNOLOGICAL INTENSITY, FEALAC-LATIN AMERICA**  
(Percentages and millions of dollars)

	Intra FEALAC Asia-Pacific			To FEALAC Latin America			World		
	1990	2000	2006	1990	2000	2006	1990	2000	2006
Primary products	45.9	52.9	60.3	34.3	23.5	22.3	48.6	27.2	35.5
Manufactures based on NR	29.8	26.8	23.4	21.7	25.7	22.5	21.6	16.6	17.8
Low technology	8.2	4.2	3.2	14.6	13.7	11.4	10.2	12.1	8.5
Intermediate technology	14.3	8.9	9.0	24.4	28.3	33.0	15.9	25.6	23.4
High technology	1.5	7.0	3.9	4.0	7.5	9.7	2.6	17.0	12.4
Others	0.3	0.2	0.1	1.0	1.4	1.1	1.2	1.5	2.3
Total	11 240	17 075	52 660	16 224	51 593	102 045	117 469	339 722	637 949

Source: Authors' Calculations based on United Nations COMTRADE database.

## 1.1 FEALAC AP intra-regional trade

A detailed analysis of the structure of intra-regional trade in this region shows that of the 20 main products exported to the world in 2006 (classified according to the two -digit system employed by the Standard International Trade Classification – SITC, Rev. 2), four product categories, namely electric machinery, apparatus and appliances, office machinery and automatic data processing equipment, road vehicles, and precision machinery, figure among the most important products exported to its proper region (Table 14-A). For example, close to 45% of total exports in electrical machinery takes place within the FEALAC-AP region. Furthermore, this sector accounts for almost 18% of the total intra-regional trade that year.

**TABLE 14-A**  
**FEALAC-ASIA PACIFIC INTRAREGIONAL TRADE BY PRODUCT, FEALAC – ASIA PACIFIC**  
*(2-digit level of SITC Classification Revision 2, Millions of dollars and percentages)*

rank	Product description	Value of intra Asia Pacific exports			Share of intra Asia Pacific exports in total regional exports			Share in total of intra regional trade		
		US\$ million			(%)			(%)		
		1990	2000	2006	1990	2000	2006	1990	2000	2006
1	Electrical machinery, apparatus & appliances	17 283	101,90	178 240	31.7	42.1	44.5	9.3	20.4	17.5
2	Petroleum, petroleum products and related materials	22 634	37,56	84 938	71.5	68.6	71.4	12.2	7.5	8.3
3	Office machines & automatic data processing machines	5 638	42,23	72 760	14.1	29.3	27.7	3.0	8.5	7.1
4	Telecommunications & sound recording	8 571	25 651	56 365	17.5	26.9	23.7	4.6	5.1	5.5
5	Iron and steel	9 136	15 730	43 760	49.1	53.5	50.8	4.9	3.2	4.3
6	Road vehicles (incl. air cushion vehicles)	10 002	18 422	40 319	13.5	15.7	17.5	5.4	3.7	4.0
7	General industrial machinery & equipment	7 219	14 858	33 299	35.4	32.1	36.6	3.9	3.0	3.3
8	Non-ferrous metals	4 838	10 524	32 180	56.5	53.7	57.1	2.6	2.1	3.2
9	Organic chemicals	3 478	11 362	32 121	39.8	44.6	49.9	1.9	2.3	3.2
10	Machinery specialized for particular	7 482	15 513	30 433	39.1	41.0	40.4	4.0	3.1	3.0
11	Artif. Resins, plastic mat., cellulose	2 908	11 394	27 072	42.4	48.2	50.6	1.6	2.3	2.7
12	Professional, scientific & controlling	1 842	6 975	26 705	24.6	31.0	40.0	1.0	1.4	2.6
13	Articles of apparel and clothing accessories	5 066	18 054	26 685	19.1	30.0	22.9	2.7	3.6	2.6
14	Metalliferous ores and metal scrap	3 446	5 873	26 044	42.3	50.6	67.3	1.9	1.2	2.6
15	Miscellaneous manufactured articles	3 923	13 367	25 822	19.0	26.1	26.3	2.1	2.7	2.5
16	Textile yarn, fabrics, made-up articles	6 267	16 575	23 677	27.1	36.7	31.2	3.4	3.3	2.3
17	Gas, natural and manufactured	5 914	10 295	20 207	93.1	78.2	77.6	3.2	2.1	2.0
18	Manufactures of metal, n.e.s.	3 078	7 278	18 839	31.3	32.6	31.5	1.7	1.5	1.9
19	Power generating machinery and equipment	3,23	9 074	17 979	29.3	33.0	37.6	2.0	1.8	1.8
20	Coal, coke and briquettes	3,66	5 138	15 286	59.6	54.8	51.4	1.9	1.0	1.5
	<b>Other</b>	49 202	119 294	205 736				26.7	20.2	18.1
	<b>Total</b>	185 15	498 824	1 018 260	...	...	...	100.0	100.0	100.0

**TABLE 14-B**  
**FEALAC-ASIA PACIFIC INTRAREGIONAL TRADE BY PRODUCT, FEALAC – LATIN AMERICA**  
*(2-digit level of SITC Classification Revision 2, Millions of dollars and percentages)*

rank	Product description	Value of intra Latin American exports			Share of intra Latin America exports in total regional exports			Share in total of intra regional trade		
		US\$ million			(%)			(%)		
		1990	2000	2006	1990	2000	2006	1990	2000	2006
1	Road vehicles (incl. air cushion vehicles)	838	5,416	14,314	16.9	15.4	25.1	5.2	10.6	14.1
2	Petroleum, petroleum products and related materials	2,530	8,530	12,448	8.6	15.3	9.7	15.8	16.6	12.3
3	Non-ferrous metals	539	1,698	5,186	6.6	15.2	14.7	3.4	3.3	5.1
4	Telecommunications & sound recording	93	945	4,660	18.2	4.5	13.0	0.6	1.8	4.6
5	Iron and steel	771	1,659	4,593	132	21.9	25.6	4.8	3.2	4.5
6	Artif. resins, plastic mat. Cellulose	462	1,852	3,659	37.1	56.8	51.7	2.9	3.6	3.6
7	Metalliferous ores and metal scrap	493	835	3,569	9.4	8.9	9.4	3.1	1.6	3.5
8	Gas, natural and manufactured	288	662	3,086	57.1	94.3	90.3	1.8	1.3	3.0
9	Cereals and cereal preparations	834	2,179	3,083	46.1	58.9	50.9	5.2	4.2	3.0
10	Electrical machinery, apparatus & appliances	367	1,426	3,018	27.4	5.0	8.9	2.3	2.8	3.0
11	Paper, paperboard, artic. of paper	319	1,622	2,456	26.0	52.4	49.1	2.0	3.2	2.4
12	Machinery specialized for particular	289	657	2,350	28.1	24.9	28.6	1.8	1.3	2.3
13	Medicinal and pharmaceutical products	175	1,465	2,146	50.4	67.6	65.4	1.1	2.9	2.1
14	General industrial machinery & equipment	406	1,142	2,136	27.5	16.3	16.1	2.5	2.2	2.1
15	Miscellaneous manufactured articles	371	1,319	2,065	30.2	20.0	22.0	2.3	2.6	2.0
16	Textile yarn, fabrics, made-up articles	426	1,479	1,902	21.7	31.0	37.6	2.7	2.9	1.9

(continues)

**TABLE 14-B (conclusion)**

17	Essential oils & perfume and flavour materials	132	953	1,881	45.5	55.4	58.4	0.8	1.9	1.9
18	Manufactures of metal, n.e.s.	341	1,044	1,872	31.0	19.3	22.1	2.1	2.0	1.8
19	Organic chemicals	464	995	1,820	26.4	30.0	24.4	2.9	1.9	1.8
20	Chemical materials and products, n.e	290	917	1,508	49.5	58.9	57.4	1.8	1.8	1.5
	<b>Other</b>	5,585	14,478	23,639				34.9	28.3	23.5
	<b>Total</b>	16,013	51,273	101,391	...	...	...	100.0	100.0	100.0

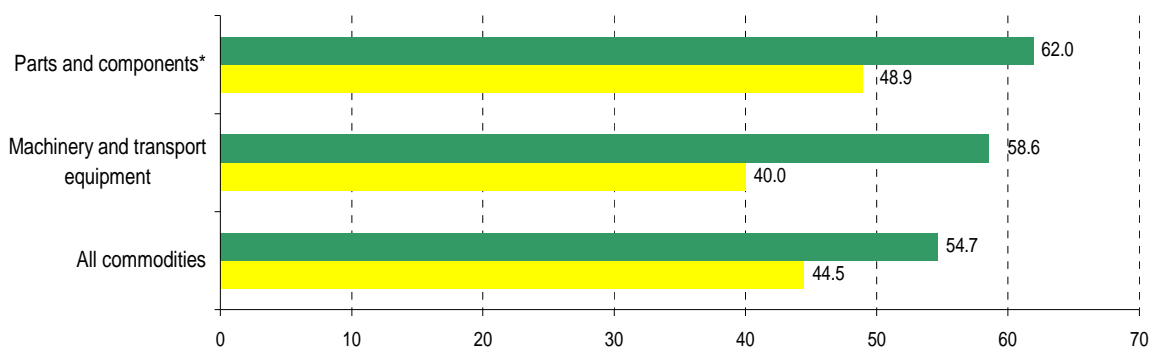
Source: Authors' calculations, on the basis of official figures based on COMTRADE

At a greater level of detail, roughly 60% of trade in machinery and transport equipment and in parts and components in Asia-Pacific takes place intraregionally (see Figure 14), following a significant increase since the early 1990s.<sup>13</sup> Latin America and the Caribbean, however, has much less intraregional trade in parts and components, though trade in machinery and transport equipment registered a slight increase. Intra-industry trade (IIT) performance in these sectors has been much poorer in the region, even for the NAFTA countries, which have seen a slight decline in intraregional trade in parts and components. To attract greater investment into the region, Latin American countries need to promote supply chain networks in these sectors.

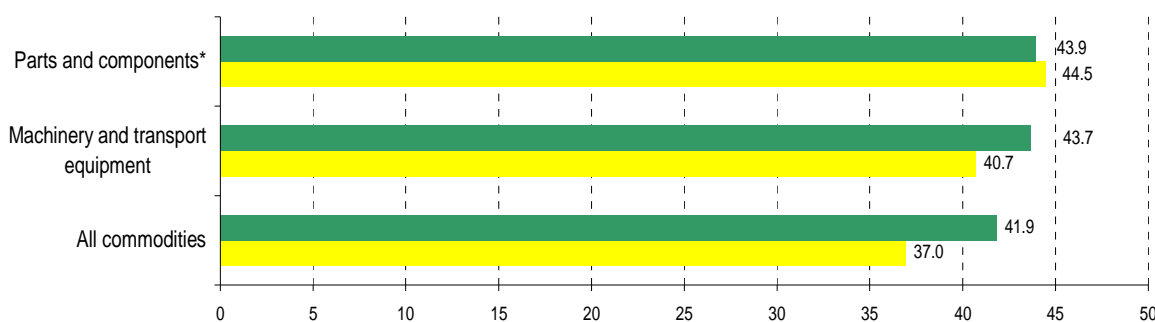
**FIGURE 14**  
**INTRAREGIONAL TRADE IN MACHINERY AND TRANSPORT EQUIPMENT AND IN PARTS AND COMPONENTS, 1990 AND 2006<sup>a</sup>**

(Percentages)

**A. ASIA-PACIFIC (12)**



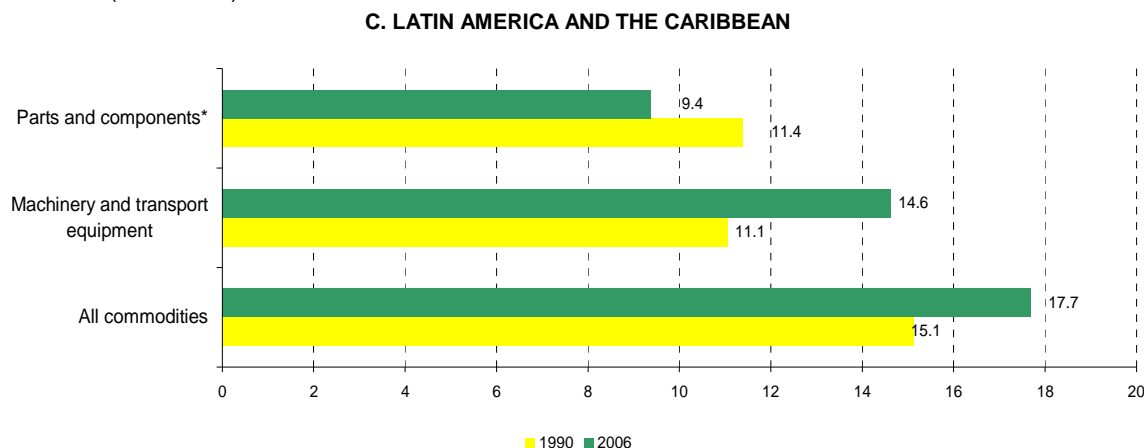
**B. NAFTA**



(continues)

<sup>13</sup> Machinery and transport equipment is the largest and most buoyant segment of manufactures exports, accounting for 37% of world merchandise exports and 53% of world manufactures exports in 2006. Notably, 24% of world exports in machinery and transport equipment originate in Asian countries (World Trade Organization, 2008).



**FIGURE 14** (conclusion)

Source: Authors' calculations on the basis of the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> The sector of machinery and transport equipment is defined as those products belonging to SITC code 7 (Rev. 2), while the definition of parts and components are those that classified as "Parts" (51 groups of products classified at the 3 to 5 digits) within the same SITC code 7 product category.

## 1.2 FEALAC-LA intra-regional trade

Despite the overall image of being an exporter of primary products and natural resource-based manufactures, when examined at the national level, the export structure of FEALAC-LA is found to be quite diverse (ECLAC, 2008a). In fact, significant shares of the countries such as Argentina, Brazil, Mexico, Colombia, and Costa Rica, and to a lesser degree, El Salvador, Guatemala, consists of manufactures goods, especially in low- and medium-technology categories. There exist substantial intra-industry trade flows among the member countries of MERCOSUR, Andean Community and Central American Common market countries.

The product composition of that trade is relatively similar to that of FEALAC-AP, with road vehicles, petroleum, iron and steel and several machinery products figuring among the top 20 products (Table 15-B). These 20 products accounted for over 76% of total intraregional trade in 2006. In this regard, the coincidence of the products as major intra-regional trade in both Asia Pacific and Latin America might point to bi-regional trade opportunities involving these products.

However, in the case of FEALAC-LA, natural resource-based products weigh more in the total intra-regional trade basket; in addition to petroleum-related products, there are substantial amounts of intra-regional exports in non-ferrous metals, gas natural, cereals, paper and its products, chemicals and essential oils. Close to half of these products are being exported to the proper region. The coefficients for machinery products are in general low, while that for medicinal and pharmaceutical products, another item of high technology content, is quite high reaching 65%. There is also a substantial amount of intraregional trade in textiles and apparel. Inter-industry nature of bi-regional trade between Asia Pacific and Latin America.

## 1.3 Inter-industry nature of bi-regional trade between Asia Pacific and Latin America

The 30 leading products exported by FEALAC-LA to FEALAC-AP with the highest export values in 2006 are highly concentrated in natural resources and processed products based thereon (Table 15). These 30 categories, at the SITC two-digit level, represent more than 90% of the region's total exports to the Asia-Pacific region, and the first two groups, ferrous and non-ferrous ores and metals, account for roughly 45% of total exports. Mining-related exports have increased their share, partly at the expense of agricultural exports, owing to the continued growth of some important markets in Asia and the

generalized rise in commodity prices. This mounting concentration reflects a large increase in the share of some key commodities due, in turn, to both price and volume effects.

Despite the high presence of a number of Latin American countries among the main suppliers of these 30 products, FELAC-AP countries has achieved a high level of diversification of supply sources, sufficient to prevent Latin America from having strong bargaining power with respect to these products. There is significant competition with several developed economies, such as Australia, Canada, New Zealand and the United States, and with neighbouring developing Asian countries, such as China, Indonesia, the Republic of Korea, Taiwan Province of China and Thailand, among others, in mining, agriculture, fishery and forestry products, where Latin America traditionally enjoys comparative advantages (ECLAC, 2008b). Now, African countries are increasingly emerging as other competitors in these fields.

When examined at the national levels, Latin American and Caribbean countries' individual export baskets to principal Asia-Pacific markets continue to be highly concentrated in few primary products: almost all (except for Brazil and Mexico) have top three export items representing more than two thirds of total exports (Table 16). An interesting exception to this rule is Costa Rica, whose export basket to Asia consists mainly of semiconductors and parts for data machinery.

It should be highlighted, however, that products incorporating greater value-added have also gained ground since 1990; the list includes a number of new products, such as fishery products and meat products, along with high-technology manufactures such as electronic microcircuits and telecommunications equipment and data-processing machinery, in addition to several medium-tech products such as road vehicles. The presence of these manufactures products indicates that Latin America begins to engage itself, though gradually, in the supply-chain networks prevalent in the Asia-Pacific region. This is also evidence of the dynamic nature of bi-regional trade and the opportunities that exist for Latin America and the Caribbean to expand its export base beyond basic commodities.

Imports of FEALAC-LA from the Asia Pacific region, on the other hand, consist mainly of manufactures. Table 15 lists the top 30 products imported by Latin America in 2006, indicating the value of trade in these products in that year, the share of each product listed and the annual growth rate during 1990 and 2006. Manufactures range from labour-intensive products to the automotive and electronics sectors. The top 30 products listed account for 98% of total imports from Asia Pacific, showing a high level of concentration. A comparison of FEALAC-LA's exports to and imports from FEALAC-AP in this table reveals the "inter-industry" nature of bi-regional trade.

