



# Strengthening biregional cooperation between Latin America and Asia-Pacific

## The role of FEALAC



UNITED NATIONS

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**ECLAC**

**Alicia Bárcena**

Executive Secretary

**Antonio Prado**

Deputy Executive Secretary

**Oswaldo Rosales**

Chief, Division of International Trade and Integration

**Ricardo Pérez**

Chief, Documents and Publications Division

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# Foreword





Economic development means growth with structural change. The current global economy is shaping a new historical context, in which governments and regional integration agencies are increasingly aware of the need to achieve not only macroeconomic stability but also broader development goals. In addition, the international financial crisis and its aftermath have made it more urgent for Latin America and the Caribbean and developing Asia to address some key challenges to improve their integration into the world economy. Foremost among these are the rapid pace of technological change, the geographical fragmentation of production into global and regional value chains, the growing weight of emerging economies in the global economy and, last but not least, the need to ensure the environmental sustainability of economic growth. This complex agenda will have to be dealt with during a period of slower economic growth and comparatively high unemployment in the industrialized economies, making the task even more challenging.

The increasing prominence of developing countries in the world economy reflects not only their economic dynamism but also stronger links through increased South-South trade, investment and cooperation. Developing countries in both Latin America and East Asia must act proactively to prepare themselves for this new scenario, adjusting their policies and strategies so as to take advantage of the growing potential of South-South links. In this regard, authorities from both regions should redouble their efforts to identify and capitalize upon their potential complementarities, by creating biregional business alliances, enhancing cooperation in innovation and human capital, improving the quality of trade and investment flows, and helping create more stable conditions for growth. In sum, events surrounding the global economy in recent years require developing countries in both regions to rethink their strategic alliances both globally and regionally. These sustained efforts on either side should be complemented by biregional cooperation on different fronts.

There is a wealth of potential for mutually advantageous cooperation between East Asia and Latin America, on issues such as food and energy security, sustainable development (including green growth and climate change), infrastructure, science and technology, and trade facilitation. The Forum for East Asia-Latin America Cooperation (FEALAC) can and must play a leading role as a focal point for structuring a biregional cooperation agenda. FEALAC is the only forum for biregional cooperation and dialogue that goes beyond the concept of the Pacific Basin. Indeed, for many Latin American countries it is the only forum available for engaging with East Asia as a region. The inclusive nature of FEALAC is an asset that must be capitalized upon. Moreover, FEALAC has become more important as a forum for policy dialogue over the years, as its member economies as a group now account for one third of world GDP and global trade. The two regions were the least affected by the international financial crisis of 2008-2009 and have become major growth poles of the world economy.

It may be true that today there are too many issues on the table within FEALAC, often without sufficient financial backing to make real progress. This situation calls for FEALAC to concentrate on those areas in which biregional cooperation is most feasible and valuable. This document aims to identify some of those areas. In sum, FEALAC should translate its traditional spirit of friendship and cooperation into concrete initiatives and feasible projects, so as to move into a deeper phase of biregional cooperation.

For over a decade, the Economic Commission for Latin America and the Caribbean (ECLAC) has been closely monitoring the growing economic relations between Latin America and the Caribbean and the Asia-Pacific region. ECLAC participated actively in the Fifth Ministerial Meeting of FEALAC, held in August 2011 in Buenos Aires, and was thus pleased to receive the request from the Government of the Republic of Korea to present this document to the Sixth Ministerial Meeting, to be held in Bali, Indonesia, in June 2013. We hereby express our gratitude to the Government of the Republic of Korea for its continued support throughout this process and hope that the report will serve FEALAC in defining a concrete, mutually advantageous biregional cooperation agenda for the coming years.

**Alicia Bárcena**  
Executive Secretary  
Economic Commission for Latin America  
and the Caribbean (ECLAC)

# I. The Forum for East Asia-Latin America Cooperation (FEALAC) in the world economy



## 1. The prospect of a lost decade for growth in much of the industrialized world is speeding up the process whereby emerging and developing economies become the world's main growth engines.

- Growth prospects for the global economy for the remainder of this decade point to several years of slow growth in the industrialized economies. Such a scenario accelerates the long-term trend towards a growing contribution by the developing economies to global economic variables. This rebalancing of the global economy is being driven by Asia-Pacific, whose growing prominence over the coming decades will make it increasingly important for Latin America and the Caribbean.
- Asia-Pacific's increasing relevance stems not only from its rapid economic growth but also from its large and growing population. The expected expansion of the middle class in Asia over the next few decades offers a good opportunity for Latin America and the Caribbean to increase and diversify its exports to that region. In turn, continued sluggishness in the United States, eurozone and Japan suggests that developing Asia must continue shifting its sources of growth toward domestic demand and trade with other emerging markets.

■ Table I.1 ■

### World economic growth, by selected regions/countries, 2008-2014<sup>a</sup>

(Percentages)

	2008	2009	2010	2011	2012	2013	2014
Advanced economies	0.1	-3.5	3.0	1.6	1.2	1.2	2.2
United States	-0.3	-3.1	2.4	1.8	2.2	1.9	3.0
Eurozone	0.4	-4.4	2.0	1.4	-0.6	-0.3	1.1
Japan	-0.1	-5.5	4.7	-0.6	2.0	1.6	1.4
Advanced economies excluding G7 and eurozone	1.7	-1.1	5.8	3.2	1.8	2.5	3.3
Emerging and Developing economies	6.1	2.7	7.6	6.4	5.1	5.3	5.7
Developing Asia	7.9	6.9	9.9	8.1	6.6	7.1	7.3
China	9.6	9.2	10.4	9.3	7.8	8.2	8.5
India	6.3	5.0	11.2	7.7	4.0	5.9	6.4
ASEAN (5 countries) <sup>b</sup>	4.8	1.7	7.0	4.5	6.1	5.9	5.5
Latin America and the Caribbean	4.2	-1.5	6.1	4.6	3.0	3.4	3.9
Brazil	5.2	-0.3	7.5	2.7	0.9	3.0	4.0
Mexico	1.2	-6.0	5.3	3.9	3.9	3.4	3.4
World	2.8	-0.6	5.2	4.0	3.2	3.3	4.0

Source: International Monetary Fund (IMF), World Economic Outlook, Washington, D.C., April 2013.

<sup>a</sup> Figures for 2013 and 2014 are projections.

<sup>b</sup> Includes Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

## 2. World trade slowed in 2012 for the second consecutive year. A modest recovery is expected for 2013, driven by emerging and developing economies.

- Global trade showed a weak performance in 2012. Recent estimates by the International Monetary Fund (IMF) suggest that world trade volume (goods and services) increased by only 2.5% for the year as a whole, down from 6.0% in 2011. Emerging market and developing economies' exports and imports held up better, rising 3.7% and 4.9%, respectively, reflecting their more dynamic economic performance.
- The World Trade Organization (WTO) forecasts a small pickup in world trade volume growth (goods only) to 3.3% in 2013 and 5.0% in 2014, from 2.0% in 2012. WTO forecasts for developed countries exports are lower than those of the IMF, projecting increases of 1.4% and 2.6% in 2013 and 2014,

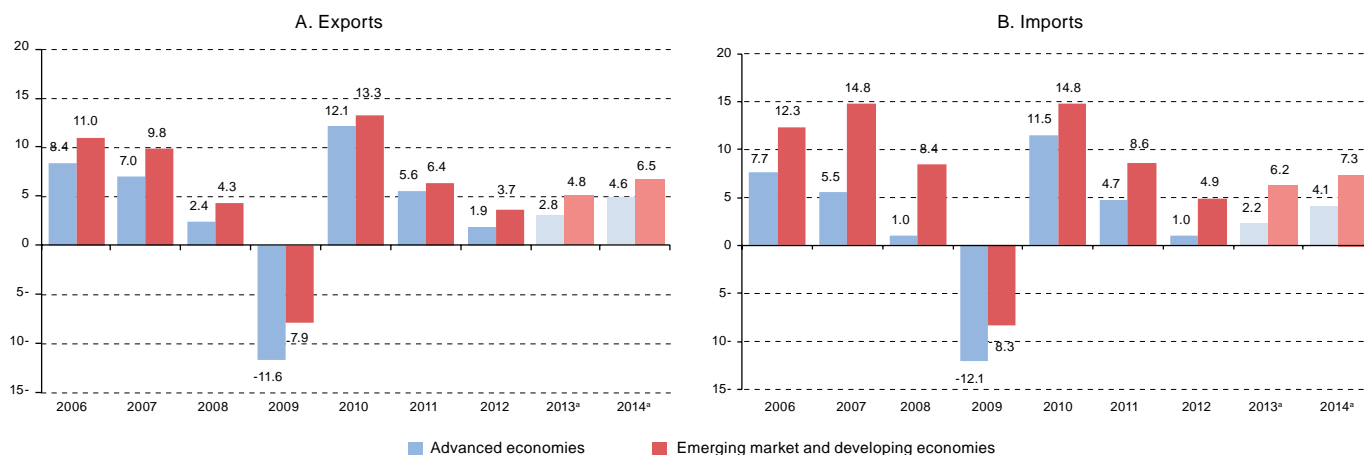
respectively. In contrast, the WTO projections for developing economies (including the Commonwealth of Independent States) are higher than those of the IMF: 5.3% and 7.5% in 2013 and 2014, respectively. On the import side, the WTO projects 1.4% and 3.2% growth in developed economies for 2013 and 2014, respectively, versus 5.9% and 7.4% in developing economies.

- Developing countries are becoming less dependent on high-income countries for their exports. The steady growth of developing country GDP and increased interconnections between these economies mean that since 2010, more than half of developing country exports go to other developing countries.

■ Figure 1.1 ■

**World trade (goods and services): annual growth by volume, 2006-2014<sup>a</sup>**

(Percentages)



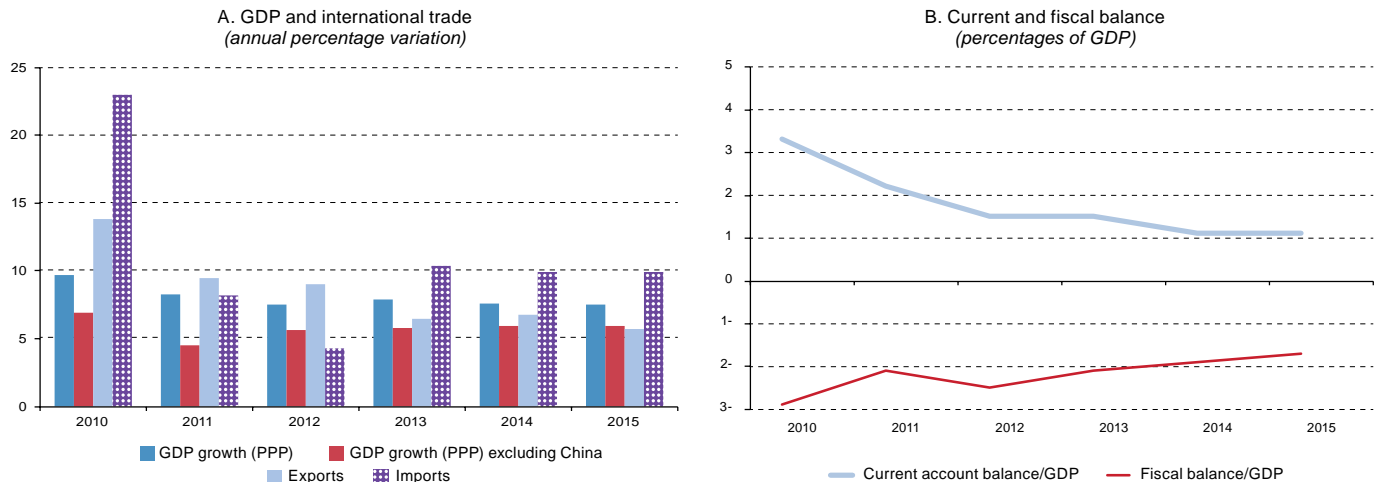
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund, *World Economic Outlook*, Washington, D.C., April 2013.

<sup>a</sup> Figures for 2013 and 2014 are International Monetary Fund (IMF) projections.

### 3. Developing Asia remains a bright spot in a difficult global economic landscape.

- The economies of developing East Asia and the Pacific remained dynamic despite the lacklustre performance of the global economy in 2012. The region grew at 7.5% in 2012, which is lower than the 8.3% registered in 2011, but set to recover to 7.9% in 2013. China grew 7.8% in 2012, 1.4 percentage points lower than the previous year's figure and the lowest rate in the past 13 years, but still higher than the government's target of 7.5%. Weak exports and the government's efforts to cool down the housing sector slowed China's economy in 2012, but recovery began in the final months of 2012. In 2013, China's economy is expected to grow in the range of 8.2% - 8.4%, fuelled by fiscal stimulus and faster implementation of large investment projects.
- Developing East Asia (excluding China) grew 5.6% in 2012, up from 4.4% in 2011. The rebound in Thailand following the floods in 2011, strong growth in the Philippines, and relatively mild slowdowns in Indonesia and Viet Nam contributed to this recovery. Continuing strong performances by Indonesia, Malaysia, and the Philippines will boost growth in developing East Asia to 5.7% in 2013 and 5.8% in 2014.
- Leading Asian economies are settling into a pattern of more moderate, more sustainable growth, founded on new opportunities nearer to home, including domestic consumption and intraregional trade. Meanwhile, Asia's contribution to global imbalances —its persistent current account surplus— is smoothly winding down. With high growth rates sustained in the region, poverty is expected to continue to decline. The proportion of people living on less than US\$ 2 a day in the region is forecast to fall to 23.3% by the end of 2014, down significantly from 28.8% in 2010.

■ Figure I.2 ■  
East Asia and the Pacific: selected indicators, 2010-2015<sup>a</sup>



Source: World Bank, *Global Economic Prospects*, January 2013.