The above confirms that Asia Pacific countries are strong players in the market for technology-intensive goods. In several other sectors, such as footwear and textiles and apparel and electronics products, the region competes directly with Latin American countries in their proper markets and third country markets. The strategic position of Asia Pacific in relation to other suppliers suggests that to secure an even higher share of the Latin American market, Asia Pacific countries need to strengthen their links further with Latin American economies by building up alliances and promoting various types of business cooperation. Achieving this goal in turn requires a deeper knowledge of Latin American markets.

Meanwhile, the strong position of the United States and several Latin American countries in many manufactured product groups underlines the challenges for Asia Pacific countries of maintaining or expanding their market shares in the light of implementing free trade agreements with the United States or the European Union. In the absence of a similar international trade arrangement of Asia Pacific countries, these agreements with the North could lead to a relative deterioration in market access conditions for Asia Pacific exports to Latin America.

**TABLE 15**  
**FEALAC LATIN AMERICAN EXPORTS TO AND IMPORTS FROM FEALAC ASIA-PACIFIC: 30 LEADING PRODUCT GROUPS, 1990, 2000 AND 2006**

FEALAC – Latin America to FEALAC – Asia Pacific								FEALAC – Latin America imports from FEALAC – Asia Pacific							
Rank	SITC Code	Product description	1990	2000	2006	Share in total (%)	Growth rate (%)	Rank	SITC Code	Product description	1990	2000	2006	Share total (%)	Growth rate (%)
						2006	1990-2006							2006	1990-2006
1	28	Metalliferous ores and metal scrap	1 569	3 245	17 937	34.1	16.4	1	77	Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment)	671	6 732	21 476	18.7	24.2
2	68	Non-ferrous metals	1 981	2 026	5 601	10.6	6.7	2	76	Telecommunications and sound-recording and reproducing apparatus and equipment	1 273	3 615	19 122	16.6	18.5
3	22	Oil seeds and oleaginous fruit	306	1 151	4 427	8.4	18.2	3	75	Office machines and automatic data-processing machines	219	2 603	12 668	11.0	28.9
4	33	Petroleum, petroleum products and related materials	1 496	956	2 881	5.5	4.2	4	78	Road vehicles (incl. air cushion vehicles)	1 033	4 354	11 202	9.7	16.1
5	08	Feeding stuff for animals (not including unmilled cereals)	233	1 149	2 542	4.8	16.1	5	87	Professional, scientific and controlling instruments and apparatus, n.e.s.	137	605	4 943	4.3	25.1
6	67	Iron and steel	1 629	649	1 670	3.2	0.2	6	89	Miscellaneous manufactured articles	241	1 752	4 936	4.3	20.8
7	03	Fish, crustaceans, molluscs and other aquatic invertebrates, prepared or preserved, n.e.s.	247	1 002	1 386	2.6	11.4	7	74	General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	344	1 601	4 675	4.1	17.7
8	01	Meat and meat preparations	127	302	1 352	2.6	15.9	8	67	Iron and steel	352	1 047	2 845	2.5	14.0
9	25	Pulp and waste paper	237	737	1 325	2.5	11.3	9	69	Manufactures of metal, n.e.s.	142	806	2 695	2.3	20.2
10	42	Fixed vegetable fats and oils, crude, refined or fractionated	257	157	1 044	2.0	9.2	10	65	Textile yarn, fabrics, made-up articles, n.e.s., and related products	199	1 330	2 681	2.3	17.7
11	61	Leather, leather manufactures, n.e.s., and dressed furskins	85	326	1 025	1.9	16.8	11	72	Machinery specialized for particular industries	327	1 147	2 425	2.1	13.3
12	78	Road vehicles (incl. air cushion vehicles)	58	98	950	1.8	19.1	12	84	Articles of apparel and clothing	63	833	2 160	1.9	24.7
13	77	Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment)	22	268	905	1.7	26.1	13	58	Artif. Resins, plastic mat., cellulose	45	627	1 927	1.7	26.4
14	51	Organic chemicals	259	277	859	1.6	7.8	14	51	Organic chemicals	164	775	1 779	1.5	16.1
15	07	Coffee, tea, cocoa, spices, and manufactures thereof	381	574	829	1.6	5.0	15	71	Power-generating machinery and equipment	228	1 116	1 765	1.5	13.7
16	75	Office machines and automatic data-processing machines	122	533	741	1.4	11.9	16	32	Coal, coke and briquettes	186	517	1 611	1.4	14.4
17	24	Cork and wood	206	360	724	1.4	8.2	17	62	Rubber manufactures, n.e.s.	143	717	1 475	1.3	15.7
18	05	Vegetables and fruit	176	433	623	1.2	8.2	18	33	Petroleum, petroleum products and related materials	119	255	1 434	1.2	16.9
19	06	Sugar, sugar preparations and honey	14	130	577	1.1	26.3	19	85	Footwear	44	388	1 267	1.1	23.4

(continues)

TABLE 15 (conclusion)

20	04	Cereals and cereal preparations	257	89	480	0.9	4.0	20	66	Non-metallic mineral manufactures	49	385	1,159	1.0	21.9
21	71	Power-generating machinery and equipment	51	78	437	0.8	14.4	21	88	Photographic apparatus, equipment and supplies and optical goods, n.e.s., watches and clocks	211	598	1,057	0.9	10.6
22	72	Machinery specialized for particular industries	67	145	375	0.7	11.4	22	54	Medicinal and pharmaceutical products	48	313	797	0.7	19.1
23	26	Textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric)	317	87	338	0.6	0.4	23	23	Crude rubber (including synthetic and reclaimed)	193	256	735	0.6	8.7
24	58	Artif. res ins, plastic mat., cellulose	80	91	310	0.6	8.8	24	73	Metalworking machinery	95	299	661	0.6	12.9
25	52	Inorganic Chemicals	81	118	274	0.5	7.9	25	82	Furniture and parts thereof	6	140	616	0.5	34.2
26	76	Telecommunications and sound-recording and reproducing apparatus and equipment	2	171	263	0.5	34.1	26	59	Chemical materials and products, n.e.s.	54	216	561	0.5	15.8
27	74	General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.	31	104	245	0.5	13.7	27	83	Travel goods, handbags and similar containers	5	198	554	0.5	34.4
28	12	Tobacco and tobacco manufactures	65	192	240	0.5	8.5	28	52	Inorganic Chemicals	22	153	444	0.4	20.6
29	27	Crude fertilizers, other than those of division 56, and crude minerals (excluding coal, petroleum and precious stones)	77	121	228	0.4	7.0	29	68	Non-ferrous metals	38	134	396	0.3	15.9
30	11	Beverages	42	91	183	0.3	9.7	30	02	Dairy products and birds' eggs	261	307	387	0.3	2.5
		Other	910	3 595	4 679	8.9	10.8			Other	684	1,398	1 832	1.6	6.4
		Total	11 160	17 056	52 604	100.0	10.2			Total	7 822	37,414	115 133	100.0	18.3

Source: Authors' calculations on the basis of official data from the statistical database on merchandise trade (COMTRADE).

**TABLE 16**  
**LATIN AMERICA AND THE CARIBBEAN: LEADING EXPORTS PRODUCTS TO ASIA-PACIFIC BY DESTINATION BY DESTINATION, 2004-2006**  
*(In percentage of total exports to selected partner)*

	China		Japan		Republic of Korea		ASEAN 5	
Argentina	Soya beans 46.2%; Soya oil 23.4%; Petroleum 13.3%	82.9%	Copper 25.6%; Aluminium 18.3%; Propane 6.6%	50.4%	Copper 31.4%; Soya oil 25.7%; Oil-cake 17.3%	74.4%	Oil-cake 43.5%; Other maize 15.7%; Soya 15.0%	74.2%
Bolivia (Plurinational State of)	Tin 32.2%; Non-coniferous Wood 14.2%; Other non-ferrous ore 12.6%	59.05	Zinc 82.8%; Precious metal 10.8%; Sesame 4.3 %	97.9%	Precious metal 46.3%; Zinc 39.6%; Lead 8.7%	94.6%	Tin 87.8%; Non-coniferous wood 3.8%; Inorganic acid 2.7%	94.2%
Brazil	Soya beans 27.8%; Iron 20.1%; Petroleum 7.7%	55.5%	Iron 18.1%; Poultry, meat 16.6%; Aluminium 13.3%	48.0%	Non-finished iron, steel 14.3%; Iron 13.4%; Petroleum 9.6%	37.4%	Oil-cake 11.8%; Sugars 6.3%; Non-finished iron, steel 6.0%	24.0%
Chile	Copper, refined 42.1%; Copper 35.2%; Chemical wood pulp 6.6%	84.0%	Copper 48.4%; Molybdenum and others 12.3%; Fish 8.3%	69.0%	Copper, refined 42.3%; Copper 28.3%; Monohydric alcohols 8.7%	79.3%	Copper, refined 32.0%; Copper 17.3%; Iron 13.3%	62.6%
Colombia	Other ferro-alloys 53.0%; Other non-ferrous waste 36.8%; Other bovine, equine leather 2.8%	92.7%	Coffee 64.9%; Other ferro-alloys 14.8%; Flowers 5.1%	84.8%	Other ferro-alloys 69.0%; Coffee 14.7%; Other non-ferrous waste 8.2%	91.9%	Hides and skins 27.3%; Precious 13.9%; Fungicides 12.0%	53.2%
Costa Rica	Microcircuits 76.9%; Parts for data machines 11.3%; Telecommunication equipment 4.5%	92.7%	Coffee 31.4%; Parts for data machines 19.3%; Microcircuits 13.4%	64.1%	Parts for telecom. 38.4%; Microcircuits 24.0%; Parts & acces. for data machines 14.6%	76.9%	Parts for data machines 60.7%; Microcircuits 24.8%; Nuts and kernels 1.9%	87.4%
Ecuador	Petroleum 89.6%; Other non-ferrous waste 4.5%; Bananas 1.0%	95.0%	Bananas 28.4%; Petroleum 17.9%; Flours, unfit for human 13.9%	60.2%	Petroleum 97.0%; Other non-ferrous waste 1.1%; Fish 0.6%	98.6%	Fish's fat and oils 31.8%; Tobacco 13.3%; Coffee extracts 10.2%	55.3%
El Salvador	Other non-ferrous waste 54.8%; Metal wastes 10.6%; Plastic wastes 6.6%	72.0%	Coffee 95.2%; Crustaceans 1.8%; Sesame 1.1%	98.1%	Other non-ferrous waste 53.9%; Coffee 24.2%; Sewing machines 8.9%	87.0%	Sugars 95.1%; Sewing machines 1.5%; Other non-ferrous waste 1.5%	98.2%
Guatemala	Sugars 78.1%; Sports footwear 2.6%; Footwear, n.e.s. 2.4%	83.1%	Coffee 63.0%; Sesame 18.3%; Other vegetables 2.1%	83.4%	Sugars 88.1%; Blouses and shirts 2.4%; Inorganic chemicals n.e.s. 2.4%	92.9%	Sugars 70.3%; Spices 17.9%; Goods vehicles 3.6%	91.8%
Honduras	Switch. Apparatus 24.8%; Zinc 22.7%; Sugars 18.3%	65.8%	Coffee 81.3%; Sesame 8.8%; Other non-ferrous waste 2.2%	92.3%	Zinc 48.1%; Coffee 26.8%; Precious metal 10.9%	85.7%	Sugars 90.7%; Other textiles 4.2%; Coffee 1.7%	96.5%
Mexico	Parts for data machines 20.8%; Other non-ferrous waste 12.3%; Parts for vehicles 5.9%	39.0%	Molybdenum and others 14.1%; Vehicles for persons 10.2%; Meat of swine 8.3%	32.6%	Copper, refined 23.6%; Zinc 16.7%; Other non-ferrous waste 7.1%	47.7%	Parts for data machines 23.3%; Data processing equip. 6.5%; Microcircuits 5.7%	35.5%
Nicaragua	Sugars 47.3%; Other sugars 31.1%; Other bovine, equine leather 6.9%	85.3%	Coffee 44.2%; Sesame 22.6%; Edible offal 21.3%	88.1%	Other bovine, equine leather 93.9%; Crustaceans 5.4%; Sewing machines 0.5%	99.8%	Monohydric alcohol 66.4%; Spirits beverages 30.0%; Clothing accessories 2.5%	99.0%
Panama	Other non-ferrous waste 45.3%; Flours, unfit for human cons. 22.7%; Other ferrous waste 10.5%	78.6%	Flowers 38.6%; Edible offal 18.7%; Bovine meat 15.7%	73.0%	Other non-ferrous waste 55.1%; fish's fats and oils 33.0%; Iron's waste and scrap 4.5%	92.5%	Iron, waste and scrap 27.5%; Other ferrous waste 22.7%; Other non-ferrous waste 17.4%	67.6%
Paraguay	Cotton 65.6%; Other bovine, equine leather 16.0%; Non-coniferous wood 8.2%	89.8%	Sesame 92.5%; Groundnuts 2.0%; Vegetables, dried 1.7%	96.2%	Cotton 49.5%; Sesame 19.8%; Bovine meat 7.7%	77.0%	Other bovine, equine leather 47.3%; Cotton 24.1%; Wheat, unmilled 21.9%	93.2%
Peru	Copper 33.7%; Flours, unfit for human consumption 26.5%; Lead 9.5%	69.7%	Copper 32.4%; Flours, unfit for human consumption 15.6%; Zinc 14.7%	62.7%	Zinc 40.4%; Copper 26.6%; Lead 10.7%	77.7%	Copper 26.0%; Flours, unfit for human consumption 25.8%; Zinc 21.6%	73.4%
Uruguay	Wool, animal hair, carded 26.0%; Other bovine, equine leather 21.9%; Wool, greasy 13.5%	61.4%	Wood in chips 67.9%; Fish 6.4%; Wool, carded 6.4%	80.6%	Other cheese; curd 55.2%; Fish 16.4%; Whole hides and skins of bovine 7.2%	78.8%	Other bovine, equine leather 74.2%; Bovine meat 5.6%; Whole furs 4.5%	84.3%
Venezuela (Bolivarian Republic of)	Iron products 38.7%; Petroleum 24.5%; Other non-ferrous waste 16.2%	79.3%	Aluminium 83.9%; Vessels 7.9%; Cocoa beans 2.4%	94.2%	Granule and powder, iron, steel 82.4%; Other non-ferrous waste 9.6%; Inorganic acid 1.6%	93.6%	Petroleum 64.4%; Iron products 15.7%; Acyclic hydrocarbons 6.1%	86.2%
Caribbean*	Alumina 61.3%; Sugars 28.5%; Other ferrous waste 3.9%	93.7%	Gas 64.0%; Crustaceans 14.8%; Coffee 13.8%	92.6%	Granule and powder, iron, steel 63.8%; Aluminium 9.0%; Other non-ferrous waste 6.3%	79.1%	Iron products 34.5%; Tobacco 6.1%; Electric resistors 5.6%	46.2%

Source: Authors' calculations on the basis of United Nations Commodity Trade Database (COMTRADE)

## 2. Intra-industry trade (IIT) in and between the two regions

Intra-industry trade (IIT) can be grouped into two types, vertical and horizontal. The former is a pattern in which partner countries import goods of differing quality from the same industry category. For example, Japan might export capital-intensive, high-quality goods, while it imports labour-intensive, low-quality goods from another country. In contrast, in the latter, countries export and import goods belonging to the same industry category but differentiated by design, variety, brand, consumer tastes, monopolistic competition, consumer or other features. The intensifying intra-industry trade observed in office machinery, transport equipment, and electronics among FEALAC-AP countries is a combination of both IIT types.

### 2.1 Overview

A brief analysis on the IIT evolution of FEALAC member countries among themselves and with other regions of the world indicates that there have been substantive changes over the years, especially in the FEALAC-AP region. This conclusion has been drawn from the calculations of Grubel Lloyd Index (GLI) that takes a value between 0 and 1. The coefficient moves closer to 1, as the proportion of intra-industry increases. In this exercise, in order to capture substantive changes and differentiate the depth of IIT, three levels of GLI are adopted: first level:  $GLI > 0.33$ ; second:  $GLI > 0.10 < 0.33$ ; and third;  $GLI < 0.10$ . The calculations are made at the 3 digit SITC level, disaggregated into 233 product groups. The GLIs indicate that:

- both FEALAC sub-regions have increased IIT: from 0.13 to 0.20 in FEALAC-LA and from 0.22 to 0.36 in FEALAC-AP;
- the strongest hikes in IIT coefficients are observed in intra FEALAC-AP trade;
- the IIT coefficients for bi-regional trade between Latin America and Asia-Pacific, though rising, still remain very low, at 0.07 and 0.05; and
- coefficients for IIT with the United States and the European Union are rising substantially, for both regions. The increase is most striking in the case of IIT with the United States.
- of the four patterns of IIT (Table 17), in more than 93% of the sectors analyzed, most trade flows between the Asia-Pacific region and Latin America are inter-industrial rather than intra-industrial in kind (i.e., trade consists of exchanging primary products and natural resource-based products for manufactures. However, this general pattern, which is based on regional averages, hides the considerable variation within each region and between the countries from both regions.

**TABLE 17**  
**FEALAC: EVOLUTION OF IIT IN FEALAC AND OTHER REGIONS 1990, 1995, 2000 AND 2006**  
(Grubel Lloyd Index)

Regions/countries	Intra-FEALAC		Extra-FEALAC	
	FEALAC-LA	FEALAC-AP	European Union-27	United States
<b>1990</b>				
FEALAC LA	0.13	0.03	0.08	0.23
FEALAC-AP	0.04	0.22	0.19	0.30
<b>1995</b>				
FEALAC LA	0.22	0.04	0.10	0.37
FEALAC-AP	0.04	0.30	0.26	0.37
<b>2000</b>				
FEALAC LA	0.27	0.06	0.12	0.44
FEALAC-AP	0.07	0.36	0.27	0.39
<b>2006</b>				
FEALAC LA	0.20	0.05	0.13	0.39
FEALAC-AP	0.07	0.36	0.26	0.27

Source: Authors' calculations based on United Nations COMTRADE database.

## 2.2 Intense and deepening intra-industry trade in FEALAC-AP

IIT performance of Asia Pacific has been one of the showcases of de facto regional integration worldwide. The GLIs for this region are high and are still rising for the region as a whole. In fact, among the four regional groupings (FEALAC-LA, FEALAC-AP, FEALAC-United States, and FEALAC-EU) considered, Asia-Pacific, its proper region, shows the highest GLI.<sup>14</sup>

Among FEALAC-AP economies, the countries that show a high GLI are Singapore and Malaysia, followed by the Philippines, Republic of Korea, Thailand and Japan. One interesting aspect is that with the exception, on the one hand, of Brunei Darussalam, Cambodia, Myanmar, and Viet Nam whose GLIs are quite low, and of Singapore and Malaysia with very high GLIs, on the other, the rest of the ASEAN region show coefficients in the second range of GDIs adopted in this report (that is GLI greater than 0.10 but less than 0.33). This indicates relatively high IIT relations in manufactures with the rest of the world. With the exception of the newer members of ASEAN, Asia Pacific countries score quite satisfactorily in GLIs, and more importantly, the overall performance is distributed quite evenly among the countries (i.e., Japan, China, Korea, and ASEAN-5).

In this region, the IIT deepening, centered in the machinery and motor-vehicle industries, has not been a “lop-sided” process but a shared task involving a number of countries, big and small alike (Table 18). One of the explanations for this IIT dynamics relates to the “fragmentation” or “slicing-up” of the production processes across national boundaries, promoted by various types of business associations (e.g., FDI, joint ventures and others) and intra-firm trade.

**TABLE 18**  
**FEALAC ASIA PACIFIC: IIT WITH MAJOR TRADE PARTNERS, 2006**

(On the basis of SITC Revision 2, at the 3 digit level)

	FEALAC-LA	FEALAC AP	United States	European Union	Total exports
Australia	0.10	<b>0.14</b>	<b>0.26</b>	<b>0.16</b>	<b>0.14</b>
Brunei Darussalam	0.00	0.02	0.01	0.09	0.02
Cambodia	...	...	...	...	...
China	0.08	<b>0.30</b>	<b>0.21</b>	<b>0.24</b>	<b>0.21</b>
Indonesia	0.03	<b>0.21</b>	<b>0.12</b>	<b>0.12</b>	<b>0.17</b>
Japan	0.06	<b>0.34</b>	<b>0.35</b>	<b>0.34</b>	<b>0.28</b>
Malaysia	0.09	<b>0.45</b>	<b>0.33</b>	<b>0.28</b>	<b>0.37</b>
Myanmar	...	...	...	...	...
New Zealand	0.04	<b>0.25</b>	<b>0.26</b>	<b>0.13</b>	<b>0.20</b>
Philippines	0.04	<b>0.40</b>	<b>0.20</b>	<b>0.22</b>	<b>0.31</b>
Rep. of Korea	0.06	<b>0.43</b>	<b>0.35</b>	<b>0.22</b>	<b>0.30</b>
Singapore	<b>0.17</b>	<b>0.54</b>	<b>0.48</b>	<b>0.30</b>	<b>0.44</b>
Thailand	<b>0.10</b>	<b>0.36</b>	0.34	<b>0.25</b>	<b>0.30</b>
Viet Nam	0.00	0.00	0.00	0.00	0.00
<b>FEALAC-AP</b>	<b>0.07</b>	<b>0.35</b>	<b>0.30</b>	<b>0.26</b>	<b>0.27</b>

Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

Over a decade and half, the bilateral IIT among the countries of FEALAC-AP has increased, especially between China with ASEAN (5) and China and Japan. Even back in 1990, several bilateral trade relations had already assumed an IIT character. For example, five bilateral flows showed a GLI higher than 0.40 already in 1990: Australia/New Zealand, Korea/China, Japan/Korea, Malaysia/Singapore, and Thailand/Singapore. In that year, there were also 20 cases of IIT, whose GLIs were higher than 0.1 but lower than 0.4. In general, the IIT network building in Asia-Pacific at the beginning of the 1990s did not involve the latecomers such as China and Viet Nam.

<sup>14</sup> It should be noted that the results of the recent IMF report on Regional Perspectives for Asia Pacific countries 2007 provides GLIs that are much higher than the GLIs of the present report and other studies (0.35 in the IMF study). The difference between the two derives from the fact that the IMF study disaggregates at the 2 digit levels, while the present report adopts the production classification based on SITC at the 3 digit levels.

At present, the IIT is at an even more advanced stage. Not only higher GLIs are reported for the existing IIT flows in 1990 but also several new trade axes have emerged and they are intensifying. China, which had a high GLI with only Republic of Korea and Singapore, deepened its IIT relations with Japan, Malaysia, Philippines, and Thailand, and to some extent, with Indonesia and Viet Nam (For the year 2006, see Table 19). In return, the ASEAN (5) countries have expanded IIT in manufactures with China. Increases of Japan's GLIs with its Asian neighbors have been more uniform among partner countries and consistent over the years than the case of China (Figure 15).

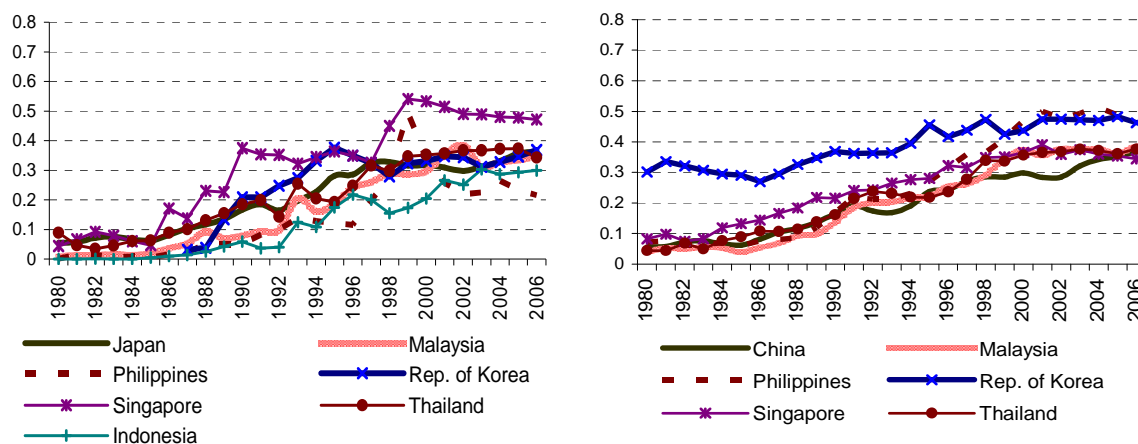
**TABLE 19**  
**FEALAC-ASIA PACIFIC: EVOLUTION OF IIT RELATIONS, 2006**  
(Grubel & Lloyd Index)

Partners	Australia	Brunei	Cambodia	China	Indonesia	Japan	Laos	Malaysia	Myanmar	New Zealand	Philippines	Rep. of Korea	Singapore	Thailand
Countries														
Brunei	0.00													
Cambodia	0.03	<b>0.14</b>												
China	0.09	0.00	0.03											
Indonesia	<b>0.21</b>	0.00	0.00	<b>0.29</b>										
Japan	0.05	0.00	0.01	<b>0.37</b>	<b>0.16</b>									
Laos	<b>0.49</b>	0.01	0.00	0.01	0.00	0.05								
Malaysia	<b>0.14</b>	<b>0.18</b>	0.07	<b>0.47</b>	<b>0.43</b>	<b>0.37</b>	0.00							
Myanmar	0.01	0.00	0.00	0.02	0.00	0.02	0.00	0.02						
New Zealand	<b>0.54</b>	0.00	0.00	0.07	<b>0.12</b>	0.05	0.00	<b>0.10</b>	0.00					
Philippines	<b>0.27</b>	0.01	0.07	<b>0.41</b>	<b>0.26</b>	<b>0.40</b>	0.00	<b>0.47</b>	0.00	0.04				
Rep. of Korea	0.07	0.00	0.01	<b>0.50</b>	<b>0.14</b>	<b>0.45</b>	0.02	<b>0.38</b>	0.01	<b>0.11</b>	<b>0.43</b>			
Singapore	<b>0.24</b>	0.06	0.07	<b>0.48</b>	<b>0.53</b>	<b>0.53</b>	0.00	<b>0.74</b>	0.04	<b>0.15</b>	<b>0.41</b>	<b>0.62</b>		
Thailand	<b>0.20</b>	0.00	0.01	<b>0.37</b>	<b>0.35</b>	<b>0.38</b>	0.07	<b>0.49</b>	0.01	0.09	<b>0.42</b>	<b>0.33</b>	<b>0.50</b>	
Vietnam	0.03	0.02	0.00	<b>0.12</b>	<b>0.11</b>	<b>0.29</b>	0.00	<b>0.17</b>	0.00	0.02	0.06	<b>0.12</b>	0.08	<b>0.13</b>

Legend: GLI > 0.33    GLI > 0.13 < 0.33    GLI < 0.10

Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

**FIGURE 15**  
**CHINA AND JAPAN: IIT WITH OTHER ASIAN PARTNERS 1980-2006**



Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).



## 2.3 Bilateral IIT relations in Latin America

The IIT performance of FEALAC-LA does not fair quite well when compared with that of FEALAC-AP. Nonetheless, the GLIs for FEALAC-LA show a rising trend, though still remaining at levels much lower than those of the Asian counterparts. Once again, the overall assessment also hides a marked disparity among the countries of that region. There also exist several IIT nexuses in the region with Brazil, Mexico and Argentina acting as major IIT nexuses.

The FEALAC member countries with high GLIs are Mexico, Argentina and Brazil and Costa Rica (Table 20). In the case of Mexico and Brazil, the highest coefficients are observed in their GLIs with the United States. The US market is especially determinant for the IIT of Mexico, to which the country destines more than 80% of total exports. Among the FEALAC-LA members, only Mexico surpasses the first of the three thresholds adopted in this report —over 0.33 of total trade—. The GLIs of all the FEALAC-LA members with respect to FEALAC-AP are invariably low, with the exception of Costa Rica. With regard to the European Union, Argentina, Brazil and Mexico reach the second GLI range.

**TABLE 20**  
**FEALAC-LATIN AMERICA: IIT WITH THEIR PRINCIPAL TRADE PARTNERS, 2006**  
(On the basis of SITC Revision 2, at the 3 the digit level)

	FEALAC LA	FEALAC AP	United States	European Union	Total exports
Argentina	<b>0.34</b>	0.03	<b>0.21</b>	<b>0.10</b>	<b>0.20</b>
Bolivia (Plurinational State of)	0.04	0.00	<b>0.14</b>	0.02	0.04
Brazil	<b>0.27</b>	0.07	<b>0.35</b>	<b>0.21</b>	<b>0.19</b>
Chile	<b>0.11</b>	0.01	<b>0.13</b>	0.02	0.06
Colombia	<b>0.19</b>	0.01	<b>0.12</b>	0.06	<b>0.12</b>
Costa Rica	<b>0.18</b>	<b>0.11</b>	<b>0.25</b>	0.05	<b>0.16</b>
Ecuador	<b>0.19</b>	0.00	0.04	0.02	0.08
El Salvador	<b>0.17</b>	0.00	<b>0.10</b>	0.02	<b>0.11</b>
Guatemala	<b>0.19</b>	0.02	0.06	0.05	0.10
Mexico	<b>0.17</b>	0.07	<b>0.49</b>	<b>0.18</b>	<b>0.38</b>
Nicaragua	0.04	0.00	0.06	0.01	0.04
Panama	0.07	0.00	0.07	0.01	0.05
Paraguay	0.09	0.00	0.03	0.01	0.05
Peru	0.08	0.01	<b>0.12</b>	0.02	0.06
Uruguay	<b>0.20</b>	0.02	0.07	0.04	<b>0.11</b>
Venezuela, (Bolivarian Republic of)	0.06	0.01	0.02	0.02	0.02
<b>FEALAC-LA</b>	<b>0.20</b>	0.05	<b>0.39</b>	<b>0.13</b>	<b>0.23</b>

■ GLI > 0.33    ■ GLI > 0.10 < 0.33    □ GLI < 0.10

Source: Authors' calculations base on United Nations COMTRADE database

In the case of bilateral intra-FEALAC-LA trade, ten of the 16 countries, for which data are available, recorded a GLI coefficient in the second range, and only for 6 countries, IIT was found to be relatively intensive (Table 21). And of these 6 countries, only in 3 cases (Brazil, Costa Rica and Argentina), the GLI reached the first range, in manufactures with high and/or medium technology contents.

**TABLE 21**  
**SCALE OF GLIS IN INTRA FEALAC-LATIN AMERICAN TRADE, 2006**

(On the basis of SITC Revision 2, at the 3 the digit level)

Breakdown	Argentina	Brazil	Colombia	Costa Rica	Ecuador	El Salvador	Guatemala	Honduras	Mexico	Uruguay
High technology	0.17	0.14	0.09	0.38	0.14	0.22	0.29	0.03	0.15	0.20
intermediate technology	0.55	0.39	0.27	0.19	0.26	0.18	0.21	0.16	0.25	0.28
Low technology	0.36	0.21	0.22	0.21	0.21	0.27	0.26	0.20	0.20	0.33
Manufactures based on NR	0.29	0.27	0.15	0.12	0.26	0.17	0.12	0.12	0.10	0.21
Primary Products	0.08	0.07	0.06	0.06	0.06	0.04	0.12	0.19	0.08	0.07
GLI total trade	0.34	0.27	0.19	0.18	0.19	0.17	0.19	0.15	0.17	0.20

Source: Authors' calculations based on United Nations COMTRADE database

When the all the possible bilateral trade combinations in the FEALAC-LA region are considered, though a general rising trend, over the period of 1990-2006, noticeable increases, by way either of deepening IIT or increasing IIT more than proportionally, are recorded only for a small number of cases. The bilateral IIT relations that have deepened over the years are three cases, the trade between Argentina and Brazil, Guatemala and El Salvador, and Guatemala and Costa Rica. The second group which has been able to increase GLIs in their bilateral trade relations more than proportionally (highlighted with light green) include Mexico, Colombia, Uruguay, and Chile, and to a lesser extent, Paraguay, Peru, Venezuela, Dominican Republic (for the year 2006, see Table 22).

**TABLE 22**  
**FEALAC-LATIN AMERICA: EVOLUTION OF IIT RELATIONS, 2006**

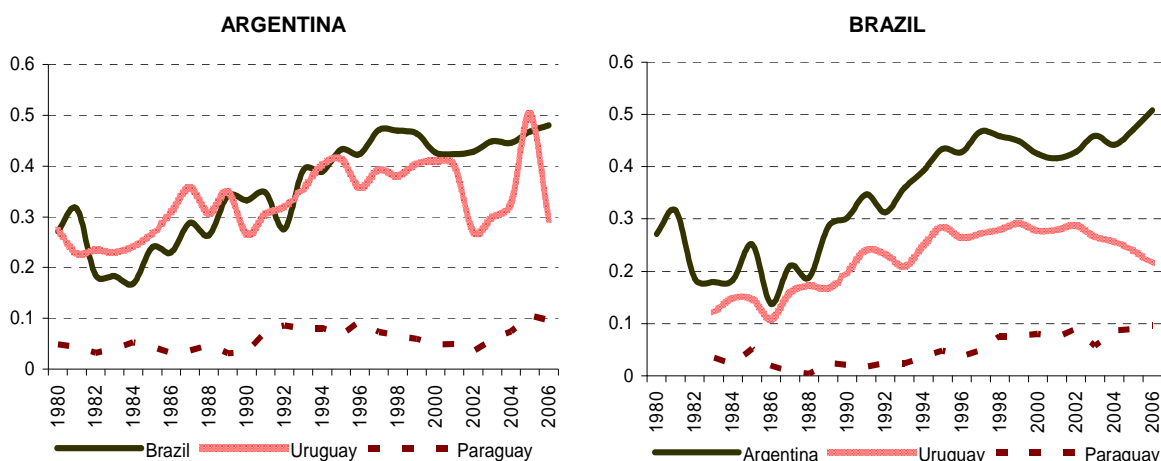
Partners Countries	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay
	Bolivia (Plurinational State of)	0.06														
Brazil	0.51	0.01														
Chile	0.16	0.10	0.08													
Colombia	0.08	0.01	0.10	0.25												
Costa Rica	0.02	0.06	0.06	0.07	0.16											
Dominican Republic	0.02	0.00	0.01	0.11	0.00	0.07										
Ecuador	0.03	0.02	0.03	0.12	0.33	0.15	0.14									
El Salvador	0.00	0.00	0.00	0.00	0.04	0.31	0.15	0.00								
Guatemala	0.01	0.09	0.01	0.00	0.02	0.45	0.06	0.00	0.48							
Mexico	0.25	0.03	0.27	0.11	0.17	0.12	0.09	0.04	0.13	0.16						
Nicaragua	0.00	0.00	0.00	0.04	0.01	0.16	0.02	0.00	0.12	0.10	0.01					
Panama	0.01	0.01	0.00	0.04	0.06	0.19	0.02	0.10	0.14	0.04	0.01	0.10				
Paraguay	0.13	0.06	0.12	0.04	0.24	0.00	0.01	0.03	0.00	0.05	0.01	0.00	0.08			
Peru	0.08	0.13	0.03	0.09	0.19	0.09	0.02	0.08	0.02	0.02	0.06	0.00	0.02	0.00		
Uruguay	0.31	0.02	0.21	0.18	0.17	0.01	0.05	0.04	0.00	0.00	0.06	0.00	0.09	0.23	0.04	
Venezuela (Bolivarian Republic of)	0.03	0.00	0.02	0.01	0.14	0.19	0.03	0.20	0.02	0.05	0.04	0.00	0.02	0.00	0.07	0.01

Legend: GLI > 0.33 GLI > 0.10 < 0.33 GLI < 0.10

Source: Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

A major IIT relation in Latin America takes place between Argentina and Brazil. The level of Argentina's IIT with Brazil which shows a general rising trend over the last two decades and a half, has recuperated after the 19987/1999 crisis and continues to grow. Such is the case with Uruguay and Paraguay as well, the other two MERCOSUR countries; in the case of the former, though the level of GLIs with Argentina still remain at a high level, its performance has fluctuated widely in recent years. The level of 2006 declined to the level recorded back in 1980. In the case of Paraguay, there is a discernable increasing trend, though its IIT relation with Argentina is still much weaker than that with Uruguay (Figure 16).