<sup>a</sup> The World Bank's geographical coverage of this region includes Cambodia, China, Fiji, Indonesia, Kiribati, the Republic of Korea, the People's Democratic Republic of Lao, Malaysia, Marshall Islands, Federated States of Micronesia, Mongolia, Palau, Papua New Guinea, the Philippines, Samoa, Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu, and Viet Nam.



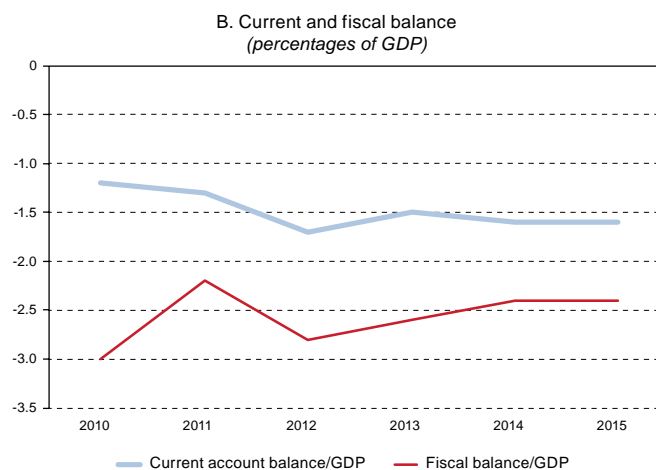
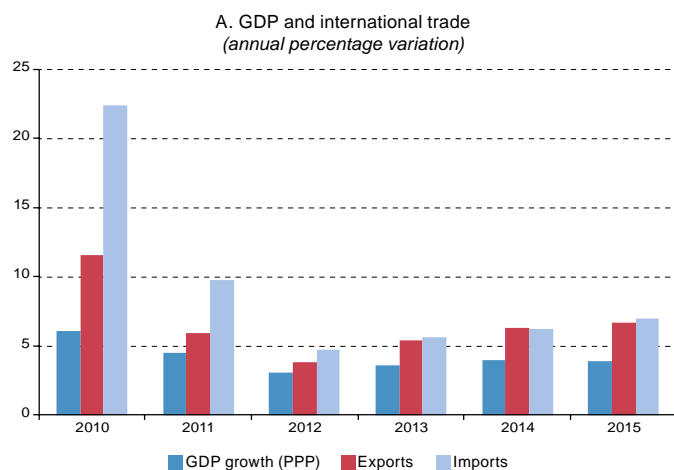
## 4. GDP growth in Latin America and the Caribbean is expected to reach 3.5% in 2013 and to stay relatively buoyant thereafter.

- Growth in Latin America and the Caribbean slowed from 4.3% in 2011 to 3.0% in 2012, largely owing to a weaker global environment and to lower-than-expected growth in two of its largest economies, Brazil and Argentina. Elsewhere in the region, growth remained relatively buoyant, with the economies of Colombia, Chile, Panama, and Peru continuing to expand briskly, albeit at a slightly lower rate than in 2011.
- Regional growth is expected to accelerate to 3.5% in 2013 and average about 3.9% during 2014 and 2015, mainly thanks

to a more accommodative policy environment in some of the larger economies in the region, supported by stronger external demand and robust domestic demand. Nevertheless, the region remains vulnerable to an uncertain external environment; in part, owing to its increased exposure to East Asia. Aside from weak growth prospects in developed countries, the risk of a stronger-than-expected deceleration in China is a downside risk for commodity-exporting countries, notably in South America.

■ Figure I.3 ■

### Latin America and the Caribbean: selected indicators, 2010-2015

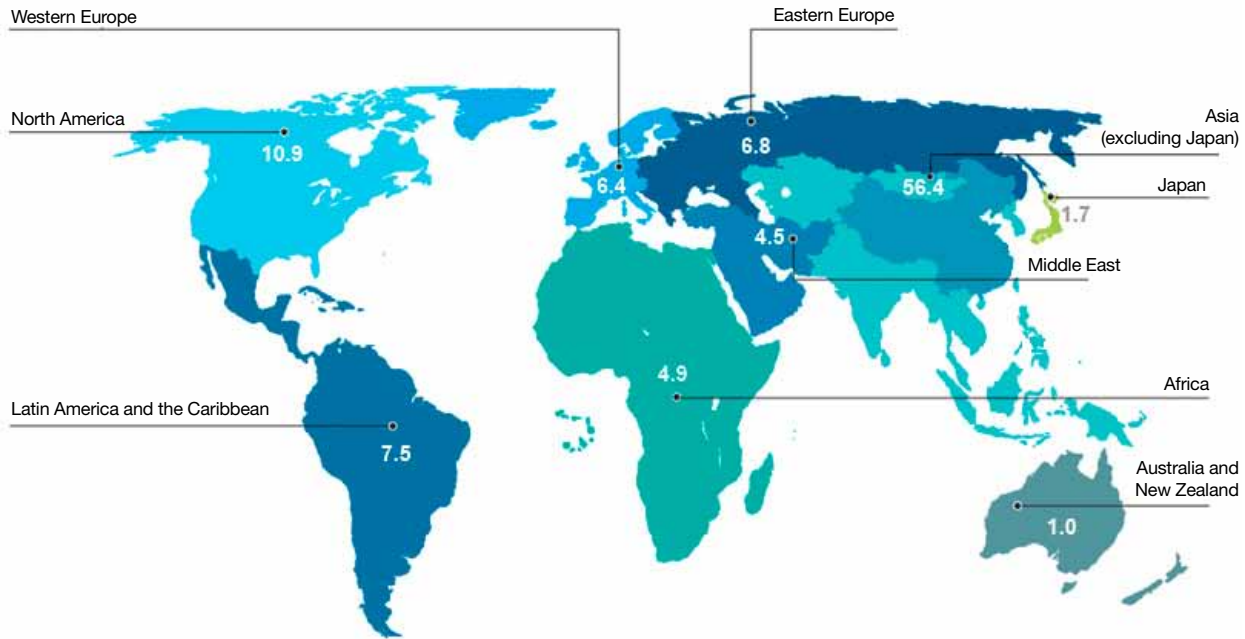


Source: World Bank, *Global Economic Prospects*, January 2013.

**5. Developing Asia is expected to account for nearly 60% of world economic growth between 2012 and 2022. Latin America’s contribution, while much smaller, is expected to exceed those of Western Europe, Eastern Europe, Africa and the Middle East.**

■ Map I.1 ■

**Contribution to GDP world growth between 2012 and 2022**  
(Percentages)



Source: BBVA, *EAGLEs Economic Outlook. Annual Report, 2013.*

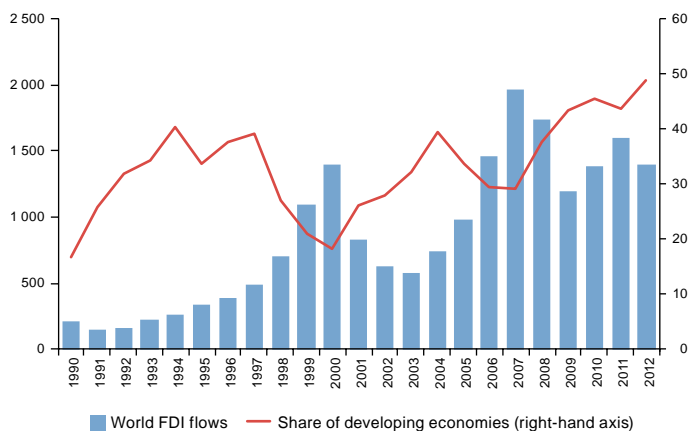
## 6. Although world FDI inflows fell in 2012, those to developed countries declined much more dramatically. FDI inflows to Latin America and the Caribbean actually increased, reaching an all-time high.

- World FDI inflows fell by 13% in 2012 with respect to 2011 (from US\$ 1.6 trillion to US\$ 1.4 trillion), reflecting the weak performance of the global economy. Nevertheless, FDI inflows into developed economies fell by over 22%, while those into developing economies declined by just 3%.
- FDI inflows into Latin America and the Caribbean actually increased in 2012, reaching a record US\$ 173.4 billion (7% above their 2011 level). Thus, the region's share of world

FDI inflows increased from 10% in 2011 to 12% in 2012. Foreign investors continued to find appeal in the region's expanding consumer markets, as well as in South America's natural resources. Brazil, with US\$ 65.3 billion, continued to be the region's main FDI recipient, followed by Chile (US\$ 30.3 billion), Colombia (US\$ 15.8 billion), Mexico (US\$ 12.7 billion), Argentina (US\$ 12.6 billion) and Peru (US\$ 12.2 billion).

■ Figure I.4 ■

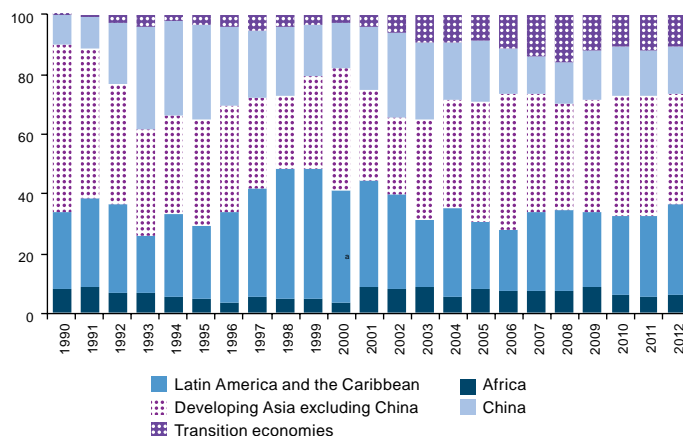
**World FDI inflows and share of developing economies, 1990-2012**  
(Billions of dollars and percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), FDI database and Organisation for Economic Cooperation and Development (OECD), *FDI in Figures*, 2013.

■ Figure I.5 ■

**Distribution of FDI inflows among developing regions and transition economies, 1990-2012**  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), FDI database.

## 7. The share of FEALAC in world output far surpasses that of the United States and the European Union. By any measure, FEALAC is a very substantial grouping.

- Total GDP in the Forum for East Asia-Latin America Cooperation (FEALAC) is estimated at US\$ 23.7 trillion at current prices in 2011, or roughly one third of world GDP (compared to 22% of world GDP for the United States and 25% for the European Union). FEALAC Asia-Pacific members accounted for 26% of world GDP, while FEALAC Latin American members contributed the remaining 8%. These percentages are substantially higher than those for 2006, when the respective shares were 20% and 6%.
- The share of FEALAC in world merchandise trade reached 32% in 2011, to which FEALAC Latin America contributed just 6%. FEALAC Asia-Pacific has also become an important destination and origin of world trade in services, while FEALAC Latin America still remains a relatively small player in such trade.
- In 2011, FEALAC member countries accounted for 21% and 14% of world inward and outward FDI stock, respectively. As an FDI recipient, FEALAC Asia-Pacific represented over 13% of the world's total inward stock, while FEALAC Latin America accounted for roughly 8%.
- The increasing share of FEALAC in world economic variables is evidence of the transition taking place in the global economy, whereby the economic centre of gravity is shifting from the Atlantic to the Pacific and from developed to developing countries. A clear implication of this is that South-South economic and cooperation links will become increasingly relevant in the coming decades.

■ Table 1.2 ■

### FEALAC: selected macroeconomic indicators, population, trade and FDI, 2010 and 2011

(Percentages of the world total)

Indicators	Population	Gross domestic product		Merchandise trade		Services trade		Foreign direct investment	
		Current PPP	Current	Exports	Imports	Exports	Imports	Inward stock	Outward stock
Regions	2010	2011	2011	2011	2011	2011	2011	2011	2011
FEALAC	56.6	36.8	33.9	32.4	32.4	20.9	20.9	20.9	13.7
FEALAC Asia-Pacific	48.2	27.5	25.9	26.5	24.7	17.8	21.1	13.4	11.3
FEALAC Latin America	8.4	8.7	8.0	5.9	5.7	3.1	4.6	7.5	2.4
United States	4.6	19.1	21.6	12.8	17.1	13.9	10.0	17.1	21.3
European Union (27 countries)	7.3	20.1	25.2	33.9	34.6	42.0	38.6	35.6	43.5
Rest of the World	31.5	24.6	19.3	23.2	22.5	23.2	25.7	26.4	21.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Statistics Database (COMTRADE); World Bank, World Development Indicators; United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*; and World Trade Organization (WTO).

## 8. FEALAC includes both developed and developing countries with large differences in the size of their economies and per capita incomes.

- In 2011, FEALAC members' economic size varied widely from China's US\$ 7.3 trillion, Japan's US\$ 5.9 trillion, Brazil's US\$ 2.5 trillion, Mexico's US\$ 1.2 trillion, Australia's US\$ 1.5 trillion and the Republic of Korea's US\$ 1.1 trillion to Mongolia's US\$ 8.7 billion, Lao People's Democratic Republic's US\$ 8.3 billion and Nicaragua's US\$ 7.3 billion.
- FEALAC total GDP is, then, unequally distributed. In Asia-Pacific, five FEALAC members (China, Japan, Australia, the Republic of Korea and Indonesia) each accounted for more than 1% of world output in 2011, while in FEALAC Latin America, only Brazil and Mexico did so. Measured in terms of purchasing power parity, the differences in GDP size among FEALAC members are less pronounced but still substantial.
- The disparity in per capita GDP levels among FEALAC members is also substantial. Countries such as Australia (US\$ 66,371), Singapore (US\$ 49,271), Japan (US\$ 45,870), Brunei Darussalam (US\$ 38,538) and New Zealand (US\$ 35,973) are among the richest in the world, while others such as Myanmar (US\$ 824) and Cambodia (US\$ 853) are still below the US\$ 1,000 mark.