**FIGURE 16**  
**ARGENTINA AND BRAZIL: IIT EVOLUTION WITH THEIR MERCOSUR PARTNERS, 1980-2006**  
(Grubel Lloyd Index)



Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

In Central America, major manufactures trade takes place between three countries (Costa Rica, Guatemala and El Salvador), while the extremely IIT intensities are observed between the last two countries, that have traditionally enjoyed a high bilateral IIT, as evidenced by high GLIs during 1986-2006. Trade relations of these countries with Costa Rica also show high GLIs. Although the coefficients in general remain at high levels, the increase has been much less impressive than in the case of IIT between Argentina and Brazil.

When the IIT is weighted, the top 14 industrial sectors accounted for 30.5% of total trade between El Salvador and Guatemala, with GLIs fluctuating around the 0.50 mark, concentrated in manufactures of low and medium technology intensity and manufactures based on natural resources such as footwear, canned or preserved fruits and foods. Electrical machinery and apparatus (778) is the only product in the category of high-technology manufactures.

## 2.4 Still limited but increasing IIT between the two FEALAC regions

The overall GLI for the bi-regional trade in 2006 is quite low, not surpassing a 0.07 level (Table 23). In the majority of the cases, this type of trade is almost non-existent, with a GLI level below 0.10.

However, it is possible to detect some bilateral flows that indicate an emergence of IIT, though at an incipient stage. In general, Mexico's trade with FEALAC-AP shows higher GLIs than that of other Latin American countries. Costa Rica and Brazil are beginning to show some degree of IIT, though still not consistently across the Asian trade partners. On the Asia Pacific side, Singapore and Australia are moving into IIT with Latin America. In brief, there has been a breakthrough from a complete inter-industrial trade type to a trade structure that is a little more intra-industry oriented.

**TABLE 23**  
**IIT RELATIONS OF FEALAC-ASIA PACIFIC WITH FEALAC-LATIN AMERICA,**  
**VIEWED FROM FEALAC-ASIA PACIFIC SIDE**  
*(GLIs for bilateral trade flows 2006)*

Partners Countries	Partners																	
	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Costa Rica	Cuba	Dominican Republic	Ecuador	El Salvador	Guatemala	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela (Bolivarian Republic of)
Australia	0.08	0.02	0.08	0.07	0.08	0.03	0.01	0.12	0.08	0.00	0.02	0.12	0.00	0.11	0.01	0.10	0.06	0.07
Brunei	0.00		0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00		0.00		0.00		0.00
Cambodia	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00		0.00	0.00		0.00	0.00	0.00	0.00
China	0.05	0.00	0.06	0.01	0.02	0.07	0.00	0.03	0.01	0.02	0.00	0.27	0.00	0.00	0.00	0.01	0.03	0.01
Indonesia	0.01	0.00	0.03	0.00	0.02	0.02	0.01	0.00	0.01	0.00	0.00	0.09	0.00	0.00	0.00	0.02	0.11	0.01
Japan	0.03	0.00	0.05	0.01	0.00	0.55	0.01	0.04	0.00	0.01	0.00	0.16	0.00	0.00	0.00	0.01	0.02	0.00
Laos	0.00	0.00	0.00	0.00	0.00	0.00						0.00	0.00		0.63	0.00	0.00	
Malaysia	0.01	0.01	0.04	0.02	0.01	0.19	0.01	0.08	0.08	0.04	0.00	0.24	0.04	0.00	0.00	0.01	0.01	0.03
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00						0.00			0.00	0.00	0.00	
New Zealand	0.13	0.00	0.10	0.04	0.02	0.03	0.00	0.01	0.02	0.00	0.01	0.03	0.00	0.00	0.00	0.01	0.05	0.00
Philippines	0.00	0.00	0.02	0.08	0.01	0.05	0.43	0.01	0.03	0.00	0.00	0.11	0.01	0.00	0.04	0.34	0.00	0.00
Rep. of Korea	0.04	0.00	0.06	0.00	0.01	0.05	0.00	0.03	0.01	0.01	0.00	0.09	0.00	0.17	0.00	0.02	0.06	0.00
Singapore	0.13		0.16	0.02	0.13	0.12	0.00	0.27	0.19	0.00	0.03	0.56			0.00	0.01	0.02	0.03
Thailand	0.02	0.00	0.07	0.01	0.03	0.05	0.00	0.03	0.01	0.01	0.01	0.37	0.00	0.00	0.00	0.02	0.00	0.02
Viet Nam	0.01	0.00	0.06	0.00	0.01	0.01		0.00	0.00	0.00	0.01	0.02	0.10	0.00	0.00	0.00	0.00	0.00

Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE)

Moreover, the products for which Latin American countries tend to show relatively high GLIs are principally of high-and medium-technology goods involving electrical apparatus, parts and accessories, microcircuits, automatic data processing machines, measuring, checking, controlling instruments, pharmaceutical products, etc., in which FEALAC-AP countries has made strong inroads at the global level (Table 24). The products that incorporate medium technology includes a variety of plastics products, motor vehicles and their parts and engines, as well as a number of products which fall under the category of general machinery. The category of low technology includes textiles yarn and iron and steel products.

**TABLE 24**  
**GLIS FOR INTRA-INDUSTRY TRADE: FEALAC-LA COUNTRIES WITH FEALAC-AP, 2006**

SITC	Tech <sup>a</sup>	Product description	Country	FEALAC - AP <sup>d</sup>							Exports <sup>b</sup>	Share <sup>c</sup>
				Australia	China	Japan	Malaysia	Philippines	Singapore	Thailand		
334	NRM	Petroleum products	Brazil							0.30	168.9	1.2
515	NRM	Orhano-inorganic and heterocyclic compounds	Brazil		0.26	0.12					272.0	1.9
541	HTM	Medinal and pharmaceutical products	Brazil			0.10					191.3	1.3
582	MTM	Polucondensation and polyaddition products	Peru		0.39						23.6	2.1
591	MTM	Pesticides, disinfectants	Colombia		0.13						21.2	1.2
651	LTM	Textile yarn	Peru		0.22						11.3	1.0
674	LTM	Universal, plates, and sheets, of iron or steel	Mexico		0.27						609.7	1.3
713	MTM	Internal combustion piston engines	Brazil		0.58	0.19					284.5	2.0

(continues)

TABLE 24 (conclusion)

723	MTM	Civil engineering, equipment and parts	Argentina	0.59				57.6	1.4
728	MTM	Equipment for specialized industries	Brazil	0.43				157.8	1.1
741	MTM	Heating and cooling equipment and parts	Brazil		0.15			157.3	1.1
743	MTM	Pumps, compressors; centrifuges; etc.	Brazil	0.90				140.0	1.0
752	HTM	Automatic data processing machines	Mexico	0.52		0.18		4,309.5	8.8
764	HTM	Telecommunication equipment, parts and accessories	Brazil				0.25	1,995.6	14.0
771	HTM	Electric power machinery, and parts thereof, nes	Brazil					226.8	1.6
781	MTM	Passenger motor vehicles (excluding buses)	Mexico	0.28				1,193.4	2.4
893	LTM	Articles of plastic materials	Mexico				0.28	747.5	1.5
583	MTM	Polymerization and copolymerization products	Argentina	1.00				42.7	1.1
			Colombia	0.32				26.9	1.5
699	LTM	Manufactures of base metal	Brazil					149.2	1.0
			Mexico	0.20	0.11	0.17	0.22	721.5	1.5
759	HTM	Parts and accessories for office machines	Costa Rica		0.74			18.4	2.8
			Mexico	0.28			0.16	3,023.5	6.2
776	HTM	Thermionic, microcircuits, transistors, valves, etc	Costa Rica	0.14	0.13			217.1	32.8
			Mexico			0.36	0.21	5,853.0	12.0
749	MTM	Non-electric parts and accessories	Argentina	0.13				94.2	2.3
			Brazil					369.5	2.6
			Mexico	0.11				761.4	1.6
772	MTM	Electrical apparatus for making electrical circuits	Brazil		0.68			356.7	2.5
			Costa Rica				0.31	144.0	21.8
			Mexico	0.37				2,331.3	4.8
778	HTM	Electrical machinery and apparatus	Brazil			0.15	0.22	524.6	3.7
			Colombia			0.13		67.8	3.8
			Mexico	0.19			0.22	1,937.1	4.0
874	HTM	Measuring, checking, controlling instruments, parts	Argentina	0.17				62.1	1.5
			Brazil	0.29				153.2	1.1
			Mexico	0.14	0.31			552.0	1.1
784	MTM	Motor Vehicle parts and accessories	Argentina	0.14				213.5	5.3
			Brazil	0.84				461.4	3.2
			Mexico	0.81			0.43	1,416.9	2.9
			Venezuela	0.11	0.14		0.72	50.2	5.1

Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> NRM = Natural Resources Manufactures; LTM = Low Tech Manufactures; MTM = Medium Tech Manufactures; HTM = High Tech Manufactures

<sup>b</sup> Export value of the SITC product line in total Sports to the 7 Asia-Pacific countries considered

<sup>c</sup> The share of the SITC product line in question in total FEALAC AP exports

<sup>d</sup> The calculations are made for exports whose GLI is (i) greater and 0.10; (ii) whose share in FEALAC-AP trade is greater than 1% and (iii) whose export value surpasses a US\$1 million mark

The forgoing indicates that several Latin American firms are beginning to integrate themselves into some Asian supply/value chains. The emergence of IIT across the two FEALAC regions involving a few countries suggests that there are interesting opportunities and possibilities in expanding such trade in the future. There exist several manufacturing sectors in which bi-regional IIT can be promoted. However, in order to exploit these opportunities, there should be closer entrepreneurial contacts, including FDI and other types of business association, as well as the conclusion of FTAs among the countries in both regions.

A major feature of the dynamics of intra-Asian trade and FDI flows, which constitute one of the hubs of the world economy, is China's dramatic emergence as a key player. Asia-Pacific, with China at its core, has become the "world's factory" especially of machinery and transport equipment. Latin America and the Caribbean aspires to become integrated into these supply chain networks. Nonetheless, the international financial crisis has been putting a severe break on the operation of this "factory".

China has a trade deficit with ASEAN, Japan and the Republic of Korea, because these countries are its main suppliers of capital goods and intermediate inputs for its manufacturing industry. China's manufactures are subsequently exported to other trading partners, particularly the United States and European Union, with which it invariably has the largest trade surpluses in both low- and high-technology manufactures (China has a deficit in medium-technology products). The ASEAN countries have a major influence as suppliers and compete shoulder to shoulder with other hubs, such as Japan, the Republic of Korea and Taiwan Province of China (Table 25). The deficit would be much larger if the inputs that China imports from Hong Kong SAR were taken into account. On the other hand, China is a

net exporter of each type of manufacture to India. Thereby, for its Asian neighbours, China has become a platform for their exports to developed economies.

**TABLE 25**  
**CHINA – COMPOSITION OF THE INTERNATIONAL TRADE DEFICIT/SURPLUS BY TECHNOLOGICAL INTENSITY OF GOODS, 2001-2006**

Region/country	Exports	Imports	Balance	Commodities	Manufactures			
					NR-based	Low-tech	Medium-tech	High-tech
ASEAN	40 411	54 871	-14 460	-4 087	-3 334	5 506	1 361	-13 926
Japan	66 984	80 135	-13 151	4 956	466	15 218	-22 331	-11 368
Republic of Korea	25 932	53 975	-28 044	3 223	-3 799	424	-10 442	-17 293
United States	118 194	40 038	78 156	-3 901	1 009	44 321	12 499	24 199
European Union (27)	103 469	61 044	42 425	1 385	79	29 408	-9 107	20 644
Latin America and the Caribbean (33)	17 601	18 708	-1 108	-10 182	-2 156	5 528	3 703	1 983
India	6 227	5 991	236	-3 229	601	445	672	1 742
Australia and New Zealand	8 971	12 044	-3 073	-8 367	-1 002	3 641	1 168	1 739

Source: Authors' calculations based on United Nations Commodity Trade Database (COMTRADE).

China has a trade deficit with Latin American and the Caribbean because it imports large quantities of commodities and natural-resource-based manufactures. However, as a supplier of primary products and natural resource-based manufactures, Latin America and the Caribbean competes directly with ASEAN countries, India, United States, Australia and New Zealand, and more recently African countries. Although Latin America and the Caribbean is an important supplier of several primary products which are of special interest to Asia-Pacific, the latter are major world producers and exporters of these products as well.

## **IV. Intra-regional FDI, key to intra-regional and intra-industry**

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FDI inflows into emerging Asia have been a genuine promoter of de facto regional integration in that region. As can be observed in Table 26 which shows the accumulated of FDI for the period of 1995-2005, the FDI originating not only from the major developed countries but also from within emerging East and Southeast Asia has been major inflows for each Asia country over the years. The United States has a marked FDI presence in Rep. of Korea, Singapore, Taiwan Province of China, Malaysia and the Philippines, while the presence of European Union is more pronounced in Korea and Indonesia. Japanese FDI has penetrated more in the Philippines and Thailand.

In recent years, the Asian newly industrialized economies, namely the Republic of Korea, Taiwan Province of China, and Hong Kong SAR, and to a lesser extent, the ASEAN countries have become significant investors in emerging Asian countries. For instance, in Thailand and Viet Nam, firms from the Asian NIEs are the most dominant investors. Hong Kong SAR is by far the largest investor in China. FDI by the Asian NIEs' firms has become much more significant, representing 29% of total FDI inflows to ASEAN(9) and 54% of total inflows to China. In addition, more recently, firms from the middle-income ASEAN countries, such as Malaysia and Thailand, have begun to invest in other ASEAN countries and in China (Kawai and Wignaraja 2007).

**TABLE 26**  
**EMERGING EAST ASIA'S FDI INFLOWS, 1995-2005**  
*(US\$ mill and percentages)*

FDI Inflows to:	Source Regions/Countries of FDI Inflows to Emerging East Asia						Total (US\$ Mill)
	United States %	European Union %	Japan %	Asian NIEs %	ASEAN9 %	%	
<b>Asian NIEs</b>	16.8	15.8	8.1	5.2	3.9	100.0	(437 999)
Hong Kong	5.1	7.4	5.7	5.3	1.8	100.0	(215 999)
Korea, Rep. of	22.4	40.1	13.3	4.1	7.4	100.0	(55 975)
Singapore	31.7	19.3	8.5	4.0	5.8	100.0	(142 748)
Taiwan, Prov. China	19.9	13.1	15.5	14.2	2.5	100.0	(23 277)
<b>ASEAN9</b>	18.4	29.1	19.1	29.2	4.2	100.0	(116 413)
Indonesia	5.7	50.9	3.3	15.0	9.3	100.0	(11 839)
Malaysia	27.4	23.4	13.6	22.0	2.1	100.0	(44 651)
Philippines	23.4	10.3	23.1	16.9	1.1	100.0	(13 709)
Thailand	10.5	10.5	25.1	27.6	0.9	100.0	(37 428)
Viet Nam	4.8	19.1	14.4	39.2	6.6	100.0	(18 225)
<b>China</b>	8.1	8.1	8.6	54.0	1.6	100.0	(537 163)
<b>Total</b>	<b>13.9</b>	<b>14.7</b>	<b>10.5</b>	<b>34.9</b>	<b>3.1</b>	<b>100.0</b>	<b>(992 516)</b>

Source: Kawai and Wignaraja, 2007 / UNCTAD, World Investment Report 2006; IMF, International Financial Statistics; ASEAN Secretariat for Singapore and ASEAN9 data; China Statistical Yearbook for PRC data; OECD data for Korea data; Institute for International Trade and Investment (IITI) for Hong Kong and Taipei, China data.

Note: FDI recipient data compiled by IITI are adjusted so that they are consistent with BOP figures.

## 1. The case of Japan

Japan's external trade has grown significantly in 2007 in relation to the previous year's levels, with exports expanding by 10.1% and imports by 7.2%. The country's Asian neighbours continue to be key partners as both destinations and origins for its foreign trade with a similar trade structure being maintained during the present decade. Asia-Pacific countries (excluding India) supplied over 48% of Japan's imports and absorbed an even larger proportion (almost 50%) of its exports. Among neighbouring Asian countries, China and ASEAN (10) stand out, especially in terms of imports, since they account for over 20% and 14% of total imports, respectively. Japan's imports from ASEAN (10) surpassed those coming from either the United States or the European Union. Latin America and the Caribbean remains a relatively minor market; representing 4.9% as an export destination and 3.9% as an origin for Japan's imports.

A large proportion of the goods that Japan imports from its Asian neighbours consists of electronic machinery and other manufactured products of general use (Table 27) This characteristic is clearly visible not only in its imports from China and the Asian NIEs, but also in its trade with the members of ASEAN (4). The only sector in which Latin America and the Caribbean has a strong presence in Japan's imports is crude materials. Thus, Japan's productive and trade complementarities with the rest of Asia in the manufacturing sector are increasing and are reflected in a higher degree of IIT, while its relations with Latin America and the Caribbean continue to be of inter-industrial nature.



**TABLE 27**  
**JAPAN'S IMPORTS, BY REGION AND SECTOR, AVERAGE FOR 2005-2007<sup>a</sup>**

(Millions of dollars and percentages)

	United States	European Union (27)	Asian NIEs (4)	ASEAN(4)	China	Latin Am. & Caribbean	Other	World	
								Million US\$	Share (%)
<b>Total</b>	11.8	10.7	9.5	11.3	20.7	3.5	32.5	573 005.2	100.0
Food & direct consumers	23.8	10.7	4.9	8.8	16.1	9.0	26.6	49 764.7	100.0
Industrial supplies	5.7	7.3	5.8	12.0	7.6	4.7	56.8	283 654.6	100.0
Crude materials	7.9	5.2	3.5	20.5	4.2	24.2	34.6	36 392.8	100.0
Mineral fuels	0.7	0.1	2.6	11.4	1.9	0.2	83.1	154 902.9	100.0
Industrial chemicals	20.5	33.9	11.9	5.9	12.9	4.2	10.6	40 895.2	100.0
Metals	5.3	7.3	15.1	4.2	14.6	7.5	46.1	25 508.9	100.0
Textiles	5.1	12.9	13.0	10.4	49.3	0.5	8.8	4 751.9	100.0
Capital equipment	21.4	12.8	19.0	12.8	29.7	1.1	3.3	144 328.6	100.0
Non-electric machinery	20.0	14.6	13.6	10.5	37.2	1.0	3.0	53 908.3	100.0
Electric equipment	17.3	8.7	25.2	16.3	28.2	1.0	3.4	65 924.3	100.0
Transport equipment	46.9	21.0	6.3	9.3	11.2	1.1	4.1	11 417.7	100.0
Consumer non-durable goods	9.6	14.4	2.0	3.3	65.5	0.3	5.0	38 411.7	100.0
Textile products	1.1	6.9	1.8	3.3	81.3	0.3	5.4	24 562.2	100.0
Consumer durable goods	7.0	22.9	8.0	9.9	43.2	1.1	7.9	43 319.4	100.0
Household equipment	5.3	26.0	7.6	4.9	52.6	0.5	3.0	1 452.9	100.0
Domestic electric equipment	1.6	3.7	4.2	26.1	63.2	0.4	0.7	7 209.5	100.0
Passenger cars	7.1	76.9	0.5	0.8	0.2	2.3	12.3	7 811.3	100.0
Motorcycles & bicycles	12.5	11.1	18.1	5.5	51.7	0.1	1.0	1 473.0	100.0
Toys & musical instruments	6.4	5.1	4.7	4.6	77.8	0.1	1.3	6 437.5	100.0
Others	16.9	10.0	28.9	16.4	15.8	1.1	10.9	13 526.2	100.0

greater than 20%

greater than 10% but less than 20%

Source: Authors' calculations, on the basis of official figures from Japan (JETRO [online] <<http://jetro.go.jp>>)

<sup>a</sup> The regional groupings are: Asia NIEs (Hong Kong SAR, Korea Rep. of., Taiwan Province of China and Singapore), ASEAN 4 (Thailand, Malaysia, Philippines and Indonesia)

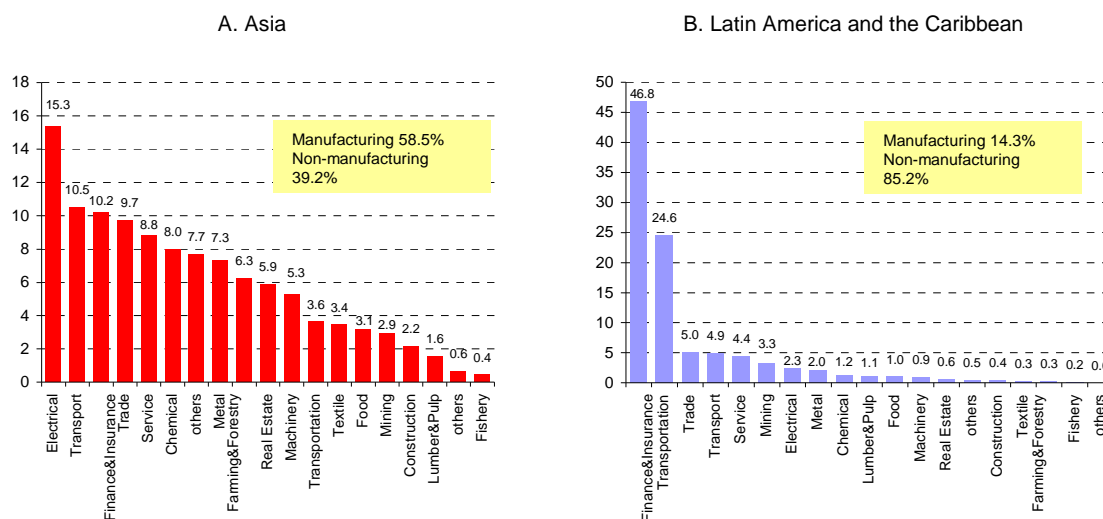
East and South-East Asia have been very important as destinations for Japan's FDI abroad. In terms of Japan's cumulative FDI stock at the end of 2007, Asia as a group accounted for 24% of the total, the European Union (27) and the United States represented 27% and 32%, respectively. Among Asian countries, ASEAN (10) as a group was the largest recipient (US\$ 62 billion) surpassing the cumulative stock corresponding to China (US\$ 38 billion). Roughly 10% of Japan's OFDI stock (US\$ 54.7 billion) was invested in Latin America and the Caribbean. (JETRO, - Japan External Trade Organization, 2008).<sup>15</sup>

In terms of the cumulative stock during 1989-2004, Japan's OFDI in Asia was concentrated in manufacturing, which accounted for 66% and 59% of the number of investment projects and the invested value, respectively, while non-manufacturing sectors absorbed less than 40% of the total number of projects and invested value (Figure 17-A). Three services sectors (trade, finance and insurance, and services) were also important recipients. The natural-resource-related sectors (farming and forestry, fishery and mining) received roughly 10% of the total. The predominant sectors in manufacturing were electrical and transport equipment, which are characterized by high level of intra-industry and intra-firm trade. Asia's predominance as a destination, on the one hand, and the importance of the manufacturing sector, on the other, points to the role played by that sector as the key economic integration hub for Japan in Asia-Pacific.

<sup>15</sup> Based on the figures of International Investment Position of Japan compiled by Ministry of Finance, the cumulative stock of Latin America and the Caribbean reached 12.5% during the period of 1951 to 2004 when the Japanese authorities discontinued its compilation.

This contrasts starkly with the situation in Latin America and the Caribbean. The manufacturing sector there accounted for only 14% of Japanese OFDI in the region, with the transport sector contributing almost 5% of the total invested value. By sector, the largest recipient was finance and insurance, which absorbed roughly 47% of the total invested, followed by transportation services with a share of 29%. Surprisingly, with the exception of mining, natural-resource-based industries were not a significant recipient of Japanese OFDI (Figure 17-B).

**FIGURE 17**  
**JAPANESE OUTWARD FDI TO ASIA AND LATIN AMERICA, BY INDUSTRY, 1989-2004<sup>a</sup>**  
(Share of total stocks)



Source: Japan, Ministry of Finance [online] <<http://www.mofa.go.jp>>

<sup>a</sup> These statistics were compiled based on figures notified and reported under the Foreign Exchange and Foreign Trade Law. It should be noted that foreign direct investment below the minimum reporting threshold (i.e., 100 million yen or its equivalent) is not reflected in the statistics.

The number of Japanese affiliates operating overseas reached some 16,000 worldwide in 2006, according to a recent survey conducted by the Ministry of Economy, Trade and Industry (METI) of Japan. These affiliates operated in a wide range of industries, and do not include those in the financial and insurance or real estate industries. Roughly 58% of these (9174 firms) were located in Asia, 20% in China alone. Some 13% were operating in the three NIEs (Taiwan Province of China, Republic of Korea and Singapore), and another 17% in ASEAN (4). The corresponding figures for North America and the European Union were much lower, 18% and 14% of the total, respectively (Table 28).

At the same date, there were some 800 affiliates of Japanese firms operating in Latin America and the Caribbean, representing 5% of the worldwide total, a smaller number than those in Singapore. Brazil, Mexico and Argentina were the principal hosts for these firms. In that region, some 570 affiliates were operating in the non-manufacturing sector, mainly in transportation and wholesale activities, and some 250 in manufacturing, about 70 of them in the production of transport equipment. Japanese OFDI in Latin America and the Caribbean yields exceptionally good profit rates, though it represents a small share of the world total in terms of number of firms, employees and sales. Almost 13% of total current profits of Japanese overseas subsidiaries originate from those operating in Latin America and the Caribbean.

**TABLE 28**  
**PERFORMANCE OF JAPANESE SUBSIDIARIES ABROAD, 2005**

(Number of firms, millions of dollars and percentages)

Regions <sup>a</sup>	No. of firms		Sales		Current Profit		Profit rates
	Number	(%)	Value	(%)	Value	(%)	(%)
All regions	15 850	100.0	1 681 368	100.0	69 172	100.0	4.2
North America	2 825	17.8	601 778	35.8	21 863	31.6	3.6
United States	2 623	16.5	552 478	32.9	19 707	28.5	3.5
Latin America and the Caribbean	823	5.2	57 766	3.4	8 904	12.9	15.5
Asia	9 174	57.9	594 306	35.3	22 711	32.8	4.0
China	4 051	25.6	211 293	12.6	5 759	8.3	2.8
Mainland	3 139	19.8	112 555	6.7	4 046	5.8	3.7
Hong Kong SAR	912	5.8	98 737	5.9	1 713	2.5	1.8
ASEAN4	2 715	17.1	170 262	10.1	8 855	12.8	5.4
NIEs3	2 044	12.9	191 699	11.4	6 233	9.0	3.5
Middle East	76	0.5	22 892	1.4	1 603	2.3	7.1
Europe	2 384	15.0	347 800	20.7	8 569	12.4	2.4
European Union	2 258	14.2	339 540	20.2	7 977	11.5	2.2
Oceania	446	2.8	45 259	2.7	4 899	7.1	11.6
Africa	122	0.8	11 567	0.7	624	0.9	5.5

Source: Authors' calculations, on the basis of information from Ministry of Economy, Trade and Industry (METI) of Japan, "kaigai jigyo katsudo kihon chosa" [Basic (trend) survey of overseas business activities] No. 36, 2007.

<sup>a</sup> NIEs 3: Republic of Korea, Taiwan Province of China and Singapore. ASEAN 4: Indonesia, Malaysia, Philippines and Thailand.

Another characteristic of the overseas operations of Japanese firms is their strong export orientation, especially for the four industrial categories, namely industrial machinery, electrical machinery, transport equipment and precision instruments, especially in ASEAN and China, where there are high ratios of intra-industry and intra-firm trade<sup>16</sup>. In contrast, the grouping of other non-Asian countries, which includes Latin America and the Caribbean, shows a substantially low export orientation.

## 2. The case of China

China's main trading partners are Asian neighbours. In terms of exports, although the European Union and the United States rank first and second, respectively, Japan, ASEAN, and the Republic of Korea, India and Taiwan Province of China were all among the top 10 export destinations in 2007. On the import side, the United States was the sixth-largest source of China's foreign purchases that year, well below its rank as an export market. In contrast, the Asian countries had much higher shares. Latin America and the Caribbean accounted for 4.2% (US\$ 51.5 billion) and 5.3% (US\$ 51.1 billion) of China's exports and imports that year, with the bi-regional trade exceeding the 100 billion mark for the first time.<sup>17</sup>

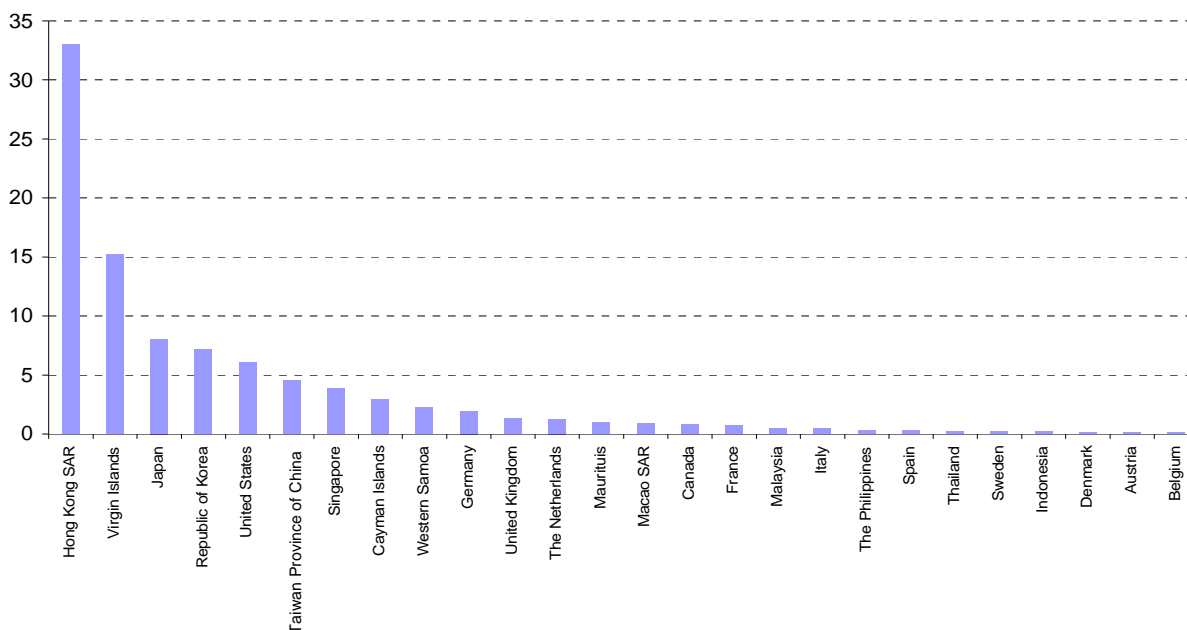
The FDI received by China from the three leading sources —Japan, ASEAN and the Republic of Korea— increased significantly, especially following China's accession to the World Trade Organization (WTO) in 2001. Those three sources represented on average about 20% of total FDI during 2002 and 2007, a non-negligible figure given that: (i) the United States and the European Union accounted for about 6% and 7%, respectively, of total FDI during the period; (ii) the percentage corresponding to Taiwan Province of China was 4.5%; and (iii) almost 33% of FDI entering China comes from Hong Kong SAR in the form of triangulation. In fact, the ASEAN countries are an important source of FDI for China even though most of this originates in Singapore (between US\$ 2 and US\$ 3

<sup>16</sup> While more than 90% of total sales by the subsidiaries operating in the United States are made in local markets, in Europe, a high proportion is exported to third countries in addition to domestic sales. In the case of Asian countries, sales to third markets combined with sales to Japan (reverse-imports by Japan) account for about 50% of total sales. Japanese companies in Asia typically seek profits by all three avenues; domestic sales, exports and reverse-imports.

<sup>17</sup> China's trade with Latin America and the Caribbean continued to grow in 2008: the country's exports to and imports from the region in 2008 amounted to US\$ 71.5 billion and US\$ 71.9 billion, respectively (China, Ministry of Commerce, (online) <http://english.mofcom.gov.cn/aarticle/statistic>). The number of countries in that region that recorded trade volume surpassing US\$ 10 billion rose from 3 to 4 in 2008; Brazil (US\$ 48.5 billion), Mexico (17.6 billion), Chile (17.5 billion) and Argentina (14.4 billion)

billion per year). In short, the most important actors in China's recent transformation into the world's third-largest FDI recipient worldwide after the United States and Germany have been its Asian neighbours (Figure 18).

**FIGURE 18**  
**CHINA'S INWARD FOREIGN DIRECT INVESTMENT (NON-FINANCIAL SECTORS), AVERAGE 2002-2007**  
(Percentages)



Source: Authors' calculations, on the basis of official figures from the Ministry of Commerce of China, "Invest in China" [online] <<http://www.fdi.gov.cn>>

FDI flows from Latin America and the Caribbean into China are very small, except in the case of FDI from the Cayman Islands and the British Virgin Islands. According to the Economist Intelligence Unit (EIU, 2008), the eight Latin American countries considered account for less than 0.1% of FDI in China in recent years (between US\$ 70 and US\$ 80 million each year). Among the countries of Latin America, Brazil and Argentina, Mexico and Chile are the largest investors in China. Peru, Colombia and the Bolivarian Republic of Venezuela also invest in China, but more sporadically and on a smaller scale.

Foreign-owned firms operating in China, or Foreign Invested Enterprises (FIEs), are major drivers of that country's external trade, rapidly displacing the State enterprises and collectives. In 2007, such firms are reported to have exported US\$ 696 billion, equivalent to 57% of total exports, and imported US\$ 559 billion, close to 59% of total imports (Ministry of Commerce of China, 2008b). Detailed information on 2006 indicates that the goods made by FIEs from 10 selected Asian countries accounted for 45% of China's total FIE exports and 62% of its imports. In contrast, the contribution to Chinese exports made by United States or European firms is quite small, accounting for 24% and 18% of total FIE exports, respectively.<sup>18</sup> At the same time, the presence of Asian firms is highly influential in China's import orientation. Firms from the 10 selected Asian countries imported US\$ 291 billion in 2006, accounting for 62% of China's total imports, while firms from the United States and the European Union represented just 7% and 10%, respectively.

<sup>18</sup> Firms originating in the Hong Kong SAR were by far the largest FIE exporters, accounting for 20% of China's total FIE exports. Exports by firms of Japanese origin established in China exceeded US\$ 61 billion, and these were followed by exports worth US\$ 25 billion by firms from the Republic of Korea and US\$ 14 billion in exports by firms from Taiwan Province of China. Firms originating in the five countries of ASEAN (Philippines, Indonesia, Malaysia, Singapore and Thailand) accounted for US\$ 37 billion in exports, equivalent to 6.5% of the total exported by FIEs operating in China.

While China has been a major net recipient of FDI over the past two decades, lately it has been investing abroad itself. In fact, among developing countries, it is now the world's sixth-largest source of OFDI among developing countries. As of late 2007, non-financial Chinese companies held a stock of US\$ 101 billion abroad, of which US\$ 25 billion was invested in 2007 (Table 29). Notwithstanding its relatively small role, China is emerging as a leading investor among developed and developing countries, with investments comparable to those of the Republic of Korea. According to the Chinese authorities, overseas-invested enterprises realized an internal sales turnover of US\$ 338 billion, registered total tax payment of US\$ 3 billion abroad and employed 658,000 workers (including 295,000 foreign local staff).