■ Table I.3 ■

FEALAC: GDP at nominal and PPP prices, by country, 2011<sup>a</sup>

Country	GDP (nominal prices) 2011		GDP (PPP) 2011	
	Billions of dollars	Share in world total	Billions of dollars	Share in world total
Argentina	445	0.6	716	0.9
Bolivia (Plurinational State of)	24	0.0	51	0.1
Brazil	2 493	3.6	2 294	2.9
Chile	248	0.4	299	0.4
Colombia	328	0.5	472	0.6
Costa Rica	41	0.1	55	0.1
Cuba	68	0.1	114	0.1
Dominican Republic	56	0.1	93	0.1
Ecuador	66	0.1	127	0.2
El Salvador	23	0.0	45	0.1
Guatemala	47	0.1	75	0.1
Honduras	17	0.0	36	0.0
Mexico	1 154	1.7	1 667	2.1
Nicaragua	7	0.0	19	0.0
Panama	31	0.0	51	0.1
Paraguay	24	0.0	41	0.1
Peru	177	0.3	302	0.4
Suriname	5	0.0	6	0.0
Uruguay	47	0.1	51	0.1
Venezuela (Bolivarian Republic of)	316	0.5	374	0.5
FEALAC (Latin America)	5 617	8.0	6 888	8.7
Australia	1 487	2.1	915	1.2
Brunei Darussalam	16	0.0	21	0.0
Cambodia	13	0.0	34	0.0
China	7 298	10.4	11 300	14.3
Indonesia	846	1.2	1 125	1.4
Japan	5 867	8.4	4 444	5.6
Korea	1 116	1.6	1 554	2.0
Lao People's Democratic Republic	8	0.0	17	0.0
Malaysia	288	0.4	464	0.6
Mongolia	9	0.0	13	0.0
Myanmar	51	0.1	83	0.1
New Zealand	159	0.2	124	0.2
Philippines	225	0.3	391	0.5
Singapore	260	0.4	315	0.4
Thailand	346	0.5	602	0.8
Viet Nam	123	0.2	300	0.4
FEALAC (East Asia)	18 112	25.9	21 702	27.5
World	69 899	100.0	78 970	100.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF) database.

<sup>a</sup> Cuba's GDP figures are estimates based on the 2012 edition of *Statistical Yearbook for Latin America and the Caribbean* (ECLAC).

## 9. FEALAC-East Asia merchandise trade is almost four and a half times larger than that of FEALAC-Latin America.

- FEALAC accounted for 32% of world merchandise exports and 30% of imports in 2011, a steady increase from 21% and 7% in 1990, respectively. FEALAC's largest trading countries are headed by China, the world's top merchandise exporter and second largest importer in 2011. Japan, the

Republic of Korea, Australia, Singapore, Thailand, Malaysia and Indonesia are also important traders. Among the Latin American members of FEALAC, Mexico and Brazil stand out as the largest trading countries.

■ Table I.4 ■

**FEALAC (Latin America): merchandise exports and imports, 2011<sup>a</sup>**  
(Millions of dollars and percentages)

Country	Exports		Imports	
	Millions of dollars	Share in world	Millions of dollars	Share in world
Argentina	83 951	0.46	73 938	0.40
Brazil	256 040	1.40	236 870	1.28
Bolivia (Plurinational State of)	8 332	0.05	7 664	0.04
Chile	81 411	0.45	74 908	0.41
Colombia	56 954	0.31	54 675	0.30
Costa Rica	10 408	0.06	16 220	0.09
Cuba	6 800	0.04	14 300	0.08
Dominican Republic	8 536	0.05	17 423	0.09
Ecuador	22 322	0.12	24 286	0.13
El Salvador	5 309	0.03	10 118	0.05
Guatemala	10 401	0.06	16 613	0.09
Honduras	7 204	0.04	10 338	0.06
Mexico	349 569	1.91	361 068	1.96
Nicaragua	2 264	0.01	5 210	0.03
Panama	14 555	0.08	21 802	0.12
Paraguay	5 517	0.03	12 316	0.07
Peru	46 268	0.25	38 011	0.21
Uruguay	7 947	0.04	10 726	0.06
Venezuela (Bolivarian Republic of)	92 602	0.51	47 600	0.26
<b>FEALAC (Latin America)</b>	<b>1 078 857</b>	<b>5.91</b>	<b>1 055 765</b>	<b>5.73</b>

Source: World Trade Organization (WTO) Trade Statistics Database.

<sup>a</sup> Estimates by World Trade Organization (WTO) for Cuba (2011), Cambodia (2011), Lao People's Democratic Republic (2011), Bolivarian Republic of Venezuela (2010 and 2011 for imports) and Myanmar (2011 for imports).

■ Table I.5 ■

**FEALAC (East Asia): merchandise exports and imports, 2011<sup>a</sup>**  
(Millions of dollars and percentages)

Country	Exports		Imports	
	Millions of dollars	Share in world	Millions of dollars	Share in world
Australia	270 440	1.48	243 699	1.32
Brunei Darussalam	12 440	0.07	2 943	0.02
Cambodia	6 950	0.04	9 300	0.05
China	1 898 381	10.40	1 743 484	9.46
Indonesia	200 587	1.10	176 881	0.96
Japan	822 564	4.51	854 998	4.64
Republic of Korea	555 214	3.04	524 413	2.84
Lao People's Democratic Republic	2 400	0.01	2 700	0.01
Malaysia	226 990	1.24	187 661	1.02
Mongolia	4 780	0.03	6 527	0.04
Myanmar	9 330	0.05	8 000	0.04
New Zealand	37 669	0.21	37 105	0.20
Philippines	48 305	0.26	63 693	0.35
Singapore	409 503	2.24	365 770	1.98
Thailand	228 822	1.25	228 498	1.24
Viet Nam	96 906	0.53	106 750	0.58
<b>FEALAC (East Asia)</b>	<b>4 831 281</b>	<b>26.47</b>	<b>4 562 422</b>	<b>24.74</b>

## 10. The Latin American members of FEALAC account for just 3% of world exports of commercial services, and their share in the dynamic “other services” category is only 2%.

- Commercial services accounted for roughly 19% of total world trade (goods and services) in 2012. Given that traditional trade statistics measure gross trade flows rather than value added at various stages of production, the contribution of services to international trade is likely to be strongly underestimated. Indeed, international trade measured in value added terms suggests that the share of services in world trade is at least double.
- The low share of Latin American FEALAC members in world services trade stands in contrast with the much higher share enjoyed by their Asian FEALAC counterparts (see table I.7 on the next page). Brazil (29th) is the only Latin American country among the world’s top 30 services exporters in 2012. It is also the only Latin American country among the world’s top 30 services importers, ranking seventeenth.

■ Table I.6 ■

### FEALAC (Latin America): Exports and imports of commercial services, 2011<sup>a</sup>

(Millions of dollars and percentages)

Country	Exports				Imports			
	Total	Transport	Travel	Other services	Total	Transport	Travel	Other services
Argentina	13 995	2 252	5 352	6 391	16 071	4 384	5 516	6 171
Bolivia (Plurinational State of)	780	215	380	185	1 635	727	298	611
Brazil	36 660	5 819	6 775	24 066	73 115	14 154	21 234	37 727
Chile	12 231	7 300	1 849	3 083	13 659	7 978	2 306	3 376
Colombia	4 814	1 378	2 201	1 235	9 437	3 094	2 238	4 106
Costa Rica	4 976	366	2 156	2 453	1 797	732	455	611
Cuba <sup>b</sup>	10 433	2 187			1 918			
Dominican Republic	4 998	386	4 209	403	2 044	1 201	383	461
Ecuador	1 463	385	837	242	3 081	1 773	623	685
El Salvador	1 016	365	415	235	1 071	479	203	390
Guatemala	2 243	336	1 350	556	2 485	1 230	705	550
Honduras	1 050	79	702	269	1 526	762	397	367
Mexico	15 297	849	11 869	2 579	25 120	12 120	7 832	5 167
Nicaragua	573	50	377	146	800	366	252	183
Panama	7 065	3 935	1 926	1 204	3 257	1 741	462	1 054
Paraguay	1 767	293	261	1 212	863	592	175	97
Peru	4 580	1 019	2 707	854	6 676	2 817	1 418	2 441
Suriname	191	21	61	109	553	102	42	409
Uruguay	3 369	636	2 187	546	1 907	806	644	457
Venezuela (Bolivarian Republic of)	1 740	632	777	331	11 868	4 785	2 400	4 683
FEALAC (Latin America)	129 241	28 503	46 391	46 099	178 883	59 843	47 583	69 546
Share in world total	3.1	3.3	4.3	2.1	4.5	5.4	5.0	3.7

Source: World Trade Organization (WTO) Trade Statistics Database.

<sup>a</sup> The 2011 figures (in blue) for Chile, Ecuador and Peru are WTO estimates.

<sup>b</sup> The figures of Cuba correspond to 2010.

## 11. By contrast, several of the East Asian members of FEALAC figure among the world's top services traders.

- Several Asian FEALAC members are among the world's top services traders. China is the world's fifth largest services exporter, and other among the world's top 15 exporters in 2012 were Japan (7th), Singapore (9th) and the Republic of Korea (13th). Australia and Thailand are within the top 30. As in merchandise trade, ASEAN (10) exports more services than all the Latin American countries combined.
- On the import side, Asian FEALAC members among the world's top 30 services importers in 2012 were China (3rd), Japan (5th), Singapore (8th), the Republic of Korea (12th), Australia (18th), Thailand (22nd) and Malaysia (29th). Hong Kong (Special Administrative Region of China) occupied 20th place.
- Since trade in commercial services includes activities such as transport and travel (tourism), increased links between Latin America and East Asia will naturally contribute to boost trade in services. This is therefore a promising area for biregional cooperation.

■ Table I.7 ■

### FEALAC (East Asia): exports and imports of commercial services, 2011<sup>a</sup>

(Millions of dollars and percentages)

Country	Exports				Imports			
	Total	Transport	Travel	Other services	Total	Transport	Travel	Other services
Australia	50 881	5 423	31 443	14 015	59 517	15 530	26 914	17 073
Brunei Darussalam	915	452	254	209	1 215	445	477	294
Cambodia	2 191	282	1 667	242	1 448	782	246	420
China	182 433	35 611	48 515	98 307	236 531	80 445	72 474	83 612
Indonesia	19 941	3 425	7 953	8 562	31 820	12 139	7 279	12 402
Japan	142 482	38 366	11 002	93 117	165 811	49 515	27 278	89 014
Republic of Korea	93 804	37 057	12 304	44 443	98 238	27 797	19 463	50 978
Lao People's Democratic Republic <sup>b</sup>	489	51	382	56	258	16	203	38
Malaysia	34 913	4 851	18 247	11 816	37 490	13 081	10 320	14 090
Mongolia	618	252	218	147	1 768	1 074	344	350
Myanmar	331	148	72	111	754	449	53	252
New Zealand	9 927	1 981	5 493	2 453	10 836	3 044	3 459	4 332
Philippines	15 450	1 322	3 152	10 976	11 615	4 859	3 646	3 110
Singapore	128 891	37 093	19 094	72 703	113 827	33 361	20 205	60 262
Thailand	40 851	5 830	26 740	8 282	50 919	26 674	5 594	18 651
Viet Nam	8 769	2 505	5 620	644	11 707	8 226	1 710	1 771
FEALAC (East Asia)	732 886	174 649	192 156	366 083	833 754	277 437	199 665	356 649
Share in world total	17.6	20.3	18.0	16.3	21.1	25.2	21.0	19.2

Source: World Trade Organization (WTO) Trade Statistics Database.

<sup>a</sup> The 2011 figures (in blue) for Cambodia, China, Singapore, Thailand and Viet Nam are WTO estimates.

<sup>b</sup> The figures of Lao People's Democratic Republic correspond to 2010.



## 12. FEALAC presence in world FDI is also rising, although its share is still well below that in international trade.

- Between 2000 and 2011, Latin America increased its share of world inward FDI stock from 5.8% to 7.5%, and its share of outward FDI stock from 1.5% to 2.4%. Brazil and Mexico, the region's two largest economies, have been the main FDI recipients. Whereas FDI into natural resources flows mainly to

South America, FDI in manufacturing and services dominates in the case of Mexico and Central America. Latin America-based multinational companies (the "trans-Latins") are increasingly important as foreign investors within the region, especially in resources-related industries and a wide range of services.

■ Table I.8 ■

### FEALAC (Latin America): stock of inward and outward foreign direct investment, 2000 and 2011

(Millions of dollars and percentages of world FDI stock)

Country	Inward stock				Outward stock			
	2000		2011		2000		2011	
	Millions of dollars	Share	Millions of dollars	Share	Millions of dollars	Share	Millions of dollars	Share
Argentina	67 601	0.91	95 148	0.47	21 141	0.27	31 329	0.15
Bolivia (Plurinational State of)	5 188	0.07	7 728	0.04	29	0.00	8	0.00
Brazil	122 250	1.64	669 670	3.28	51 946	0.65	202 586	0.96
Chile	45 753	0.61	158 102	0.77	193	0.00	377	0.00
Colombia	11 157	0.15	95 668	0.47	11 154	0.14	68 974	0.33
Costa Rica	2 709	0.04	16 340	0.08	2 989	0.04	31 119	0.15
Cuba	74	0.00	427	0.00				
Dominican Republic	1 673	0.02	17 103	0.08				
Ecuador	6 337	0.09	12 380	0.06	247	0.00	342	0.00
El Salvador	1 973	0.03	8 141	0.04	104	0.00	6	0.00
Guatemala	3 420	0.05	7 709	0.04	93	0.00	399	0.00
Mexico	101 996	1.37	302 309	1.48	8 273	0.10	112 088	0.53
Nicaragua	1 414	0.02	5 666	0.03	22	0.00	184	0.00
Panama	6 775	0.09	23 159	0.11	10 507	0.13	33 828	0.16
Paraguay	1 221	0.02	3 371	0.02	214	0.00	238	0.00
Peru	11 062	0.15	51 208	0.25	505	0.01	3 099	0.01
Suriname								
Uruguay	2 088	0.03	17 021	0.08	138	0.00	289	0.00
Venezuela (Bolivarian Republic of)	35 480	0.48	45 200	0.22	7 676	0.10	19 808	0.09
FEALAC (Latin America)	428 171	5.75	1 536 349	7.52	115 233	1.45	504 674	2.38
World	7 450 022	100.00	20 438 199	100.00	7 952 878	100.00	21 168 489	100.00

Source: United Nations Conference on Trade and Development (UNCTAD) FDI statistics [online] [www.unctad.org/wir](http://www.unctad.org/wir) or [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics).

### 13. FEALAC presence in world FDI is also rising, although its share is still well below that in international trade (continued).

- FDI into FEALAC (East Asia) increased steadily over the last decade. The stock of inward FDI in 2011 reached US\$ 2.7 trillion, 13% of the world's total and four times the region's stock in 2000. More than a quarter of this investment value went to China. Australia, Singapore and other ASEAN countries, and the Republic of Korea, have also emerged as important FDI recipients.
- At the same time, several East Asian members of FEALAC have become major foreign investors. This group includes the region's traditionally largest foreign investor, Japan, but also China, the Republic of Korea, Australia, Singapore and other ASEAN countries.

■ Table I.9 ■

#### FEALAC (East Asia): stock of inward and outward foreign direct investment (FDI), 2000 and 2011

(Millions of dollars and percentages of world FDI stock)

Country	Inward stock				Outward stock			
	2000		2011		2000		2011	
	Millions of dollars	Share	Millions of dollars	Share	Millions of dollars	Share	Millions of dollars	Share
Australia	118 858	1.60	499 663	2.44	95 979	1.21	385 470	1.82
Brunei Darussalam	3 868	0.05	12 452	0.06	512	0.01	691	0.00
Cambodia	1 580	0.02	6 850	0.03	193	0.00	377	0.00
China	193 348	2.60	711 802	3.48	27 768	0.35	365 981	1.73
Indonesia	25 060	0.34	173 064	0.85	6 940	0.09	9 502	0.04
Japan	50 322	0.68	225 787	1.10	278 442	3.50	962 790	4.55
Republic of Korea	43 738	0.59	131 708	0.64	21 497	0.27	159 339	0.75
Lao People's Democratic Republic	588	0.01	2 521	0.01	26	0.00	6	0.00
Malaysia	52 747	0.71	114 555	0.56	15 878	0.20	106 217	0.50
Mongolia	182	0.00	9 435	0.05	0	0.00	1 875	0.01
Myanmar	3 211	0.04	9 123	0.04				
New Zealand	24 957	0.33	73 917	0.36	8 491	0.11	19 007	0.09
Philippines	18 156	0.24	27 581	0.13	2 044	0.03	6 590	0.03
Singapore	110 570	1.48	518 625	2.54	56 755	0.71	339 095	1.60
Thailand	29 915	0.40	139 735	0.68	2 203	0.03	33 226	0.16
Viet Nam	20 596	0.28	72 778	0.36				
FEALAC (East Asia)	697 696	9.37	2 729 595	13.36	516 728	6.50	2 390 165	11.29
World	7 450 022	100.00	20 438 199	100.00	7 952 878	100.00	21 168 489	100.00

Source: United Nations Conference on Trade and Development (UNCTAD), FDI statistics [online] [www.unctad.org/wir](http://www.unctad.org/wir) or [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics).

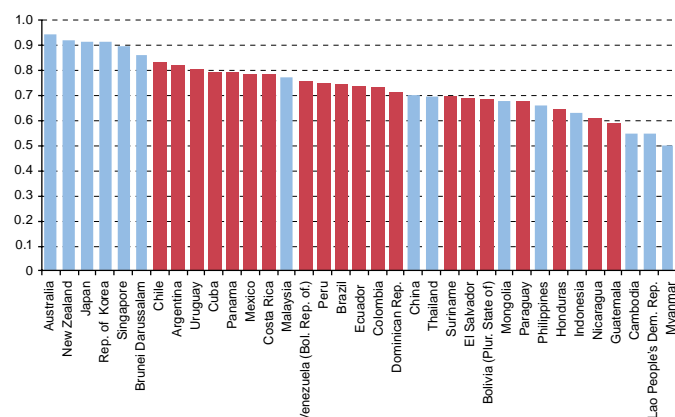
## 14. Many FEALAC members have been closing gaps in human development indicators over the last two decades.

- According to the UNDP Human Development Index (HDI), Australia, New Zealand, Japan, the Republic of Korea and Singapore rank among top achievers worldwide. Significant disparities in HDI performance are observed within each region. In relative terms, countries in South America perform better than those in Central America and in the ASEAN region, with the exception of Singapore, Brunei Darussalam and Malaysia.
- Regardless of their individual positions in the HDI ranking, all FEALAC members have improved their HDI in the last two decades. Myanmar, Lao People's Democratic Republic,

China and Viet Nam improved their HDI scores by more than 40% between 1990 and 2012, whereas several East Asian and Latin American members of FEALAC registered improvements exceeding 20%.

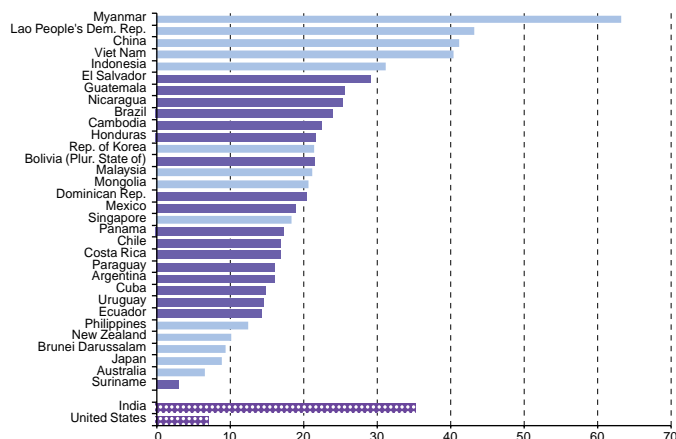
- As a region, Latin America and the Caribbean has a higher HDI average than East Asia and the Pacific (0.741 versus 0.683). However, the latter region has been closing that gap in the last decade, with its HDI growing at an average 1.31% per year between 2000 and 2012, compared to 0.67% for Latin America and the Caribbean.

■ Figure I.6 ■  
FEALAC members: Human Development Index (HDI), 2012



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Development Programme (UNDP), *Human Development Report, 2013*, New York, Oxford University Press, 2013.

■ Figure I.7 ■  
FEALAC members: variation in the Human Development Index (HDI), 1990 vs. 2012<sup>a</sup>  
(Percentage change in overall HDI in 2012 over 1990)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Development Programme (UNDP), *Human Development Report, 2013*, New York, Oxford University Press, 2013.

<sup>a</sup> The change is from 2005 to 2012 in the case of Suriname, and from 2000 to 2012 in the case of Cambodia.

## **II. Trade and investment links between Latin America and Asia-Pacific: opportunities and challenges**



## 1. Intraregional trade in ASEAN+3 (plus Hong Kong SAR and Taiwan Province of China) accounts for half of this group's total exports, primarily due to the construction of complex supply chain networks.

- A key element in the productive restructuring of the Asia-Pacific region over the past two decades relates to technology upgrading and the fragmentation of the production chain, which has triggered a sharp increase in Asian intraregional trade. The intra-Asia trade coefficient for the countries of ASEAN+3 plus Hong Kong SAR and Taiwan Province of China grew from 40% in 1990 to 50% in 2011. This indicator surpasses the level of intraregional trade attained by the North American Free Trade Agreement (NAFTA).
- By contrast, intraregional trade represents just a fifth of Latin America's total exports, revealing a much lower level of production integration than in Asia, North America and Europe. This is a serious shortcoming for the region's growth prospects, since intraregional trade is the most diversified and the most intensive in manufactures. Moreover, the region itself is the most important market for the majority of Latin American small and medium-sized exporting enterprises.

■ Table II.1 ■

### Asia-Pacific and Latin American intraregional trade, by regional grouping, 2000-2011

(Percentages of each grouping's total exports)

	2000	2005	2008	2009	2010	2011
Intra RCEP (ASEAN+6)	36.5	38.9	39.3	40.2	41.1	41.5
Intra-ASEAN+3 plus Hong Kong (China) and Taiwan Province of China	47.5	50.7	48.5	50.1	49.2	49.7
Intra-ASEAN+3	33.6	35.0	34.4	35.1	35.9	36.3
Intra-ASEAN	22.9	25.1	25.3	24.5	25.1	25.8
Intra-Latin America	16.0	16.8	19.5	19.9	19.7	19.4
Intra-Andean Community	7.8	9.0	7.4	7.4	8.0	7.0
Intra-MERCOSUR	20.9	12.9	14.9	15.1	15.7	15.2
Intra-Central American Common Market	22.7	27.2	29.5	26.6	26.7	26.2
Memorandum						
Intra-European Union	65.6	66.0	65.4	65.0	64.4	63.2
Intra-NAFTA	55.8	55.9	49.9	48.3	48.3	48.0

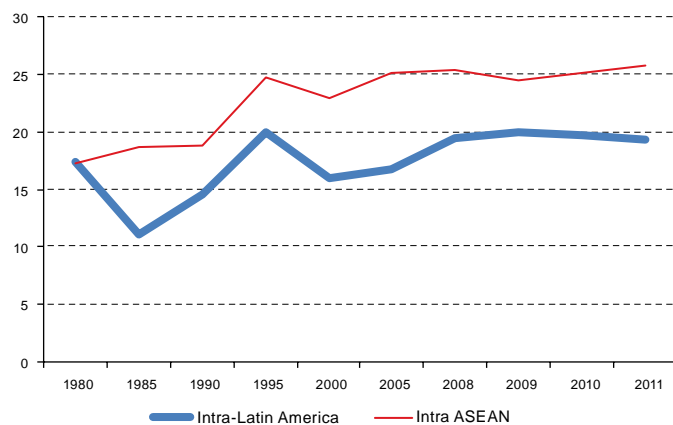
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of the United Nations Commodity Trade Statistics (COMTRADE).

**Note:** ASEAN does not include the Lao People's Democratic Republic or Myanmar.

■ Figure II.1 ■

### ASEAN and Latin America: evolution of intraregional trade 1980-2011

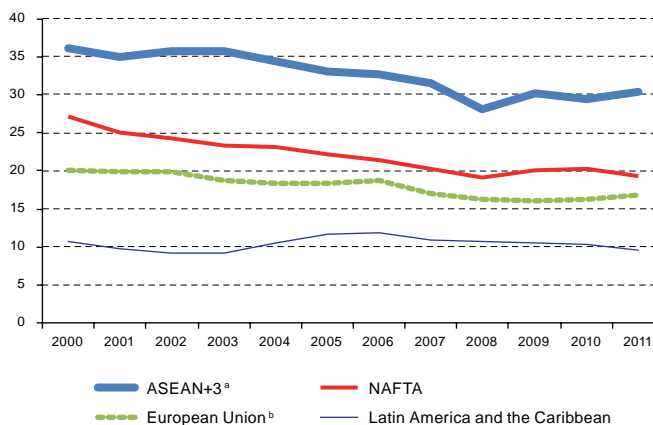
(Percentages of each region's total exports)



## 2. Intermediate goods account for a small share of intraregional trade in Latin America and the Caribbean, especially when compared with other regions.

- In Latin America and the Caribbean, the share of parts and components in total intraregional exports has remained basically stable at about 10% since 2000. This share is very low when compared with other regions, where the fragmentation of production has led to intense intraregional trade in intermediate goods. This is the case of trade among the three members of NAFTA, the 27 members of the European Union and, especially, among the economies of East and South-East Asia.
- In the past decade, Asia's manufacturing-related sectors, which supply various types of parts and components, have recorded high and growing rates of intra-industry trade. Currently, about 68% of total imports of parts and components in Asia-Pacific come from other Asian countries.
- The low share of intermediate goods in Latin America's intraregional trade is proof that the region is still lagging behind in terms of integrating its economies through value chains spanning several countries.

■ **Figure II.2 ■**  
**Selected regional groupings: intraregional exports of parts and components, 2000-2011**  
*(Percentages of total intraregional exports)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> ASEAN+3 comprises China, Japan, the Republic of Korea and the members of ASEAN.

<sup>b</sup> In 2011, does not include Austria, Bulgaria, Italy, Malta, the Netherlands or Spain.

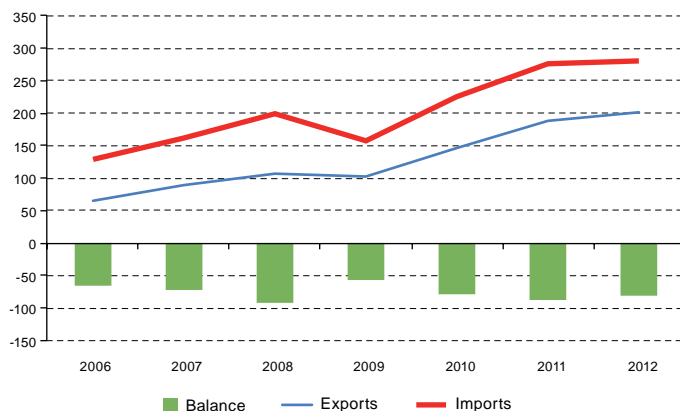
### 3. Asia-Pacific continues to increase its weight as a trading partner for Latin America and the Caribbean.

- Total merchandise trade between Latin America and the Caribbean and Asia reached a record US\$ 482 billion in 2012, 2.5 times its value in 2006. Latin America and the Caribbean consistently registers a deficit in its trade with Asia, which in the past three years has averaged US\$ 83 billion.
- The share of Asia in the merchandise trade of the Latin American and Caribbean region has grown substantially in the past decade. While in 2000 Asia accounted for 5.3% of the region's exports and 10.6% of its imports, the figures in 2012 were 18.6% and 26.9%, respectively. China alone accounts for almost half of Latin American and Caribbean exports to Asia and for more than half of its imports from Asia. The gains made by Asia have been mostly at the expense of the United States, which nevertheless remains the top trade partner for Latin America and the Caribbean.
- The increasing importance of Asia-Pacific for Latin America's trade, as well as its economic buoyancy, has led a number of Latin American countries to enter into free trade agreements (FTAs) with Asian countries. At the same time, there is concern in several Latin American countries about the concentration of regional exports to Asia in a limited range of products (mainly commodities), as well as about the consequences of increasing imports of Asian manufactures on the region's industrial competitiveness.