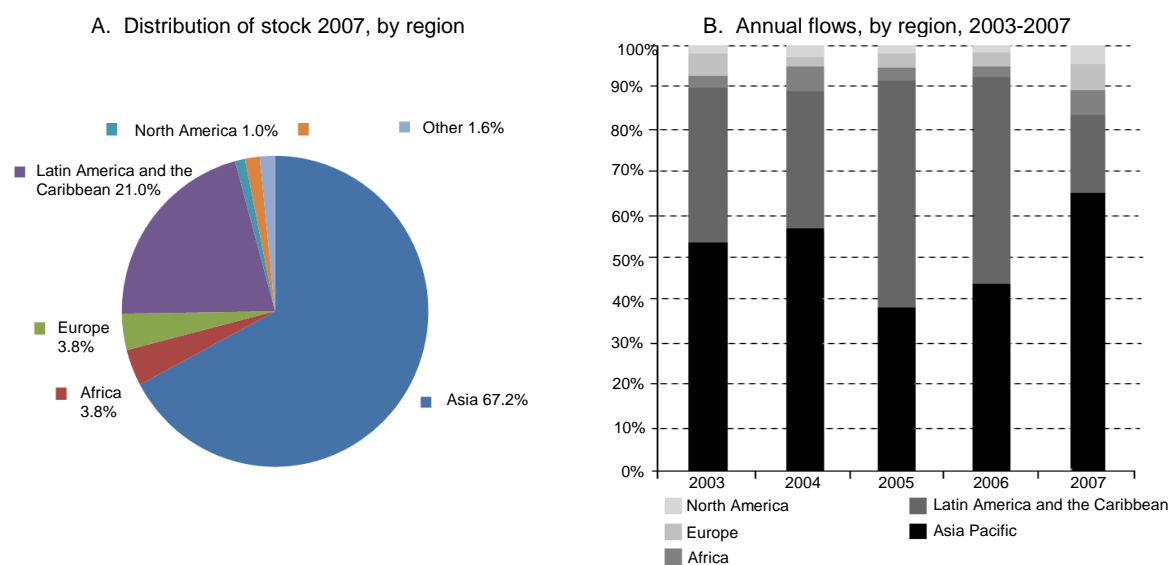
**TABLE 29**  
**CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT, FLOWS AND STOCK, 2007**  
(Billions of dollars and percentages)

Indicator	Outflows 2007		Stock as of 2007	
	Amount	%	Amount	%
Total	26.5	100.0	117.9	100.0
Non-financial outward direct investment	24.8	93.7	101.2	85.8
Financial outward direct investment	1.7	6.3	16.7	14.2

Source: Authors' calculations, on the basis of Ministry of Commerce of China, 2007 Statistical Bulletin of China's Outward Foreign Direct Investment.

Regarding destination, close to 70% of non-financial OFDI has been directed towards the economies in the Asia-Pacific region. Latin America and the Caribbean accounted for 21% of the cumulative stock at December 2007. Of China's non-financial OFDI flow in 2007, which is valued at US\$ 24.8 billion, Latin America and the Caribbean received US\$ 4.9 billion, which went mainly to the Cayman Islands and the British Virgin Islands (Figure 19-A and 19-B). Asia received US\$ 16.6 billion, or 62.6%, mainly in the Hong Kong SAR, Pakistan, Singapore, Kazakhstan, Mongolia, Saudi Arabia, and Viet Nam who received more than US\$ 100 million that year. Measured by stock at the end of 2007, far behind the Cayman Islands and British Virgin Islands, Brazil, Mexico and Argentina figure as the largest recipients of China's OFDI in the region (Ministry of Commerce of China, 2008a).

**FIGURE 19**  
**DISTRIBUTION OF CHINA'S OFDI, CUMULATIVE STOCK, 2007**



Source: Authors' calculations, on the basis of Ministry of Commerce of China, 2007 Statistical Bulletin of China's Outward Foreign Direct Investment.

**TABLE 30**  
**RANKING OF CHINA'S OFDI RECIPIENT COUNTRIES, STOCK 2007**

A. World				B. Latin America and the Caribbean		
Ranking	Country	Value	%	Country	Value	%
1	Hong Kong SAR	68 781	58.3	Cayman Islands	16 810.7	67.8
2	Cayman Islands	16 811	14.3	British Virgin Islands	6 626.5	26.7
3	British Virgin Islands	6 627	5.6	Brazil	185.6	0.7
4	United States	1 881	1.6	Argentina	157.2	0.6
5	Canada	1 255	1.1	Mexico	151.4	0.6
6	Australia	1 444	1.2	Venezuela (Bolivarian Republic of)	143.9	0.6
7	Singapore	1 444	1.2	Peru	137.1	0.6
8	Russia, Fed. of	1 422	1.2	Bermuda	105.8	0.4
9	Korea, Rep. of	1 214	1.0	Guyana	68.6	0.3
10	Pakistan	1 068	0.9	Cuba	66.5	0.3
11	United Kingdom	950	0.8	Suriname	65.3	0.3
12	Macau SAR	911	0.8	Chile	56.8	0.2
13	Germany	845	0.7	Bahamas	56.5	0.2
14	South Africa	702	0.6	Panama	55.3	0.2
15	Indonesia	679	0.6	Ecuador	49.2	0.2
16	Nigeria	630	0.5	Bolivia (Plurinational State of)	23.0	0.1
17	Kazakhstan	610	0.5	S. Vincent and Grenadines	20.8	0.1
18	Mongolia	592	0.5	Colombia	6.8	0.0
19	Sudan	575	0.5	Uruguay	2.1	0.0
20	Japan	558	0.5	Honduras	0.9	0.0
21	Zambia	429	0.4	Other	16.7	0.1
22	Saudi Arabia	404	0.3	Total	24 806.8	100.0
23	Viet Nam	397	0.3			
24	Algeria	394	0.3			
25	Thailand	379	0.3			
26	Lao DPR	302	0.3			
27	Malaysia	275	0.2			
28	Myanmar	262	0.2			
29	Papua New Guinea	258	0.2			
30	United Arab Emirates	234	0.2			
	World total	117 911	100.0			

Source: Authors' calculations, on the basis of Ministry of Commerce of China, 2007 Statistical Bulletin of China's Outward Foreign Direct Investment.

Despite high expectations on the part of Latin American and Caribbean countries, Chinese investments are slow to materialize, even though a significant number of large Chinese firms have begun to operate in several countries in the region (see ECLAC, 2008). These companies are present not only in the natural-resource-related sectors but also in manufacturing. Access to natural resources, expansion in overseas markets (market-seeking) and improvement of production and administration efficiency (efficiency-seeking) are considered to be the three main stimuli for China's OFDI in Latin America in recent decades. An increasing number of large State-owned companies operating in natural resources and manufacturing, ranked by MOFCOM in 2006 as the 30 largest Chinese companies in terms of OFDI stock, have invested in the region.

### 3. The case of the Republic of Korea

For the Republic of Korea, the Asia-Pacific region (including Oceania) is the country's most important trading partner by far, both in exports and imports, and accounts for over half its total trade, more than North America

and Europe together. Among its Asian neighbours, China's share has been increasing rapidly, while Japan's share is also rising but not as quickly. ASEAN as a whole has become a more important destination than Japan for the country's exports during 2002-2007. The figures for 2007 reveal an important upward trend in Korean exports to Latin America and the Caribbean, which absorbed almost 7% of its total exports that year.

After coming to a standstill in the aftermath of the Asian financial crisis, the Republic of Korea's outward FDI began to pick up and as of March 2008, the cumulative figure exceeded US\$ 97.7 billion and was spread over more than 131,000 projects worldwide [online] <<http://www.koreaexim.go.kr>> (Table 31). Asia accounted for 73% in terms of the number of projects undertaken and 48% in terms of the value of executed FDI. This is substantially higher than the share corresponding to the United States or Europe. In Asia, in addition to China,<sup>19</sup> the main recipients of FDI from the Republic of Korea are the ASEAN 10, including several developing countries such as Viet Nam and Indonesia, which have emerged as major recipients. Meanwhile, Japan and Taiwan Province of China have received a relatively smaller share of Korean FDI. Latin America and the Caribbean have received more than 7% of the stock (US\$ 6.7 billion) with their share of projects amounting to 2.5% (more than 3,000 projects).

**TABLE 31**  
**STOCK OF OUTWARD FDI FROM THE REPUBLIC OF KOREA, 1980-MARCH 2008 <sup>A</sup>**  
(Millions of dollars and percentage)

Countries / regions	Number of investment projects	Share of total (percentage)	Value of FDI undertaken (US\$ million)	Share of total (percentage)
North America	21 831	16.6	23 758.1	24.3
Europe	4 564	3.5	15 151.3	15.5
Asia	95 260	72.6	47 102.3	48.2
China	64 804	49.4	23 356.9	23.9
India	1 221	0.9	1 352.6	1.4
Japan	2 824	2.2	2 076.2	2.1
Hong Kong SAR	3 016	2.3	5 504.8	5.6
Taiwan Province of China	391	0.3	322.6	0.3
ASEAN (10)	20 605	15.7	12 711.8	13.0
Viet Nam	8 084	6.2	3 801.7	3.9
Indonesia	3 827	2.9	2 802.2	2.9
Singapore	921	0.7	2 132.8	2.2
Thailand	1 851	1.4	1 020.5	1.0
Philippines	2 709	2.1	967.8	1.0
Cambodia	1 575	1.2	961.0	1.0
Malaysia	1 282	1.0	875.5	0.9
Other ASEAN	356	0.3	150.3	0.2
Oceania	3 681	2.8	2 183.6	2.2
Latin America and the Caribbean	3 260	2.5	6 727.0	6.9
Africa	1 190	0.9	1 506.0	1.5
Middle East	1 357	1.0	1 285.3	1.3
<b>Total</b>	<b>131 143</b>	<b>100.0</b>	<b>97 713.6</b>	<b>100.0</b>

Source: Authors' calculations, on the basis of information from Export-Import Bank of Korea [online] <<http://www.koreaexim.go.kr>>

<sup>a</sup> Data for 1980 is a cumulative figure from 1968 to 1980.

The Republic of Korea's cumulative net OFDI worldwide by industry as at March 2008 shows the manufacturing sector in a dominant position with 48% of the total, followed by wholesale and retail

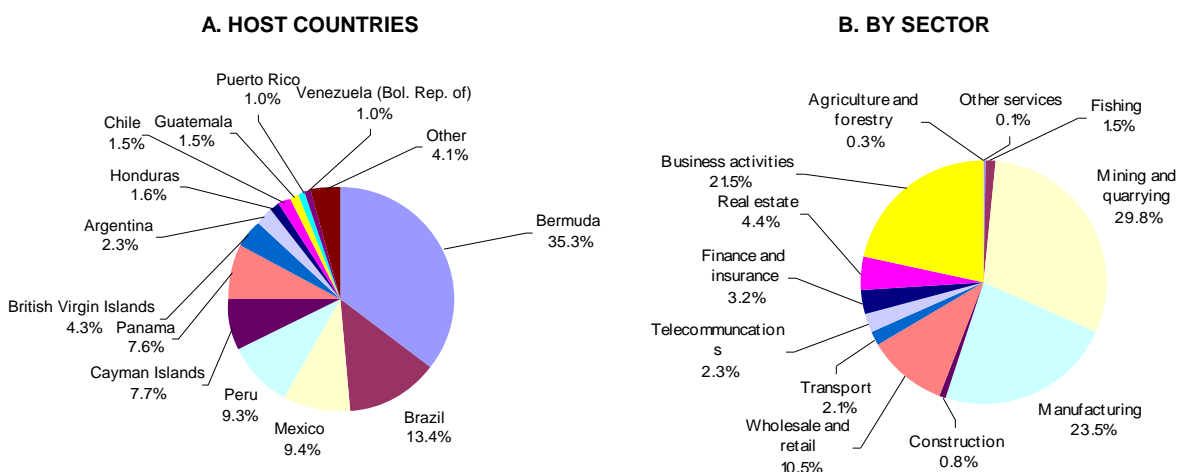
<sup>19</sup> Among destinations for outward FDI from the Republic of Korea, China occupies a predominant place both in terms of the number of projects and in terms of the volume of investments carried out. Official data for the country show that as of March 2008 China had absorbed roughly 65,000 projects (50% of the total), and that investment undertaken amounted to US\$ 23 billion, 24% of the overall amount invested. The fact that the amount of Korean investment in China per firm is relatively small is a good indicator of the significant role played by Korean SME investors in China.

trade (17%), mining (9%) and other sectors including services (25%). The firms in the manufacturing sector have been the driving force behind Korean FDI overseas, the main objective of which is to support overseas production facilities and secure markets for sales (Yoon, 2007).

Korean FDI inflows into Latin America and the Caribbean are more diversified –manufacturing (24%), mining (30%), agriculture and fisheries (2%) and services and commerce (44%)–. The initial focus on natural resources has gradually shifted to manufacturing activities, especially electronics (38% of investing firms), textiles and apparel (34%), iron and steel, and petroleum undertaken by large Korean firms, with Korean SMEs playing a relatively larger part in the textiles and apparel sectors (for some countries in the region) (see Figures 20-A and 20-B).

**FIGURE 20**  
**LATIN AMERICA AND THE CARIBBEAN: OUTWARD FOREIGN DIRECT INVESTMENT STOCKS**  
**OF THE REPUBLIC OF KOREA, 1980<sup>A</sup>-MARCH 2008**

(In percentages)



Source: Authors' calculations, on the basis of information from Export-Import Bank of Korea [online] <http://www.koreaexim.go.kr>.

<sup>a</sup> Data for 1980 is a cumulative figure from 1968 to 1980.

In terms of countries, the tax haven countries such as Bermuda, Cayman Islands and British Virgin Islands have been major recipients of Korean outward FDI in the region accounting for almost half of Korean FDI stock in Latin America and the Caribbean. Apart from these countries, Brazil (13%), Mexico (9%) and Peru (9%) have been major recipients of Korean FDI in the region (see Figure 20-A). As at March 2008, five Central American countries (Honduras, Guatemala, El Salvador, Costa Rica and Nicaragua, in that order) received almost 5% of total actual FDI inflows from the Republic of Korea into the region, amounting to US\$ 300 million (Ex-Im Bank of Korea (n/d)). In general terms, the Korean FDI invested in Latin America seems as yet to serve little as a transmission vehicle to bring the industrial and technological successes of the Korean economy to the region (ECLAC, 2007).

#### 4. The case of the ASEAN

Total trade among ASEAN members in 2006 —combined imports and exports of US\$ 352 billion— was more than double the group's trade with each of its two most important trading partners, the United States and Japan, (valued, in each case, at US\$ 161 billion); these two partners shared second place, each accounting for 11.5% of total trade with ASEAN. In the case of both imports and exports, these three entities (ASEAN, Japan and United States) were followed by the European Union, China, Republic of Korea, Australia, and India. Intra-ASEAN trade (exports as well as imports) accounted for as much as 25% of total flows in 2006, surpassing the figures registered by the various Latin American and Caribbean integration schemes (ASEAN, 2009).



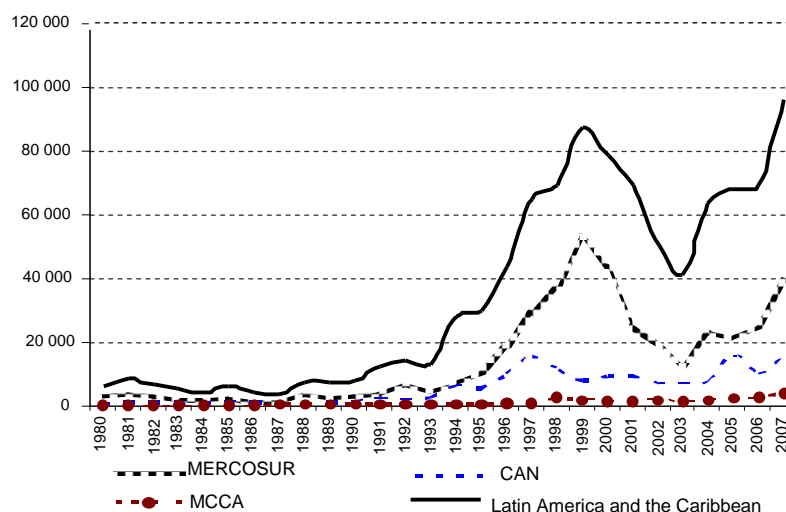
The third main source of FDI for ASEAN (in terms of flows) is the other ASEAN countries. The cumulative stock of FDI entering the grouping in 2002-2006 was US\$ 170 billion, of which 26% came from the European Union, 18% from Japan, 11% from ASEAN itself, and 8% from the United States. Apart from these countries, the Republic of Korea, Taiwan Province of China and China, represented 2.0%, 1.4%, and 1.3%, respectively, of the total amount invested during the period. The Cayman Islands (1.8%) and unidentified countries of Central America and South America (2.3%) appear among the 10 leading foreign investors in ASEAN. In addition, Australia and India accounted for an appreciable volume of FDI during this period, with amounts of US\$1.4 billion and US\$ 295 million respectively. As in the case of China, FDI obtained both from neighbours (within ASEAN) and from Japan, China and the Republic of Korea is a major source of financing for business projects (ASEAN, 2009). About a third of the Association's FDI comes from within ASEAN+3.

Singapore and Thailand are the leading countries in terms of FDI flows among ASEAN members, followed at some distance by Malaysia and Indonesia. The first two of these countries accounted for about 65% of the total investment among ASEAN members in the period 2004-2006. In the ASEAN countries, the main sectors targeted by investors have been communications equipment (23%), food and beverages (18%), and paper and paper products (Hiratsuka, 2006).