■ Figure II.3 ■

#### Latin America and the Caribbean: merchandise trade with Asia, 2006-2012

(Billions of dollars)



■ Table II.2 ■

#### Latin America and the Caribbean: share of selected partners in total merchandise trade, 2000 and 2012

(Percentages)

Trade partner		2000	2012
Exports	United States	59.7	39.8
	European Union	11.6	12.2
	China	1.1	9.0
	Other Asia	4.2	9.6
	Latin America and Caribbean	16.0	18.4
	Rest of the world	7.4	11.0
Imports	United States	50.4	30.9
	European Union	14.2	14.2
	China	1.8	14.5
	Other Asia	8.8	12.4
	Latin America and Caribbean	15.3	19.2
	Rest of the world	9.5	8.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from Latin American and Caribbean countries.



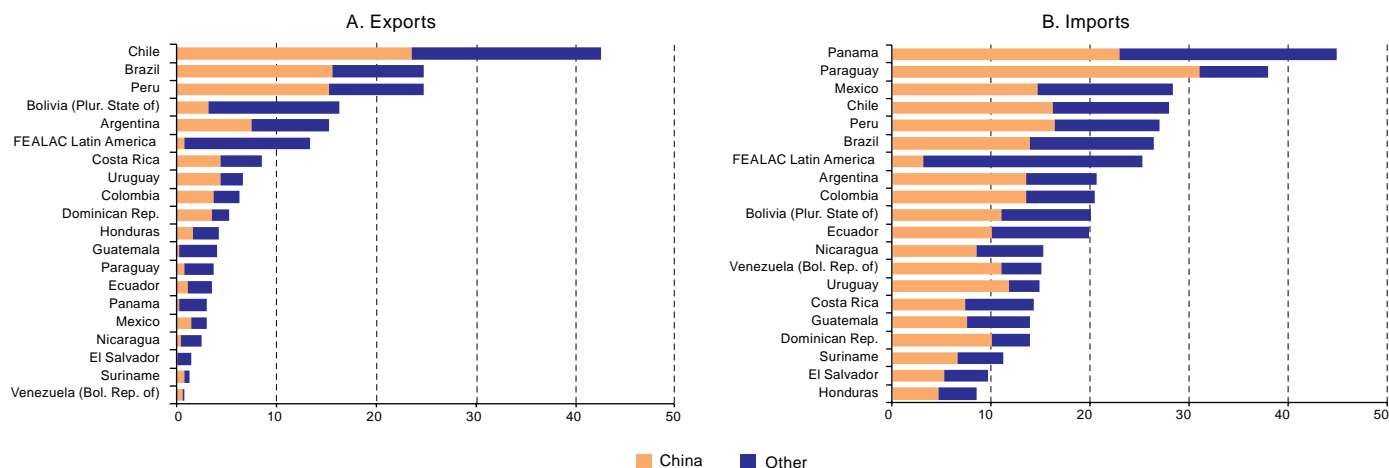
## 4. Some countries in the region still have relatively weak trade links with Asia-Pacific, despite its indisputable importance as a source of Latin American imports.

- Asia-Pacific’s importance as an export market varies considerably among the countries of Latin America and the Caribbean. Since the beginning of the past decade, Asia-Pacific has become a crucial export market for countries such as Chile, Brazil, Peru, Bolivia and Argentina.
- China has recently come to account for almost half of all exports to Asia-Pacific for most of the region’s countries.
- China’s importance as an export destination has increased in almost all cases, the exceptions being Ecuador and some Caribbean countries.
- The importance of the East Asian members of FEALAC is much more pronounced on the import side: more than a quarter of total Latin American imports originate in the Asia-Pacific region.

■ Figure II.4 ■

### Latin American FEALAC members: share of FEALAC Asia-Pacific in total merchandise trade, 2009-2011 average

(Percentages of total exports and imports of each country)



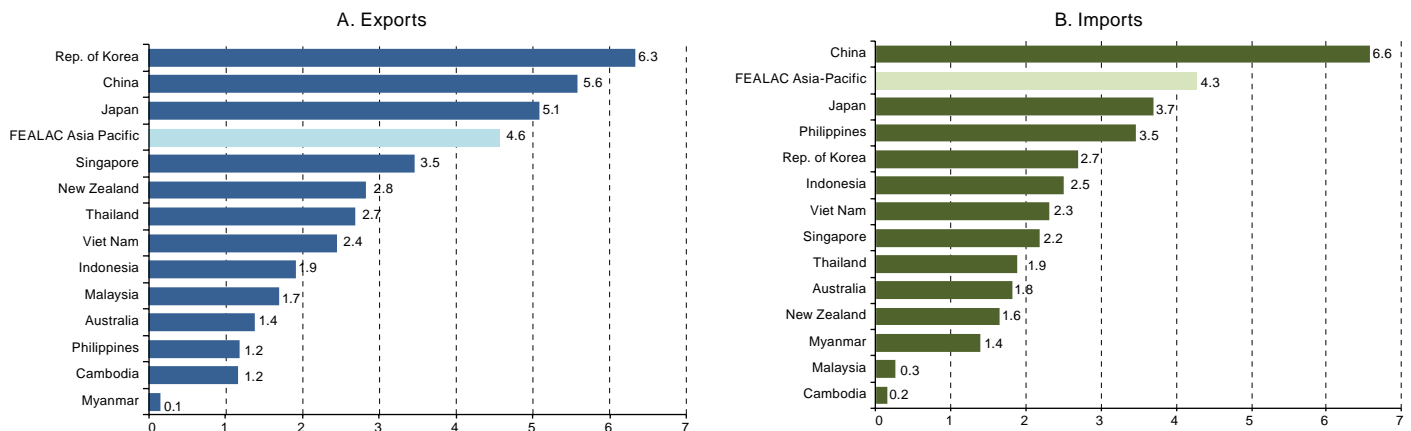
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

## 5. From the Asia-Pacific viewpoint, Latin America and the Caribbean has yet to become a major trading partner, making this relationship highly asymmetrical.

- So far Latin America and the Caribbean is not a major trade partner from the perspective of the Asia-Pacific region. Between 2009 and 2011, on average, only 4.6% of total exports of East Asian FEALAC members went to Latin American members. FEALAC-Latin America's highest average market share in total exports was in the Republic of Korea (6.3%), followed by China (5.6%) and Japan (5.1%). Latin America's share of total exports is especially low for the smaller economies in Asia-Pacific, such as those of ASEAN.
- On the import side, the share of Latin America was the highest for China (6.6% of total imports). On average, FEALAC-Latin America accounted for 4.3% of all the imports of member countries in the Asia-Pacific region. As for exports, Latin America is still a relatively unexploited market for ASEAN member countries.

■ Figure II.5 ■

**East Asian FEALAC members: share of Latin American FEALAC members in total merchandise trade, 2009-2011 average**  
(Percentage of total exports and imports of each country)



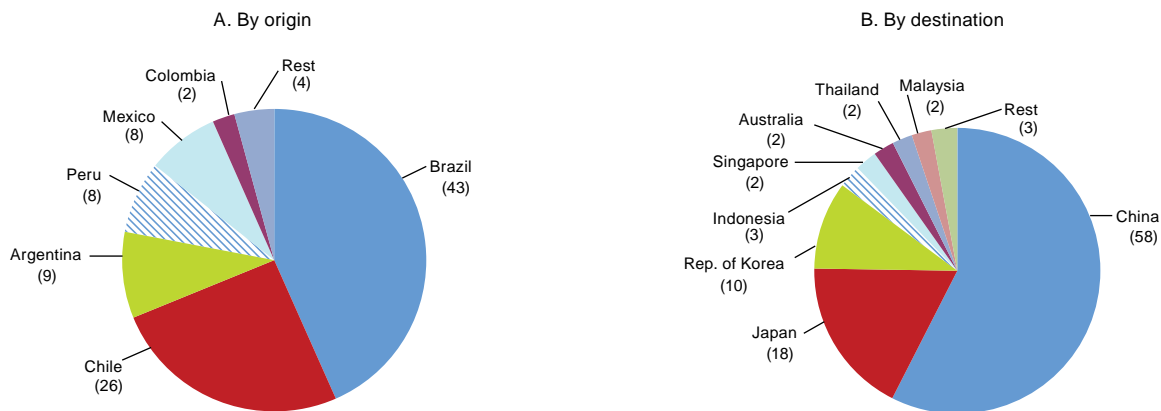
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

## 6. Latin American exports to Asia-Pacific are very concentrated by origin and destination.

- Among Latin American FEALAC countries, Brazil is by far the largest exporter to FEALAC East Asia, accounting for 43% of total Latin American exports between 2009 and 2011. When Chile, Argentina, Peru and Mexico are added, the five countries together account for 94% of total Latin American exports to the East Asian members of FEALAC.
- As a destination, China absorbed 58% of total imports from FEALAC-Latin America. When Japan and the Republic of Korea are added, the three countries together account for 86% of FEALAC East Asia imports from FEALAC Latin America.

■ Figure II.6 ■

**Latin American members of FEALAC: breakdown of exports to East Asian members of FEALAC, average 2009-2011**  
(Percentages of total exports)



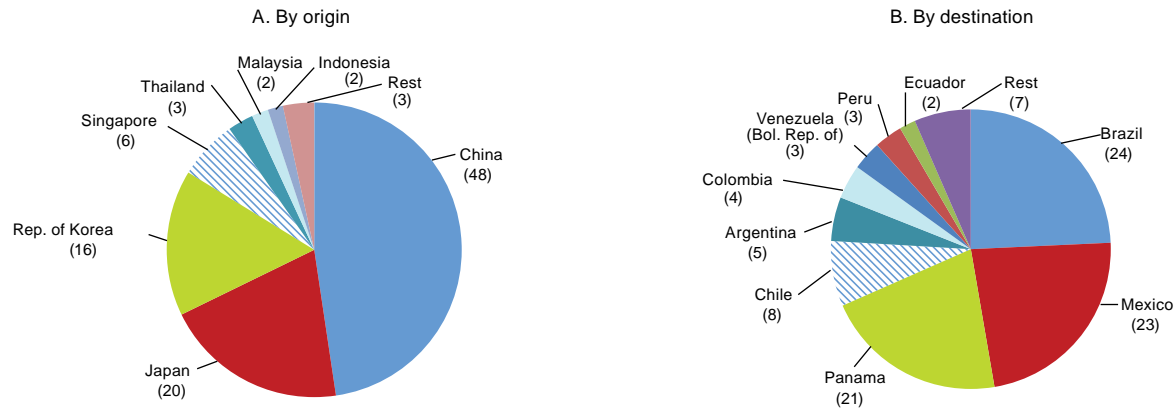
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

## 7. Asia-Pacific exports to Latin America are also highly concentrated by origin and destination.

- Between 2009 and 2011, China accounted for almost half of the exports of the East Asian members of FEALAC to their Latin American counterparts, on average. China, Japan and the Republic of Korea together accounted for 84% of FEALAC East Asia exports to Latin American FEALAC members. The combined share of six ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam) reached 14% during the same period.
- During the same period, Brazil and Mexico were the two main destinations for the exports of the East Asian members of FEALAC to Latin America, each accounting for nearly a quarter of total exports. Despite being a much smaller economy, Panama registered only a slightly smaller share than Brazil and Mexico, owing to the importance of the Panama Canal as a regional hub. These three countries plus Chile together accounted for three quarters of East Asian exports to Latin America.

■ Figure II.7 ■

**East Asian members of FEALAC: breakdown of exports to Latin American members of FEALAC, average 2009-2011**  
(Percentages of total exports)



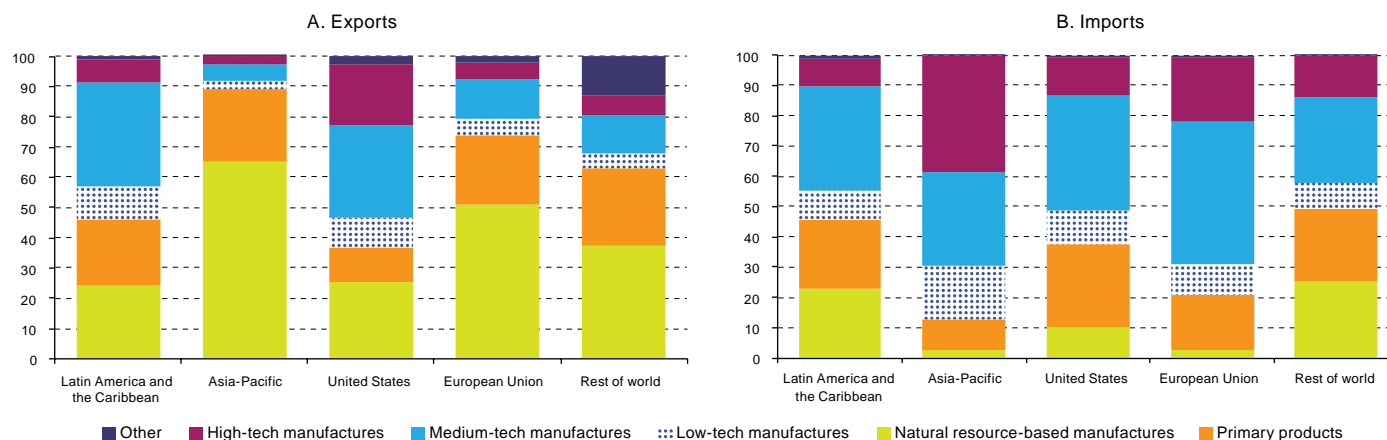
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

## 8. Trade between Asia-Pacific and Latin America is almost entirely inter-industry. This structure makes it difficult to upgrade trade and investment links.

- Latin American exports to China and the rest of Asia are characterized by a more concentrated pattern than those to other markets. Specifically, exports to Asia are dominated by raw commodities such as iron ore, oil, copper and soybeans. Thus primary products and natural-resource-based manufactures (i.e. processed primary products) together accounted for 89% of the region's export value to Asia Pacific in 2010 and 2011.
- The structure of Latin American imports from Asia-Pacific is the opposite of its export structure. Manufactures (not based on natural resources) accounted on average for 87% of the value of Latin American imports from Asia-Pacific in the 2010-2011 period.

■ Figure II.8 ■

**Latin America and the Caribbean: structure of trade with main partners by technology intensity, average 2010-2011**  
(Percentages of total trade value)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE).

## 9. Latin America exports a limited range of products to Asia compared with its exports to the United States, the European Union and Latin America itself.

- Among Latin America's main export markets, China is the one towards which the region exports the smallest number of products, followed by the other East Asian markets. The Latin American and Caribbean region exports to the region itself and to the United States twice the number of products it exports to China, and 50% more than it exports to the other East Asian markets. For most countries in the region, this difference is tenfold. This reflects the high concentration of the region's exports to Asia in a small number of primary products (both in raw and processed form). Therefore, increasing both the number and sophistication of the products exported to Asia remains an imperative to develop stronger biregional links.

■ Table II.3 ■

### Latin America and the Caribbean: number of products exported to main markets, 2010

(Number of products at the 6-digit level of the 2002 Harmonized System)

	Latin America and the Caribbean	China	Rest of East Asia <sup>a</sup>	United States	European Union
Argentina	3 705	478	934	1 558	1 872
Bolivia (Plurinational State of)	700	83	108	328	366
Brazil	3 905	1 080	1 706	2 565	2 839
Chile	3 015	369	529	1 338	1 274
Colombia	3 160	190	374	1 740	1 296
Costa Rica	2 722	212	397	1 716	969
Ecuador	1 887	95	166	971	852
El Salvador	2 461	46	90	1 038	292
Guatemala	3 278	142	358	1 402	698
Honduras <sup>b</sup>	1 816	99	141	984	377
Mexico	3 831	1 221	1 750	4 068	2 740
Nicaragua	1 835	48	43	889	228
Panama	2 937	96	146	1 179	763
Paraguay	975	47	68	235	276
Peru	2 986	304	659	1 692	1 534
Dominican Republic	1 156	63	93	1 086	440
Uruguay <sup>b</sup>	1 488	107	151	417	807
Venezuela (Bolivarian Republic of)	1 148	44	75	579	452
Latin America and the Caribbean <sup>c</sup>	4 773	2 281	3 004	4 523	4 034

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Commodity Trade Database (COMTRADE).

<sup>a</sup> Includes Japan, the Republic of Korea and ASEAN.

<sup>b</sup> Refers to 2009.

<sup>c</sup> Does not include Honduras and Uruguay.

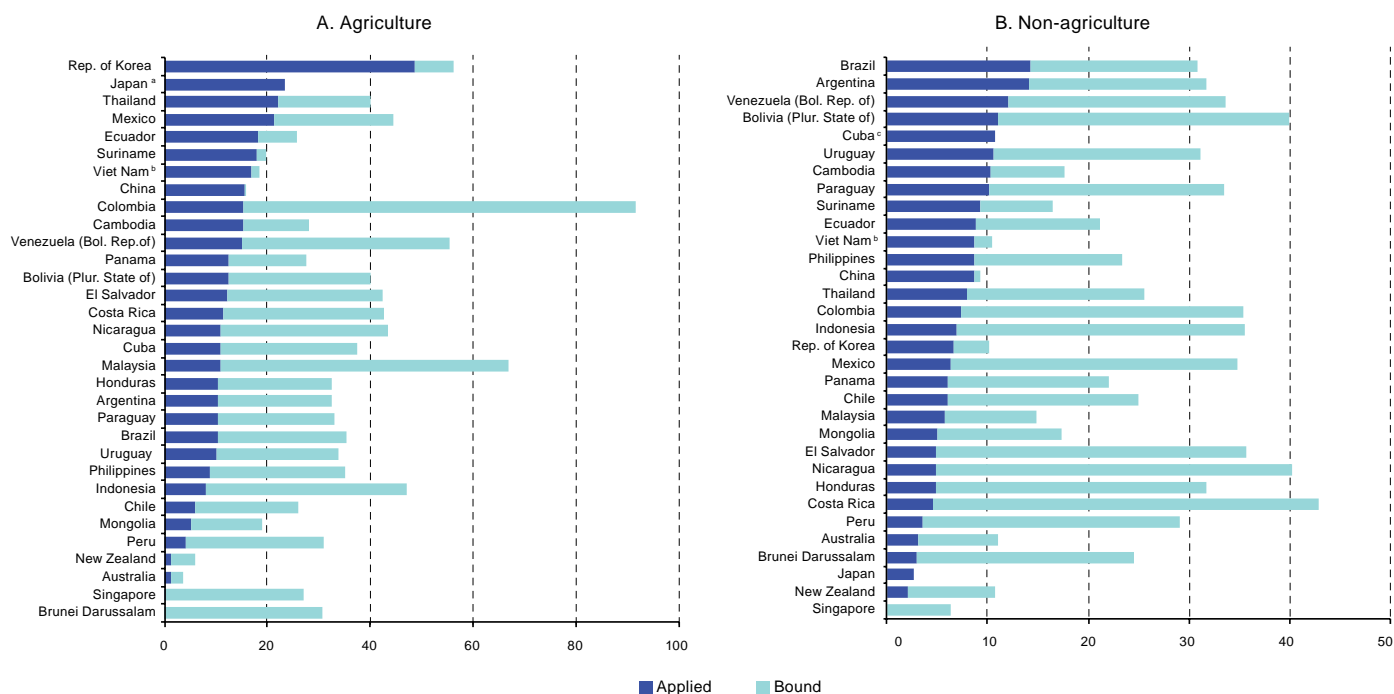
## 10. Several Asian economies maintain high tariffs in agriculture, a sector of great export interest for many Latin American countries. In turn, Asian economies face quite high tariffs for their manufactures in Latin America.

- The Most Favoured Nation (MFN) tariff rates applied by a large number of Asian countries and a few Latin American countries to agricultural products remain quite high, while several Latin American countries apply relatively high MFN rates in the non-agricultural sector. Moreover, the majority of the FEALAC members present substantial differences between their applied and bound tariffs, both in the agricultural and non-agricultural sectors. This leaves countries with a

significant degree of discretion to raise their applied tariffs. The FTAs between various Latin American and East Asian economies are one way to address these reciprocal market access concerns. For Latin American countries in particular, those agreements also serve as an “insurance policy” against trade diversion that could result from ongoing intra-Asian trade initiatives such as the Regional Comprehensive Economic Partnership (RCEP).

■ Figure II.9 ■

**Most Favoured Nation (MFN) applied and bound rates, agriculture and non-agriculture, by FEALAC member country, 2011**  
(Simple average, in percentages)



Source: World Trade Organization (WTO), International Trade and Market Access Data, accessed April 12, 2013.

<sup>a</sup> Japan: Bound rate 22.8%, applied rate 23.3%.

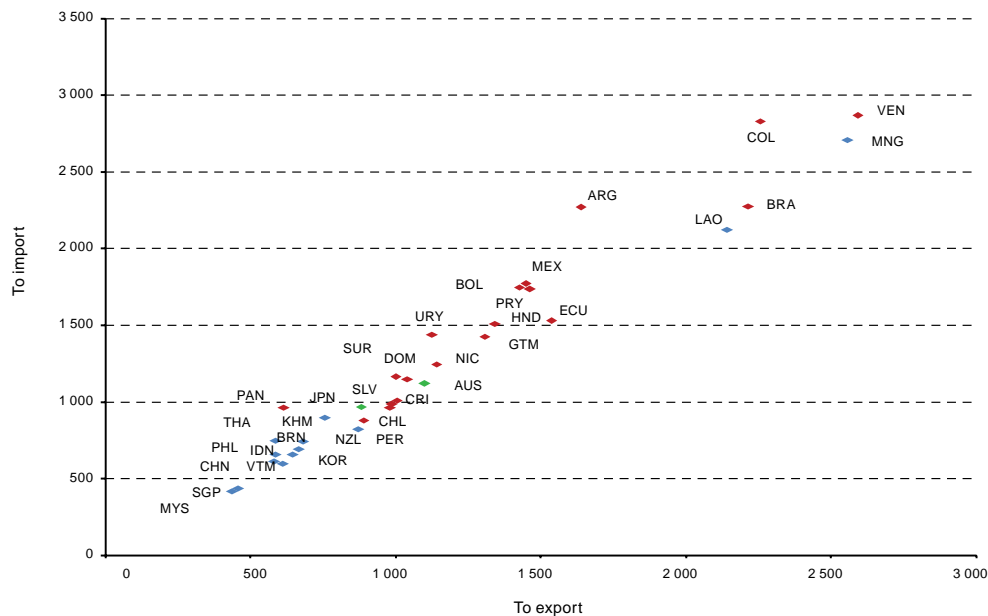
<sup>b</sup> The figures for Viet Nam refer to 2010.

<sup>c</sup> Cuba: MFN applied rate, 10.7% and MFN bound rate 9.4%.

## 11. High transport costs are another trade barrier between the two regions. Therefore, implementing trade facilitation reforms in each region and between the two is urgent.

- For example, high transport freight costs are one factor that puts Latin American exporters at a disadvantage. High freight costs, due in part to a lack of maritime transport interconnections, have emerged as a major trade barrier constraining growth of Latin American exports to Asia-Pacific. Asian countries perform much better in this regard.
- The costs to export or import a container to or from Central American countries are in relative terms lower than in larger South American countries such as Brazil and Argentina.
- The maritime connections between the two regions are not yet adequately developed, as 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 several Asia-Pacific ports are rare.

■ **Figure II.10** ■  
**FEALAC member countries: trade cost to export and import**  
**(per container), 2012**  
*(United States dollars)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Bank, Ease of Doing Business database.



## 12. Over the past fifteen years, a number of Latin American countries have signed FTAs with Asia-Pacific economies. The main rationale for those agreements has been to gain or consolidate access to these major markets.

- The most active Latin American countries in this regard have been Chile and Peru, both of which have FTAs in force with China, Japan and the Republic of Korea. Besides, both are participating in the negotiations relating to the Trans-Pacific

Partnership Agreement (TPP). Mexico has an FTA in force only with Japan but is also participating in the TPP. MERCOSUR, on the other hand, has a preferential agreement with India and is not currently engaged in negotiations with other Asian partners.

■ Table II.4 ■

### Latin America: status of free trade agreements and other preferential trade agreements with Asia-Pacific economies

(As of April 2013)

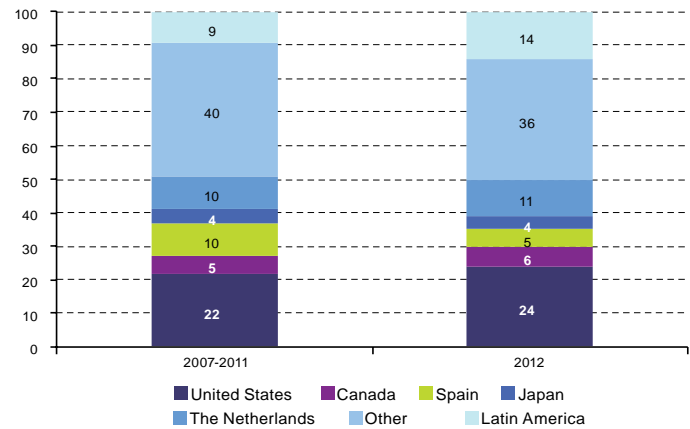
Latin American economy/bloc	In force	Signed	Under negotiation	Under study
Colombia		Rep. Korea	Japan	China
Costa Rica	China, Singapore			Republic of Korea
Chile	Australia, China, India, Japan, Malaysia, Republic of Korea, P4	Hong Kong SAR, Viet Nam	TPP, Thailand	Indonesia
El Salvador	Taiwan Province of China			
Guatemala	Taiwan Province of China			
Honduras	Taiwan Province of China			
MERCOSUR	India			
Mexico	Japan		TPP	
Nicaragua	Taiwan Province of China			
Panama	Taiwan Province of China, Singapore			
Peru	China, Japan, Republic of Korea, Singapore, Thailand		TPP	

Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on the Foreign Trade Information System of the Organization of American States ([www.sice.oas.org](http://www.sice.oas.org)).

### 13. In contrast to its growing presence in merchandise trade, Asia remains a relatively minor investor in Latin America and the Caribbean. Japan is still Asia's largest foreign direct investor in the region.

- Historically, the United States and the European countries have been the most important source of FDI in Latin America. Except for Japan, Asia-Pacific has been a minor investor in the region, accounting for only 2.8% of total FDI inflows between 1997 and 2001 and for 3.5% between 2002 and 2006. In recent years, FDI from Asia has started to rise, largely reflecting the arrival of Chinese investments in a wide range of sectors. However, Asia's significance as an investor in Latin America is still below its weight as a trade partner.
- It is worth noting that a large share of the FDI received by the region cannot be ascribed to any origin. For example, it is estimated that the majority of flows coming from the Netherlands actually originate in companies established in other countries. In many Latin American countries, a large share of FDI is registered as coming from financial centres such as the Cayman Islands or the British Virgin Islands. It is particularly difficult to estimate with precision the amount of FDI coming from China, since most of it is channelled through third countries. Moreover, most Chinese FDI in 2012 went to countries that do not report such flows by origin, such as Peru and the Bolivarian Republic of Venezuela.