## 5. The case of Latin America

The Latin American and Caribbean region was able to double its average annual FDI inflows from US\$ 38.3 billion to US\$ 74.3 billion between 1993-1997 and 1998-2002 before seeing them fall to US\$ 72.3 billion during 2003-2007. During the last period, notwithstanding an absolute increase in the value of inward FDI, the region's share of FDI from global sources and developing countries has shrunk. It has also decreased as a percentage of GDP (down from 4% in 2004 to 3% in 2006) whereas in other developing regions, FDI/GDP ratios have been rising (ECLAC, 2007a). In addition, in stark contrast to the case of developing Asia, FDI flows to the region plummeted during the four years after the Asian crisis (1999-2003), with the sharpest falls occurring in MERCOSUR and the Andean Community. It took MERCOSUR more than four years to recover to the pre-crisis level, while inflows to the Andean Community's countries have still not caught up (Figure 21).

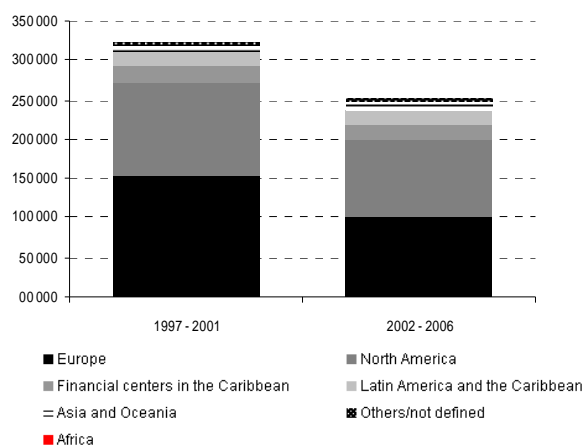
**FIGURE 21**  
**FDI INFLOWS TO LATIN AMERICA AND THE CARIBBEAN: 1980-2007**  
(In million of US dollars)



Source: Authors' calculations on the basis of official information.

Of the FDI host countries, historically the United States has been the most important source of FDI in Latin America (Figure 22). In the 1990s, Spain came to play a leading role, being the most important FDI source for a number of Latin American countries. In the present decade, the country's weight in FDI inflows to the region declined from 23% in 1997-2001 to 10% in 2002-2006. Asia-Pacific as a region has been a very minor investor, accounting for only 2.8% in 1997-2001 and 3.5% in 2002-2006 of total inward FDI, estimated at US\$ 8.9 billion for each period. On the other hand, the share of intraregional FDI in total FDI inflows in Latin America doubled (from 5% to 10%) during the same period. This was due to the emergence of a number of companies of Latin American origin, the so-called trans-Latins.

**FIGURE 22**  
**LATIN AMERICA'S INWARD FDI, BY COUNTRY OR REGION, 1997-2006**  
(In percentages)



Source: Authors' calculations, estimates by Production, Productivity and Management Division on the basis of official information.

The subregions of Latin America attract different kinds of FDI depending on the corporate strategies underlying the investment. Historically, *natural-resource-seeking FDI*, one of the predominant types, has been channeled into the Bolivarian Republic of Venezuela, Argentina, and the Andean countries in the case of petroleum and natural gas, and Chile, Argentina and Peru in the case of minerals.

Another type, *market-seeking inward FDI*, has been attracted primarily to the larger markets in the region, such as Brazil and Mexico. Chile has also been a major recipient of this type of investment. In the goods sector, the automotive, food and beverage and chemical industries have stood out, while in services the focus has been on financial services, telecommunications, retail trade, electricity and natural gas distribution. The drawback of this type of FDI is that in many cases it does not promote internationally-competitive goods and services, and it tends to crowd out local companies.

*Efficiency-seeking inward FDI*, geared towards exports to third markets (especially that of the United States), has been directed primarily to Mexico in the electronics, automotive and apparel industries and to Central American countries for apparel and some light electronics. Factors conducive to this type of investment include the continued restructuring of these industries in the United States and opportunities associated with free trade agreements with the United States. Factors that may dissuade investors from boosting this type of investment include increasing competition from China and other Asian countries and the expected withdrawal of fiscal incentives or subsidies for export processing zones under the WTO rules (ECLAC, 2007).

On the other hand, this type of FDI is usually considered to be conducive to exports of manufactures, to the conversion of an export platform into a manufacturing centre, improved international competitiveness, transfer and assimilation of foreign technology, training of human resources, creation and deepening of production linkages, and local entrepreneurial development. However, this type of FDI also has several shortcomings; the low-value-added trap; a major focus on

static rather than dynamic local comparative advantages, a heavy dependence on imported components, and a lack of industrial agglomeration, the risk of crowding out local companies, a race to the bottom in salaries, problems in labour and environmental standards, and a race to the top in TNC incentives.

## 6. Impediments to bi-regional FDI

The low level of Asian FDI channeled to Latin America over the last two decades is linked to intra-industry corporate activity in East Asia and to the fact that Latin American and Caribbean countries have not been part of the interaction between trade and FDI, which serves to relocate production across national boundaries, thus creating a two-way, or even a triangular trade flow among participating countries. One of the major reasons for a low level of trade and investment flows between the two regions relates to the lack of the so-called “efficiency-seeking” FDI, which is the type most common in Asia-Pacific. Also, in those cases where they do exist in Latin America, they suffer from the typical shortcomings of this type of FDI, namely, their “enclave” nature, low value-added trap and the lack of industrial clusters. One way of fostering trade and investment relations with Asia-Pacific would therefore be to promote this type of FDI on the Latin American side, and to address the problems that it usually engenders for the national economy.

As the recent experience of Latin America’s automotive industry indicates, an increasing number of inward FDI projects combine both “market-seeking” and “efficiency-seeking” types (ECLAC, 2008b). In general, the industry is becoming more “export-oriented” and the major players operating in Latin America are adopting a corporate strategy quite distinct from the previous one, which was based primarily on the exploitation of local markets. The companies are acting more as “regional” players, taking advantage of preferences that various regional trade agreements offer.

As the Asian experience attests, a country’s comparative advantage is strongly influenced by that of neighbouring countries. What matters more in today’s globalized international economy is the region’s market size, natural resource endowments, production cost structures, patterns of specialization, availability of skilled and unskilled labour, R&D capabilities and infrastructure as well as the harmonization of the “behind-the-border” measures and domestic regulations.

In this context, regional integration has a lot to offer. In pursuit of the so-called “dynamic effects” of integration, most new regional integration goes beyond conventional arrangements addressing trade in goods and involves attempts at comprehensive disciplines and rules. Such schemes envisage liberalization of trade in services, factor movements, harmonization of regulatory regimes, environmental and labour standards as well as many domestic policies perceived as affecting international competitiveness. Cooperation in harmonization of norms as well as strengthening of infrastructure, physical and human alike, by way of regional integration, is also of growing importance. Despite substantial progress in these areas, by way of various initiatives through subregional and regional integration and free trade agreements signed with the United States, the European Union and several Asian countries, Latin America still lags behind Asia-Pacific in this regard.

The fact that FDI flows between the two regions have lagged far behind the dynamic trends of total FDI flows in both is due not only to the inter-industry nature of trade flows but also to other economic and social factors. Lack of knowledge of corporate strategies in the other region, due to cultural, geographic and historical factors, is one important consideration. The scarcity of information, especially about recent trends in trade and FDI, regional integration and existing business opportunities in the other region, is another important impediment to reciprocal trade and investment. The lack of a well-established network among companies, large companies and SMEs alike, is an obstacle to strategic alliances and corporate association. Despite profitable opportunities, the high sunk costs of ventures, and the risks involved for single investors may also continue to act as formidable barriers.



## **V. Proliferation of trade agreements in Asia-Pacific: consequences for Latin America and the Caribbean**

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As examined in the foregoing chapters, until recently, Asian regional integration consisted of burgeoning intraregional trade, based on the increasingly complementary production and trade components of the different countries' manufacturing sectors. Intra-industry trade (IIT) expanded significantly as the specific advantages of production and marketing chains were exploited more effectively. This process of *de facto* (market-led) integration in Asia-Pacific is now being supported by *de jure* (government-led) integration; and strong production and trade relations are being complemented by free trade agreements of various types that aim to consolidate those links.

A clear characteristic of the process in Asia and the Pacific is the fact that several large regional economies, such as Japan, China, India, Republic of Korea and Taiwan Province of China, are abandoning their traditional reluctance to sign preferential agreements and join trade blocs, and have decided to sign bilateral or multilateral trade agreements with other economies both within and outside the Asia-Pacific region. Asia-Pacific is consolidating its production integration through agreements that currently cover over 60% of its total trade (for more details, see ECLAC, 2008c; Rosales and Kuwayama, 2007).

The two approaches to integration, de facto and de jure routes, should be ultimately complementary. Integration of markets through use of formal trade agreements leads to greater legal certainty, clearer and more enhanced transparency of “the rules of the game” among businesses and “lock-in” the results of de facto integration achieved so far. Meanwhile, integration by this route may be unsuccessful if the underlying economic factors are not favourable or if countries and sectors share only a few production and trade complementarities. Given, on the one hand, the divergent patterns of regional integration between the two regions and, on the other, the proliferation of trade agreements in each (a definite trend that will orient future biregional trade debates and discussions), the important point is not necessarily to sequence the two approaches as Aminian et. al. (2008) suggests, but rather to seek ways of establishing synergies between them.

As discussed elsewhere (ECLAC, 2008b, 2008a), the de jure approach is needed to address the existing tariff and non-tariff barriers that impede greater trade flows between the two regions. Biregional cooperation and strategic business alliances are also called for in order to improve marketing/distribution and transport systems and other physical infrastructures, whose deficiency tends to increase transaction costs and thereby jeopardize future biregional business opportunities. The two regions should also work together to enhance international competitiveness and innovation capabilities not only for individual countries but also for each region as a whole.

## 1. Increasing Latin American interests in signing FTAs with Asia-Pacific countries

From 1991 to 2005, the share of Latin American and Caribbean preferential exports rose from 8% to 63%, with evidence of greater trade openness in extra-regional rather than intra-regional PTAs. The Countries that are the most successful in opening export markets through FTAs are Mexico (96% of exports), Costa Rica and Chile (three quarters of exports). If MERCOSUR and the Andean Community were to succeed in signing an FTA with the European Union and the United States, PTAs would cover 72% of total exports.

Ongoing Negotiations are focused principally on trade relations with the United States and the European Union. Recently, some of the region’s countries such as Colombia, Peru and Panama have centered on trade links with the United States. The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) has also entered into force in all member countries. Each integration scheme (MERCOSUR, the Andean Community, CACM and CARICOM) is also negotiating an FTA with the European Union. This trend in Latin America and the Caribbean towards bilateral and plurilateral FTAs should have a significant impact on recent moves in Asia Pacific to establishing bilateral FTAs and step up initiatives for bilateral FTAs in that region.

**TABLE 32**  
**LATIN AMERICA (SELECTED COUNTRIES): REGIONAL AND PLURILATERAL PREFERENCES**  
(PTAs concluded as of September 2009)

Countries	Intra-regional PTAs	Extra-regional PTAs	Agreements <sup>c</sup>	Countries <sup>c</sup>
Argentina	Mercosur (3) + Andean community (5) + Chile (1) = 9	Mercosur – European Union <sup>a</sup> – India (1)	5	10
Brazil	Mercosur (3) + Andean Community (5) + Chile (1) = 9	Mercosur – European Union <sup>a</sup> – India (1)	5	10
Chile	Mercosur (4) + Andean Community (5) + CACM (5) + Cuba (1) + Mexico (1) = 16	EU (25) + EFTA (4) + United States (1) + Canada (1) + Korea (1) + New Zealand (1) + Singapore (1) + Brunei Darussalam (1) + China (1) + India (1) + Japan (1) + Australia (1) + China (1) = 40 Negotiating FTA with Malaysia	20	56
Colombia	Andean Community (4) + Mercosur (4) + CARICOM (14) + Chile (1) + Mexico (1) = 24	United States (1) <sup>b</sup> + Canada (1) <sup>d</sup> = 2 Negotiating FTA with European Union	7	26

(continues)

**TABLE 32** (conclusion)

Costa Rica	CACM (4) + Chile (1) + Mexico (1) + Dominican Republic (1) + Panama (1) + Trinidad & Tobago (1) = 9	United States (CAFTA) (1) + Canada (1) = 2 Negotiating FTA with European Union	8	11
Ecuador	Andean Community (4) + Mercosur (4) + Cuba (1) + Chile (1) = 10	United States <sup>b</sup> (1)	5	11
Mexico	NAFTA (3) + Costa Rica (1) + Nicaragua (1) + Chile (1) + Bolivia (1) + Uruguay (1) + Colombia (1) = 9	European Union (25) + EFTA (4) + NAFTA (2) + Israel (1) + Japan (1) = 33	12	42
Nicaragua	CACM (4) + Dominican Republic (1) + Panama (1) + Mexico (1) + Chile (1) = 8	United States (CAFTA) (1) + Taiwan Prov. of China (1) = 2	7	10
Peru	Andean Com. (4) + Mercosur (4) + Chile (1) = 9	United States <sup>b</sup> (1) + Thailand (1) + Canada (1) + Singapore (1) <sup>d</sup> + China (1) = 5	8	14

Source: Authors calculations based on legal instruments signed by countries or Trading blocs: MERCOSUR – Argentina, Brazil, Uruguay and Paraguay; Andean Community – Bolivia, Colombia, Ecuador and Peru; CACM (Central American Common Market) – Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; Caribbean Community (CARICOM) – Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago; and Latin American Integration Association (LAIA) [online] <<http://www.aladi.org>>

<sup>a</sup> Since 1999, MERCOSUR has been negotiating and Interregional Cooperation Agreement with the European Union.

<sup>b</sup> Colombia and Peru signed and FTA with USA in 2006. Peru agreement was ratified in November 2007. Colombia is awaiting ratification

<sup>c</sup> Mexico, Colombia and Venezuela was a trilateral FTA called G-3 Group. IN 2006, Venezuela abandoned the agreement

<sup>d</sup> FTA negotiations finalized

Trans-Pacific FTAs are flourishing as well. Examples of trans-Pacific agreements include the treaty between Chile and China, the first trade agreement that China has signed with a western-hemisphere country; the agreement signed by Chile with India and Japan; and the agreement between Panama and Singapore and with Taiwan Province of China. The Agreement between Japan and the United Mexican States for the Strengthening of Economic Partnership entered into force in April 2005 and is the first broad-scope agreement that Japan had signed till then. Other initiatives between Pacific Rim and Latin American countries include: the Chile-Korea Free-Trade Agreement, which was the first ever trans-Pacific free-trade treaty; and the Trans-Pacific Strategic Economic Partnership Agreement between Chile, New Zealand, Singapore and Brunei Darussalam (referred to as a P4 agreement). In addition to the recently approved FTA with the United States, Peru's FTAs with Canada and Singapore are in the process of implementation and the country has signed an "Early Harvest" scheme in the Peru-Thailand FTA. Peru has also signed an FTA with China and is now studying the feasibility of an FTA with Japan. Chile has signed an FTA with Australia, while its negotiation with Malaysia is at an advanced stage. Singapore attempts to sign an FTA with Mexico (stand-by). Several Central American countries (Honduras, Guatemala, El Salvador and Nicaragua each) have an FTA in implementation with Taiwan Province of China while, the first round of Costa Rica-China FTA talks took place January, 2009.

At a regional level, since its inception in August 2006, the Latin American Pacific Basin Initiative (Arco del Pacifico Latinoamericano in Spanish) has expanded its role as a consensus-building body seeking to deepen economic and technical cooperation among its eleven member countries,<sup>20</sup> strengthen regional integration and engage in initiatives with Asia-Pacific on a coordinated basis. This dialogue encompasses issues such as convergence of trade rules and norms, infrastructure and logistics, investment promotion and protection, and economic and technical corporation for improved competitiveness.

This set of initiatives reveals a serious intent by Latin American countries to take a long-term view in their relations with Asia and the Pacific. Similarly, the United States has concluded agreements with Australia and Singapore, while it has concluded the negotiations with the Republic of Korea, and is in negotiation with Malaysia and Thailand. It has proposed agreements with Brunei Darussalam, Indonesia and the Philippines. September 2008, together with Australia, Peru and Viet Nam, the United States has announced their interest in becoming a member of possibly expanded P4 agreement.

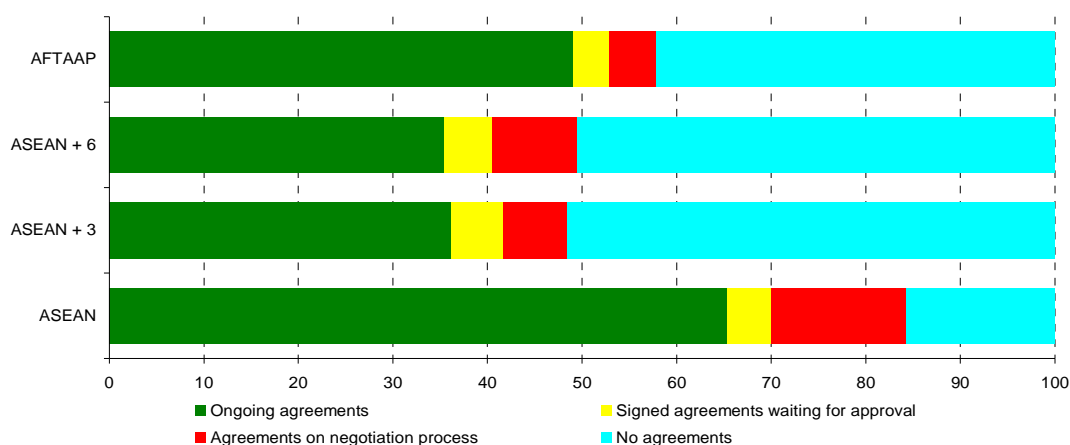
<sup>20</sup> The member countries include Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru.

Despite being latecomers in the move toward FTAs, Asia Pacific countries have recently shown an increasing interest in these agreements, resulting in a “noodle bowl” phenomenon.<sup>21</sup> Among these, the ASEAN Free Trade Agreement (AFTA) stands out for its economic importance in the region and has also become a focal point for the emergence of a new category of “trade-bloc to trade-bloc” agreement (e.g., the ASEAN-EU FTA and the ASEAN-Australia and New Zealand FTA). After AFTA, no FTAs or EPAs were negotiated until 2002, when Japan and Singapore signed an EPA. Since then, other economies in the region have become increasingly active in FTA negotiations (e.g. China, Republic of Korea, Thailand and Singapore).