■ **Figure II.11** ■  
**Latin America and the Caribbean: inward foreign direct investment by origin, 2007-2011 and 2012<sup>a</sup>**  
*(Percentages)*



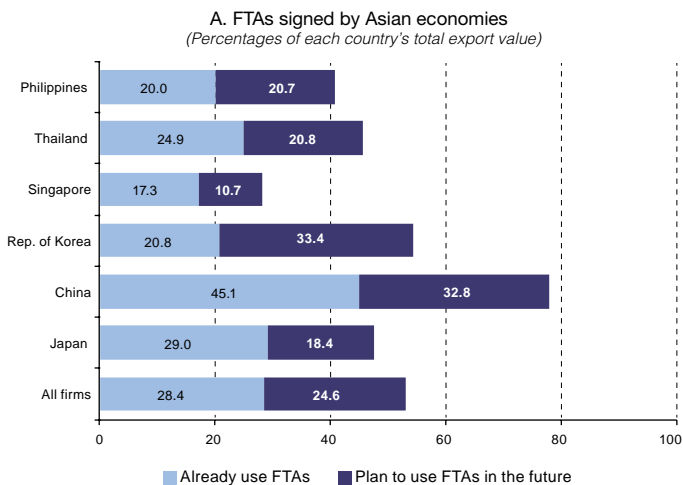
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates as of 29 April 2013.

<sup>a</sup> The data presented in this figure account for 66% of total FDI in Latin America and the Caribbean. The "Other" category captures flows coming from other countries and those whose origin cannot be determined.

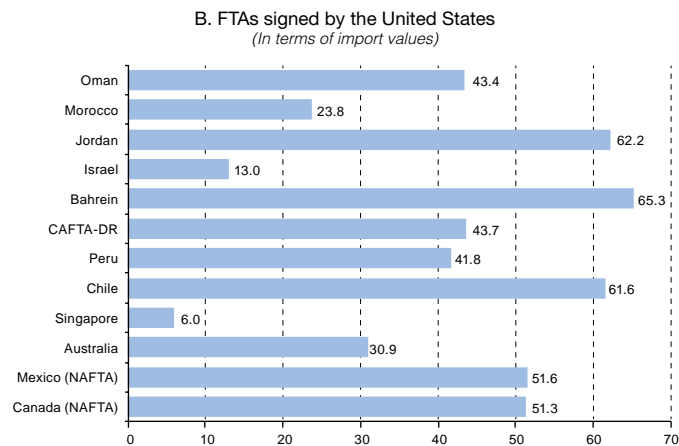
## 14. The signing of FTAs does not guarantee that economic agents utilize them. This is illustrated in the Asia-Pacific region, where the FTA utilization rate is still low but rising.

- Utilization rates of FTAs signed by Asian countries are still low when compared with those signed by the United States. For example, NAFTA, which entered into force 17 years ago and whose tariff elimination schedule is already completed, still boasts a stable utilization rate of around 50% every year. In Latin America, a survey of 345 exporting firms conducted by the Inter-American Development Bank (IDB) suggests that only 18% are not using any FTA and that, on average, firms are using more than one. A total of 98% of firms surveyed in Chile, Mexico and Colombia were using FTA preferences.
- Several reasons may underlie the low utilization rate in Asia. The greatest obstacle is lack of information on FTAs, followed by the small margins of preference and the administrative costs of complying with the different sets of rules of origin (ROO) established in each agreement. Moreover, exemptions can often be obtained by other means, such as special preferences for export processing zones and tariff reduction extended under the WTO Information Technology Agreement, to which many Asian countries are signatories.

■ **Figure II.12** ■  
**Degree of utilization of FTAs, 2010**  
*(United States dollars)*



**Source:** Kawai M, and Wignajara G., (2011), "Asia's Free Trade Agreements: How is Business Responding? Cheltenham Edward Elgar.

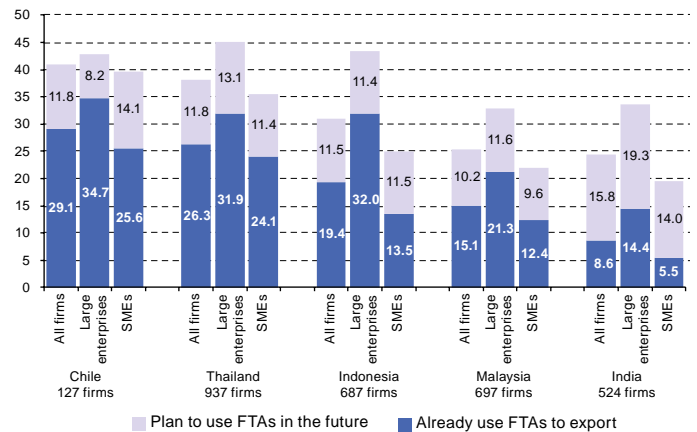


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information from United States International Trade Commission (USITC) and the Japan External Trade Organization (JETRO).

## 15. FTA utilization rates vary considerably by company size. Therefore, it is important to address effectively the implementation of FTAs so that most of the firms can make use of the negotiated preferences.

- The main reasons why many companies do not use FTAs are:
  - Lack of information on FTAs/Economic Partnership Agreements (EPAs) rules, administration or procedures (29.9% of companies surveyed);
  - Other reasons (19.1%);
    - Firms engage in indirect exports through third parties such as trading companies;
    - No requests are received from importers;
    - Volume or quantity of exports is small;
    - Procedures are cumbersome and related costs are high.
  - Small margin of preference; the margin between MFN and preferential tariff is minimal (16.3%).
- Furthermore, the degree of FTA use varies widely depending on firm size. Most companies using these preferences are large, meaning their use involves high fixed costs related to knowledge of the provisions offered by the FTA in question, costs incurred in adapting business plans to complex tariff systems and obtaining ROO certification, among others. Large firms can usually devote greater financial and human resources to increasing their utilization of preferential schemes than SMEs can.
- Firms in East Asia prefer greater flexibility and being able to choose between ROOs for the same products. First, if they cannot meet one requirement, having another ROO increases their likelihood of using FTA preferences. Second, some ROOs may be better aligned than others with the technology, production processes and business strategies of particular industries.

■ **Figure II.13** ■  
**Degree of FTA utilization by Japanese firms in selected markets by company size, 2010**  
*(Percentages of export values)*



**Source:** Japan External Trade Organization (JETRO), White Paper on International Trade and Investment 2012, based on the information from FY2011 Survey of International Operations of Japanese Firms (JETRO).

**Note:** The number of firms is the number of firms that are exporting from Japan to respective countries.

## 16. The already complex trade architecture of Asia-Pacific is getting even more complicated in light of new large-scale initiatives, with several countries simultaneously participating in several such processes.

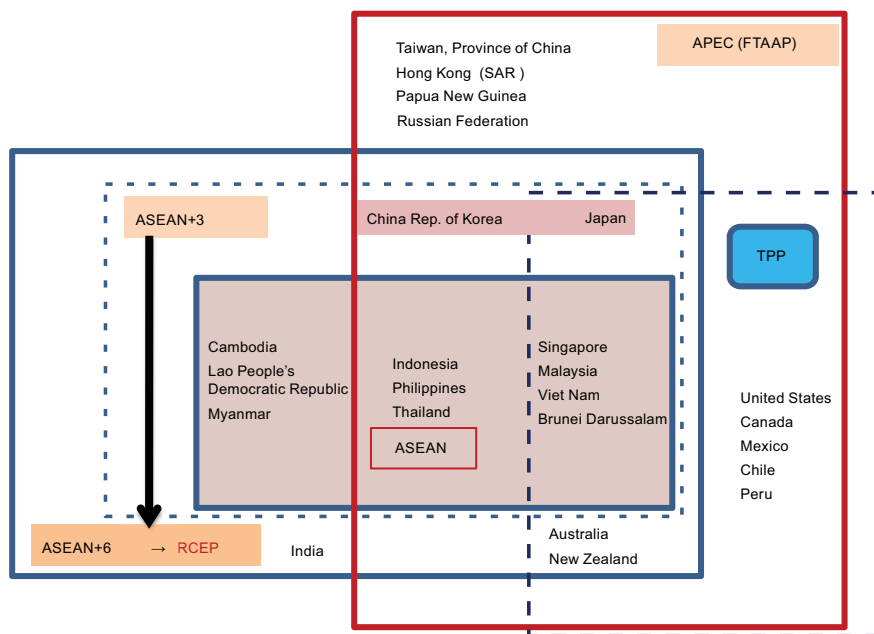
- Asia-Pacific has become a competition ground for trade agreements. Three wide-ranging economic and trade integration projects are taking shape in the region. First, negotiations for a Regional Comprehensive Economic Partnership (RCEP) agreement, encompassing the 16 “ASEAN+6” economies, started in May 2013. Second, negotiations continue on the Trans-Pacific Partnership Agreement (TPP), with the participation of 11 countries from Asia, Oceania, North America and South America. Japan will become the twelfth participant in these negotiations in July 2013. Third, negotiations towards a

trilateral FTA between China, Japan and the Republic of Korea were launched in March 2013. Several Asia-Pacific countries are participating simultaneously in two or more of these initiatives. Against this background, tensions or inconsistencies could arise between the United-States-led TPP and the Asia-only RCEP. Furthermore, the TPP, when finalized, could divide ASEAN member countries in two groups (TPP members and non-members). All these factors should be carefully weighed by Latin American countries as they seek to strengthen their economic and trade ties with Asia-Pacific.

■ Figure II.14 ■

### Various trade integration initiatives in Asia-Pacific

(In effect, under negotiation or proposed as of April 2013)

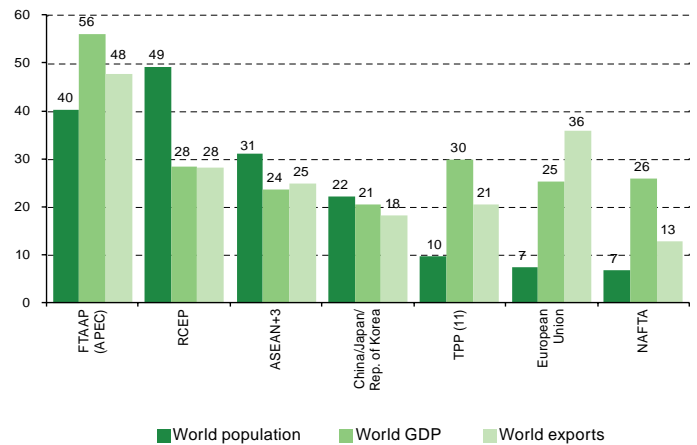


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

## 17. New trade integration initiatives under way in Asia-Pacific account for substantial shares of world GDP and exports, while most of them also account for large shares of world population.

- Several Asia-Pacific-centred integration initiatives in existence or under negotiation account for large shares of the world economy.
- Participants in the recently launched Regional Comprehensive Economic Partnership (RCEP) account for 49% of the world's population and for 28% of both world GDP and exports.
- For their part, the participants in the negotiations of the Trans-Pacific Partnership Agreement (TPP) as a group surpass the European Union in terms of share of world GDP, but are smaller in terms of global exports. The economic size of TPP will increase substantially when Japan formally joins the negotiations.
- The world's largest trade bloc, if it were to materialize, would be the Free Trade Area of Asia-Pacific (FTAAP). This project, which has been discussed as a long-term goal in the framework of APEC, would include all 21 members of this forum. These economies combined currently account for 40% of world population, 56% of world GDP and 48% of world merchandise exports. Achieving the FTAAP is a complex undertaking. Therefore, initiatives such as the RCEP and the TPP appear as possible (and to some extent competing) pathways towards that ultimate goal.
- One key difference between the RCEP and TPP processes is that, while the former comprises only Asian economies (including Australia and New Zealand), the latter also includes Pacific economies from North and South America. However, it is not clear whether new Latin American economies could join TPP, since participation in the negotiations has been restricted to APEC members so far.

■ **Figure II.15** ■  
Selected groupings: share in world population, GDP and merchandise exports, 2011  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information from World Bank, International Monetary Fund (IMF) and World Trade Organization (WTO).

## 18. While advancing towards the creation of its own single market, ASEAN can also act as a catalyst for the formation of RCEP and as an interlocutor for other initiatives geared towards Asia, such as the Pacific Alliance.

- ASEAN has become the hub of economic integration initiatives in Asia. While working towards completion of the ASEAN Economic Community, all ASEAN members are also engaged in the recently launched RCEP process. Moreover, Brunei Darussalam, Malaysia, Singapore and Viet Nam participate in the TPP negotiations.
- According to available information, including the conclusions of the first meeting of the RCEP Trade Negotiating Committee (held in Brunei Darussalam in May 2013), the RCEP process presents some features that specifically take into account the interests of developing Asian countries, such as:
  - (i) It might contain an “open accession” clause, allowing the entry of new members after negotiations are finalized.
  - (ii) Although the RCEP negotiations will have a comprehensive agenda, the scope and coverage of the agreement may be less demanding than in TPP. In particular, it has been suggested that the RCEP might follow the principle of variable geometry, with some members assuming greater commitments and/or advancing at a faster pace while others assume lesser commitments and/or advance at a slower pace. In this regard, the RCEP will include provisions on special and differential treatment to take into account the different levels of development of the participating countries, plus additional flexibilities for the least developed ASEAN members.