One of the characteristics of regional integration in the East and Southeast Asian region is that the reality has preceded any legal framework. Despite AFTA, less than 25% of intra-ASEAN trade makes use of AFTA preferences. Countries in the region realize that market-driven economic integration calls for policy measures to support and promote it further, via harmonization of policies, rules, and standards governing trade and FDI. In this way, FTAs can be viewed as part of a supporting policy framework for deepening production networks and supply chains based primarily on intra-industry and intra-firm trade.

For a number of countries of the Pacific Basin (the countries of North America, Latin American States members of APEC, India, Pakistan and Sri Lanka), a large proportion of trade is already subject to preferential tariffs. As of August 2008, the network of free trade agreements in force in the Pacific Basin involved preferential tariffs applicable to 48% of total exports, most of which were grouped around the ASEAN countries (65%). On the one hand, the interests of China, Japan and the Republic of Korea, which make up the “ASEAN + 3” area, and those of Australia, India and New Zealand (“ASEAN + 6”), are part of the initiatives surrounding ASEAN. On the other hand, the drive and dynamism of Canada, the United States and other countries of the region (Chile and Peru) are reflected in the proposal to build a large-scale agreement on the basis of APEC, a Free Trade Area of the Asia Pacific (FTAAP). The proportion of trade subject to preferential tariffs could quickly increase to 65%, and within the ASEAN area, that figure could rise to 97% of total exports (Figure 23). The adoption of FTAAP is already supported by the business communities in Brunei, Chile, Mexico, New Zealand, Peru, Singapore and the United States.

**FIGURE 23**  
**FREE TRADE AGREEMENTS IN THE PACIFIC BASIN, SEPTEMBER 2009**  
(Percentage of exports covered by preferential tariffs)



Source: Authors calculations based on legal instruments signed by countries or Trading blocs: MERCOSUR – Argentina, Brazil, Uruguay and Paraguay; Andean Community – Bolivia, Colombia, Ecuador and Peru; CACM (Central American Common Market) – Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; Caribbean Community (CARICOM) – Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago; Latin American Integration Association (LAIA) [online] <<http://www.aladi.org>>; and (Kawai and Wignaraja, 2009).

<sup>21</sup> For the 48 member countries in Asia-Pacific of the Asian Development Bank, As at January 2009, there have been 210 FTAs (78 of those have been implemented, 27 signed, 58 under negotiation and 47 proposed) (Asia Regional Integration Center of the Asian Development Bank [online] <[www.ari.adb.org](http://www.ari.adb.org)>).



## 1.1 Asia's FTA network causing trade diversion for Latin America and the Caribbean?

The weighted averages of the effective applied tariffs in the agricultural sector are not only higher in Asia Pacific than in Latin America, but also, in the present decade, the Latin American regional average declined by a 3.5%, while Asia Pacific countries increased their level by almost 2%, making market access in this sector more difficult to the member countries of the region. Agricultural products have always been particularly sensitive items, subject to many tariff and non-tariff barriers. In Asia-Pacific, high ad valorem equivalents (AVEs), that include tariff quotas, are applied to agricultural products and a number of natural-resource-based manufactures that are the major export interests of Latin America, in which the region has strong comparative advantages. The AVEs also show the presence of tariff escalation, which works against the exports of more processed products from Latin America to Asia-Pacific (Rosales and Kuwayama, 2007).<sup>22</sup>

In this regard, the reduction of intra-regional barriers in this sector resulting from FTA proliferation and their implementation in Asia-Pacific leaves the rest of the world at a disadvantage, and has an adverse effect on Latin American agricultural exporters. The challenge facing Latin America is therefore to engage in negotiations in those sectors that face the highest levels of protection in order to allow for greater participation of Latin American and Caribbean enterprises in the Asian production and distribution chains.

In addition to traditional tariff (ad valorem or specific) measures, there are several other barriers that impede trade. Some of these have become significant trade barriers, especially when tariff rates come down as a result of liberalization. For example, rising transport freight costs are one factor that puts Latin American exporters at a disadvantage. Particularly high and rising costs in freight and insurance, due in part to high oil prices and a lack of maritime transport interconnections, have emerged as one of the major trade barriers that limit the potential growth of Latin American exports to Asia-Pacific.<sup>23</sup>

The maritime connections between the two regions are not yet adequately developed, while the North-North and South-North routes are more complete and well developed. In general, South-South flows have few connections, and direct lines between Latin America and Asia-Pacific are known to be available only to and from Chilean ports, while in the rest of the region, several stops must be made in South Africa or other American countries are before setting course to Asia.

Another trade barrier is related to high logistics costs and weak port capacities; there is a significant difference between the two regions in this respect. In the Logistic Performance Index, developed by the World Bank, only one Latin American country (Chile) figures among the top 10 countries with the FEALAC membership. A low logistic performance represents a higher cost for exporters, resulting in shipment delays and lower competitiveness. The two areas in which the Latin American region is weak are the customs and infrastructure. Urgent measures should be introduced to improve the customs procedures and port infrastructure and facilities.

Progress in regional cooperation in the area of trade facilitation could enhance international competitiveness, generating greater trade and investment opportunities between Latin American and the Caribbean and Asia Pacific enterprises. In this regard, the countries of Asia Pacific are encouraged to finance projects that are of mutual benefit to bi-regional integration.

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<sup>22</sup> The FEALAC economy as a whole is quite open, and a large proportion of goods enter free of MFN rates. However, market access is more restricted for agricultural goods than non-agricultural products. Moreover, the applied MFN rates are much lower than the WTO bound rates, both for agricultural and for non-agricultural goods. Both bound and applied rates for agricultural products are nearly double those levied on non-agricultural products. Such a wide gap between the two sets of tariff rates makes trade policy unpredictable.

<sup>23</sup> The two cases of soybean and copper ore indicate that the shipping costs, measured as the difference between the unit value in the origin port and the unit value at destination, is remarkably higher in bi-regional flows than in intra-regional ones. For example, the cost of shipping soybean from Brazil to Japan is three times higher than for China to export the same product to Japan. Similarly, the cost of shipping copper exports from Chile and Peru to China is substantially higher than from Australia and Indonesia.

A newly emerging trade barrier is the lack of quality control. In recent years, more governments, industries and consumers have begun to demand high levels of quality in products and the corresponding certifications by several renowned international organizations or their own national agencies. Several standards are obligatory commitments while others are of a voluntary nature based on the recommendations by the private sector. These non-mandatory standards are considered to be very influential in determining not only the competitiveness of the product in the world market but also the ultimate buying decision of the consumer.

Latin American countries lag far behind their Asia Pacific counterparts in this respect. For example, the number of ISO Standards of Quality that each region certified in 2006 shows a stark difference, not only in terms of absolute number of certifications but also when the size of population is taken into account. By country of issuance, China and Japan together account for more than 70% of the all the ISO issued in the two regions in 2006, only two countries from Latin America (Brazil and Argentina) represented roughly 5.5% of the total.

## **VI. Conclusions and recommendations**

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Given the risks the world economy is now facing and its new emerging geography centred increasingly on the Asia-Pacific region, government authorities in Latin American and Caribbean should redouble their efforts to identify and capitalize upon the potential complementarities created by greater integration with that region. In order to do this, the Latin American and Caribbean countries should adopt a coordinated approach to trade and investment initiatives.

The favourable economic conditions facing the region up to mid 2008 offered a unique opportunity to lay the foundations for sustained trade and investment relations with Asia-Pacific by: (i) creating bi-regional business alliances; (ii) enhancing cooperation in innovation and human capital in order to diversify trade, add greater value and knowledge to exports; and (iii) helping to create more stable conditions for growth. The notable economic slowdowns observed in both regions in recent months make the accomplishment of these objectives more demanding but at the same time more urgent and indispensable. In this regard, FEALAC should become an effective and functional forum for bi-regional policy dialogues.

One of the reasons for the limited bi-regional trade and investment flows is the lack of intra-industry trade (IIT) between the two regions. Although there is substantial IIT within each region, trade of this type across the two regions is still scarce. The fact that IIT flows still account for a relatively small proportion of bi-regional trade points not only to vast possibilities but also enormous challenges that may lie ahead for this type of trade and investment cooperation.

The nature of trade flows is still inter-industrial: imports from Asia-Pacific consist of manufactures, while Latin American and Caribbean exports consist mainly of primary commodities. Whereas manufactures represent a rising share of intraregional exports in Latin America and the Caribbean, exports to Asia-Pacific show the opposite trend. Shipments of food items and minerals and metals have risen as a proportion of total exports to Asia-Pacific, reflecting the region's comparative advantages and the potential of those markets.

In contrast, the experiences of Central America, particularly Mexico, show the benefits of an investment-cum-trade strategy, different from the one adopted in the rest of the region. Given the divergent patterns of international specialization in the two regions, new production possibilities and export opportunities may open up for the Latin American and Caribbean countries as international production chains in Asia-Pacific continue to expand and deepen and the demand for commodities remains strong.

Latin America and the Caribbean is beginning to export a more diversified range of products to Asia-Pacific: the list includes a number of new products, such as fishery products and pig meat, along with high-technology manufactures that include electronic microcircuits, telecommunications equipment and data-processing machinery. The presence of these products indicates that Latin America is beginning to integrate, albeit sporadically, into the extensive supply-chain networks prevalent in the Asia-Pacific region.

There are some intra-industrial bi-regional trade flows and these, albeit incipient, are increasing. In general Mexico's trade with Asia-Pacific shows higher Grubel Lloyd indices than those for other Latin American countries. Costa Rica and Brazil have begun to record some intra-industry trade with Asia-Pacific. On the Asia-Pacific side, Australia, New Zealand and Singapore are beginning to register intra-industrial trade with the region. In short, there has been a breakthrough with trade shifting from a purely inter-industrial to a slightly more intra-industrial structure.

Both intraregional FDI flows within Asia-Pacific and direct investment inflows into emerging Asia from large developed countries have promoted de facto regional integration in that region, since both types have represented major investment in the individual Asian countries over the years. A clear "trade-cum-investment" relation exists in the Asia-Pacific region and this promotes intra-industry and intra-firm trade and "slices up" complex cross-border international supply chain networks.

A significant outcome of the fragmentation of manufacturing processes in the Asia-Pacific region was that Japan lost comparative advantages in manufacturing production, which led Japanese firms to slice up their productive processes and outsource more labour-intensive stages to neighbouring East Asian countries. This "hollowing out" of the Japanese economy was replicated in Taiwan Province of China, the Republic of Korea, Singapore and Hong Kong SAR, thereby deepening the "Asia Factory" process. China and the ASEAN countries' later entry onto the international economic stage further eroded the industrial comparative advantages enjoyed by the higher-income East Asian countries, making offshore production more attractive. It is notable that all this regional trade and investment creation occurred outside the ambit of regional trade agreements. Latin American and Caribbean firms must now take steps to enter Asian supply chains by signing trade and investment partnerships, in addition to trade agreements, in order to gain new access to these markets and integrate into Asian production and export chains.

Apart from natural-recourse-based FDI, another predominant type of FDI in Latin America has been market-seeking, which has been too inward-looking and has not contributed sufficiently to the building of local manufacturing capacities and international competitiveness. One of the main reasons for the low level of trade-cum-investment flows between the two regions is the lack of efficiency-seeking FDI, which is the type most common in Asia-Pacific. Where such investment does exist in the region, it shows the shortcomings typical of this type of FDI: the creation of an "enclave" economy and a low value-added trap, as well as a lack of industrial agglomeration.

Efforts to deepen trade and investment relations with Asia-Pacific must, therefore, take a twofold approach: (i) the promotion of efficiency-seeking FDI on the Latin American and Caribbean side; and (ii) efforts to address the drawbacks of market-seeking investment that often affect the national economy in general and the export sector in particular.

A number of recent experiences show that value and knowledge can be added to commodity exports, in the interests of efficient and coordinated exploitation of comparative advantages. Although with more difficulty than manufactures, commodities can also be integrated into production and marketing chains in Asia-Pacific; this calls for a systemic approach encompassing the production process, trade logistics, maritime and air transport, and marketing and distribution in the final consumption market. Exports conducted through alliances with Asia-Pacific investors could help to form a complex of activities involving goods, services, investments and financing. Strategic partnerships should be created to increase value added throughout the production and marketing chain, and mutually beneficial technological partnerships should be developed (to apply advances in biotechnology to agro-industry, mining, forestry and fishery, for example).

The countries of the region also urgently need to: (i) take full advantage of current growth in the Asia-Pacific region and develop new linkages to strengthen innovation and competitiveness (a weak link in the Latin American region); (ii) strengthen links between trade and investment; and (iii) consolidate productive and technological linkages.

The Asia-Pacific region offers investments that could provide complementary financing for major initiatives, especially in the infrastructure and energy areas. An interesting challenge is to identify the infrastructure and energy projects in Latin America and the Caribbean where Asian investment might be most useful to speed up the implementation of works. This would not only help to strengthen the trade facilitation and investment link with Asia-Pacific, but also would generate externalities for Latin America's own regional integration process. It would thus be advisable to link strategic partnership with Asia-Pacific with efforts to advance regional integration, in order to build unified markets supporting increasingly common standards and providing greater legal certainty.

A series of market-access problems remain. Asia-Pacific applies high ad valorem equivalents (AVEs) to agricultural products and a number of natural-resource-based manufactures that constitute major export interests for Latin America and the Caribbean and in which the region has strong comparative advantages. The challenge for the region is therefore to engage more actively in the Asian production and distribution chains with exports that face the highest levels of protection.

The lack of a well-established network among companies, whether large firms or SMEs, represents an obstacle to strategic alliances and corporate association. Despite profitable opportunities, the high sunk costs of new ventures and the risks involved for single investors may also continue to act as formidable barriers. Inadequate infrastructure, especially the lack of a good transport system, also impedes dynamic trade and investment flows. The provision of solutions for these bottlenecks would certainly enhance bi-regional trade and investment.

There are several issues of mutual interest and great importance relating to trade and investment promotion, enhancement of international competitiveness, market access, free trade agreements and regional integration. In order to reduce the existing large gap in information and perception of business opportunities and market access, the countries in both regions should consider taking action in the economic and trade sphere, as described below. Such actions should be coordinated with and take advantage of existing international and regional agencies, and must engage business associations and other private-sector agents:

- information exchange on market opportunities and market access, including basic economic indicators, recent trends on bi-regional trade and investment, developments in regional integration, standards, tariffs and non-tariff trade measures,
- policy dialogue on promotion of bi-regional trade and investment, aimed at identifying the bottlenecks in such promotion and needs for capacity- and institution-building,
- policy dialogue on trade and investment promotion, to review best practices in both regions and analyse public policies to enhance international competitiveness, innovation and regional integration,

- policy dialogue on trade-related capacity-building, including several emerging issues such as trade facilitation and the Aid for Trade Initiative,
- policy dialogue on the WTO process, addressing not only the Doha Round of trade talks, but also the development dimension, the issue of convergence or divergence between regionalism and multilateralism and strengthened operational rules on special and differential treatment,
- dialogue on free trade agreements, including bilateral, sub-regional or bi-regional FTAs and the related negotiation, implementation and administration processes,
- exchange of information on investment, including trends in FDI flows; investment-related multilateral and bilateral agreements; inventory of investment promotion programmes and policy and regulatory regimes of the Asia-Pacific and Latin American and Caribbean regions,
- promotion of small- and medium-sized enterprises (SMEs), with an emphasis on establishing institutional linkages among SMEs through respective associations in the two regions, promoting venture capital for technological upgrading, including information communications technology (ICT), and developing E-commerce, which would increase interregional trade and investment, and
- transport infrastructure, including the assessment of existing pre-feasibility studies and efforts to secure financing to implement infrastructure projects.

In this regard, the countries of the region should pursue better market access in the Asia-Pacific region, either seeking bilateral arrangements individually or working in coordination to reach joint agreements. Chile, Mexico and Peru should play a key role in coordinating positions and working together on different fronts, not only within APEC-related forums but also within and between the intra-regional integration schemes.

Routes by which the region could pursue better market access in Asia-Pacific might include:

- creation of a trade bloc in East Asia to promote further trade liberalization in the framework of APEC, possibly through a Free Trade Area of the Asia-Pacific (FTAAP), which might include more than the three existing Latin American members of APEC (Chile, Mexico and Peru). This would make it possible to pursue greater uniformity and convergence of rules and disciplines among the FTAs signed by APEC members and those signed by Latin American and Caribbean countries,
- promotion of intra-APEC trade and investment, by simplifying and harmonizing the rules of origin (ROOs) contained in most of the FTAs signed by APEC members and increasing flexibility in accommodating ROOs among the different integration schemes and FTAs in the region,
- possible enlargement of the Trans-Pacific Strategic Economic Partnership Agreement (P-4 FTA), widening its geographic coverage for future negotiations, for example, by including Peru, Mexico, Colombia and Thailand,
- coordinated support by the three existing Latin American APEC member countries to seek APEC membership for other countries in the region,
- strengthening of the Forum for East Asia-Latin America Cooperation (FEALAC) —the only forum for dialogue on cooperation that extends beyond the Pacific Rim— and more active participation in it by the countries of both regions,
- creation of a trade bloc in East Asia to promote further trade liberalization in the framework of APEC, possibly through a Free Trade Area of the Asia-Pacific (FTAAP), which might include more than the three existing Latin American members of APEC (Chile, Mexico and Peru). This would make it possible to pursue greater uniformity and convergence of rules and disciplines among the FTAs signed by APEC members and those signed by Latin American and Caribbean countries,
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- possible enlargement of the Trans-Pacific Strategic Economic Partnership Agreement (P-4 FTA), widening its geographic coverage for future negotiations, for example, by including Peru, Mexico, Colombia and Thailand,
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