■ Table II.5 ■

**ASEAN, ASEAN+3 and RCEP (ASEAN+6): selected macroeconomic indicators, 2011**

	Population <sup>a</sup>	GDP <sup>a</sup>	GDP per capita <sup>a</sup>	Total exports <sup>b</sup>	Total Imports <sup>b</sup>	Trade balance with the world	Share in world exports <sup>d</sup>
	Millions of inhabitants	Millions of dollars	Dollars	Millions of dollars	Millions of dollars	Millions of dollars	Percentages
ASEAN	608.3	2 176 405	3 577	1 239 361	1 155 792	83 569	6.8
Brunei Darussalam <sup>c</sup>	0.4	16 362	853	11 486	6 400	5 087	0.1
Cambodia <sup>c</sup>	15.1	12 890	3 512	6 704	6 128	576	0.0
Indonesia	241.0	846 450	1 320	203 497	177 244	26 252	1.1
Lao People's Democratic Republic <sup>c</sup>	6.3	8 302	1 320	3 120	4 635	-1 516	0.0
Malaysia	28.6	287 943	10 085	226 993	187 545	39 448	1.3
Myanmar <sup>c</sup>	62.4	51 444	824	8 315	13 689	-5 373	0.0
Philippines	95.9	224 771	2 345	48 042	63 693	-15 651	0.3
Singapore	5.3	259 849	49 271	409 504	365 770	43 733	2.3
Thailand	64.1	345 672	5 395	228 819	226 178	2 642	1.3
Viet Nam <sup>c</sup>	89.3	122 722	1 374	92 881	104 510	-11 629	0.5
China	1 347.4	7 298 147	5 417	1 898 388	1 620 780	277 608	10.5
Japan	127.9	5 866 540	45 870	823 184	855 380	-32 197	4.5
Republic of Korea	49.8	1 116 247	22 424	555 209	524 405	30 804	3.1
ASEAN+3	2 133.4	16 457 339	7 715	4 516 142	4 156 358	359 784	24.9
Australia	22.4	1 486 914	66 371	245 631	233 625	12 006	1.4
New Zealand	4.4	158 869	35 973	36 276	35 996	279	0.2
India	1206.9	1 826 811	1 514	301 483	462 403	-160 920	1.7
RCEP(ASEAN+6)	3 367.1	19 929 933	5 919	5 099 532	4 888 382	211 149	28.2

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of: (a) World Economic Outlook (October 2012) of the International Monetary Fund; (b) ECLAC International Trade and Integration Division on the basis of UN-COMTRADE (c) The data of these countries are from the Direction of International Trade (DOTS) of the International Monetary Fund, and (d) trade data are from the International Trade Organization.

### **III. FEALAC as a mechanism for biregional cooperation in areas of systemic competitiveness**

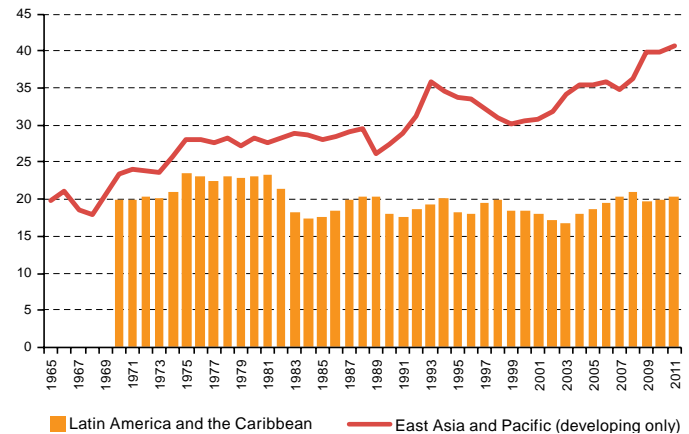




## 1. East Asia's better growth performance compared to Latin America and the Caribbean is largely explained by the latter region's lower investment rate.

- Latin America and the Caribbean has historically had a lower investment rate than countries in other emerging regions, particularly in East Asia and the Pacific. In the latter group, gross capital formation has shown a clear upward trend over the past five decades, rising from 28% of GDP in 1980 to nearly 35% in the mid-1990s and more than 40% today. By contrast, in 2008, when the Latin American and Caribbean region posted its highest investment rate since 1982, it was just 21% of GDP measured in current dollars. Closing the investment gap with Asia is crucial to increase the region's future growth prospects.

■ **Figure III.1** ■  
**Latin America and the Caribbean and developing economies of East Asia and the Pacific: gross capital formation, 1965-2011**  
*(Percentages of GDP)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators (WDI) October 2012 [online database] <http://databank.worldbank.org/>.

## 2. Latin America's lacklustre growth performance compared to East Asia is also attributable to a chronic deficit in productivity growth. In 2010, labour productivity was only just above the 1980 level in Latin America, whereas it had nearly tripled for a sample of Asian countries.

- The simple average of growth in total factor productivity for 16 Latin American countries between 1981 and 2010 is close to zero. In 2010, the region's labour productivity was only slightly higher than it had been in 1980.
- Since the mid-1970s, productivity in Latin America has grown at much lower rates than in the 1960s. Since then, slackening productivity growth in Latin America has opened a large gap with East Asia. The rupture caused by the 1982 debt crisis and

the lost decade that followed weakened the region's capacity for human and physical capital accumulation, growth and incorporation of technological progress over the long term. Productivity growth picked up only slightly in the mid-1990s.

- Another aspect of low productivity growth is that new jobs tend to be of poor quality, providing a tenuous refuge from open unemployment, and do little to prevent the region's high inequality levels from rising further.

■ Table III.1 ■

**Latin America (simple average of 16 countries): GDP, employment, capital and total factor productivity growth rates, 1981-2010**

(Percentages)

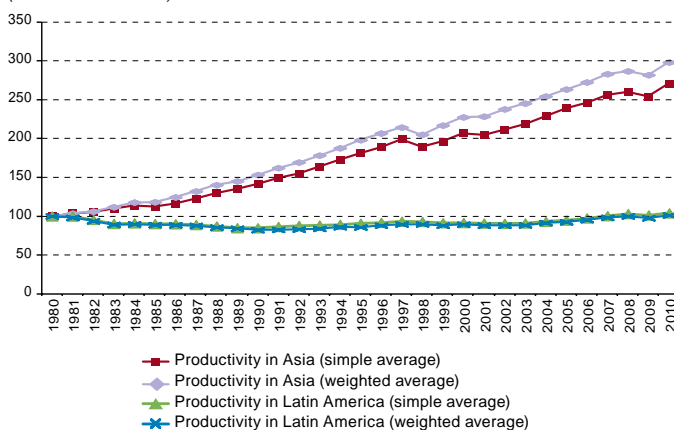
Period	GDP	Employment	Capital	Total factor productivity
1981-1989	1.3	1.6	1.2	-1.5
1990-1998	3.9	1.7	1.3	0.9
1999-2002	2.3	1.1	0.9	0.4
2003-2010	4.8	1.8	1.7	1.2
1981-2010	3.0	1.6	1.3	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Structural Change for Equality: An Integrated Approach to Development* (LC/G.2524(SES.34/3)), Santiago, 2012, table 1.6, p. 41, based on data from the LA-KLEMS project.

■ Figure III.2 ■

**Latin America and Asia: labour productivity growth, 1980-2010**

(Index: 1980=100)



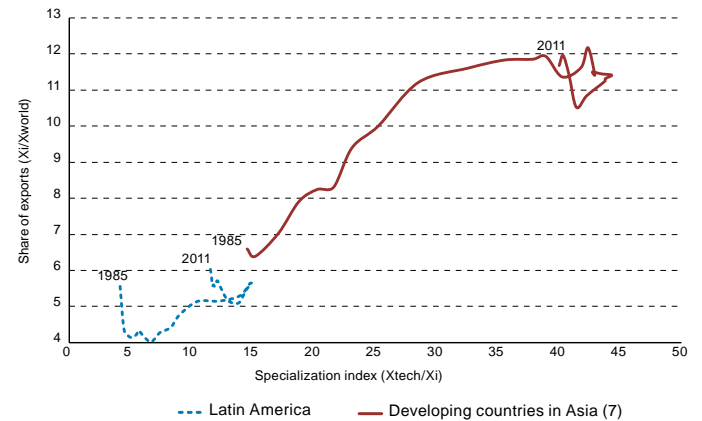
Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Structural Change for Equality: An Integrated Approach to Development* (LC/G.2524(SES.34/3)), Santiago, 2012, fig. 1.2, p. 40.

### 3. Diverging growth paths between Asia and Latin America and the Caribbean are also associated with changes in their patterns of production and export specialization.

- Figure III.3 compares the pattern of structural change and share of exports of a group of Latin American and Caribbean countries with those of seven economies of developing East Asia.
- Along the horizontal axis, the figure shows the change in export specialization, measured by the share of high-tech products in the total exports of each group of countries. On the vertical axis, it shows the competitiveness of each group, measured by the share of each in world exports.
- From 1985 to 2011, Asian countries rapidly upgraded their export profile, increasing their specialization in high-tech sectors, while also expanding their share in world trade. This indicates their capacity to boost growth compatible with changes in global demand. In so doing, Asia benefited from rising global trade, achieving economies of scale and sustaining growth.
- In Latin America and the Caribbean, this process did not occur to the same degree, and it was not until the mid-2000s that the region approached the level of competitiveness achieved by East Asia in 1985.

■ Figure III.3 ■

**Latin America and selected developing countries in East Asia: pattern of structural change and share of exports, 1985-2011<sup>a</sup>**  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), *Structural Change for Equality: An Integrated Approach to Development* (LC/G.2524(SES.34/3)), Santiago, 2012, fig.1.3, p. 42, on the basis of United Nations Commodity Trade Statistics Database (COMTRADE) [online database] <http://comtrade.un.org/db/default.aspx>.

<sup>a</sup> Technology exports are defined according to the classification used by Lall (2000). Latin America includes Central America, South America and Mexico. The developing countries of East Asia are Hong Kong Special Administrative Region of China, Indonesia, Malaysia, the Philippines the Republic of Korea, Singapore and Thailand.

## 4. Production networks in the South are concentrated in East Asia. Latin America's participation in these networks has been quite limited so far.

- Global exports associated with production networks increased from US\$ 2.06 trillion (44% of total manufacturing exports) in 1996-1997 to US\$ 4.557 trillion (51%) in 2009-2010, accounting for over 60% of total growth in world manufacturing exports during this period. The share of developing countries in total world network trade more than doubled, from 15.5% to 33.7%, over the same period.
- Production network trade is more concentrated than total manufacturing trade within developing Asia. In this region, the share of the newly industrializing economies (NIEs) in world final assembly exports dropped over the years as some of their assembly plants were relocated to China. China has a larger share in global exports of final assembly products (18.9%) than in exports of components (14.4%), reflecting its predominant role as final assembly centre within global production networks (the so-called "World Factory"). The combined share of the non-Asian developing countries in world network exports amounted to 7.3% in 2009-2010, up from 4.7% in 1996-1997. Latin America and the Caribbean accounted for just 5% of such exports in 2009-2010, compared to developing Asia's 26.5%.
- The small-scale production networks in the other developing regions operate quite independently from the East Asia-centred dynamic production networks, whose growth is driven crucially by exports of final products to developed country markets. This suggests that it may not be a sustainable proposition to pursue international specialization based on production sharing as a purely South-South phenomenon.

■ Table III.2 ■

### Developing regions and countries: share in world trade in manufacturing and network products (parts and components and final assembly)

(Percentage share in global exports)

Developing regions	Total manufacturing			Parts and components			Final assembly			Total network products		
	1996-1997	2006-2007	2009-2010	1996-1997	2006-2007	2009-2010	1996-1997	2006-2007	2009-2010	1996-1997	2006-2007	2009-2010
Developing countries	16.2	26.1	30.8	10.8	25.7	32.7	21.1	30.2	35.0	15.5	27.6	33.7
Developing Asia	11.1	18.9	23.1	7.1	20.6	27.2	15.4	21.7	25.6	10.8	21.1	26.5
NIEs <sup>4</sup> <sup>a</sup>	2.8	2.5	2.6	3.0	3.6	6.2	2.6	2.0	2.2	2.7	2.9	3.6
China	3.6	11.4	14.7	2.1	11.0	14.4	4.9	16.2	18.9	3.4	13.2	17.3
ASEAN <sup>b</sup>	3.7	3.6	3.9	1.8	5.7	5.9	7.7	2.9	3.3	4.5	4.5	4.8
India	0.6	1.2	1.5	0.1	0.2	0.4	0.5	0.7	1.0	0.3	0.3	0.6
Middle East	1.1	2.1	2.5	0.6	0.9	1.2	0.5	1.9	2.4	0.6	1.3	1.7
Africa	0.4	1.0	1.1	0.0	0.4	0.5	0.2	0.6	0.6	0.1	0.5	0.6
Latin America and the Caribbean	3.6	4.1	4.1	3.2	3.8	3.9	5.0	6.0	6.3	4.0	4.7	5.0
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value (billions of dollars)	3 973	9 084	8 979	1 134	2 728	2 573	926	1 992	1 984	2 060	4 720	4 557

Source: Prema-chandra Athukorala and Shahbaz Nasir, "Global production sharing and South-South trade", *Working Paper in Trade and Development*, No. 2012/012, Arndt-Corden Department of Economics, Australian National University, College of Asia and Pacific, July 2012.

<sup>a</sup> Hong Kong SAR, Taiwan Province of China, the Republic of Korea and Singapore.

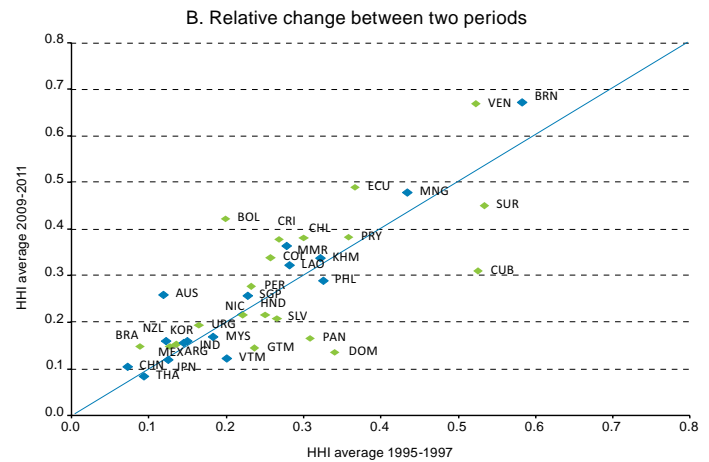
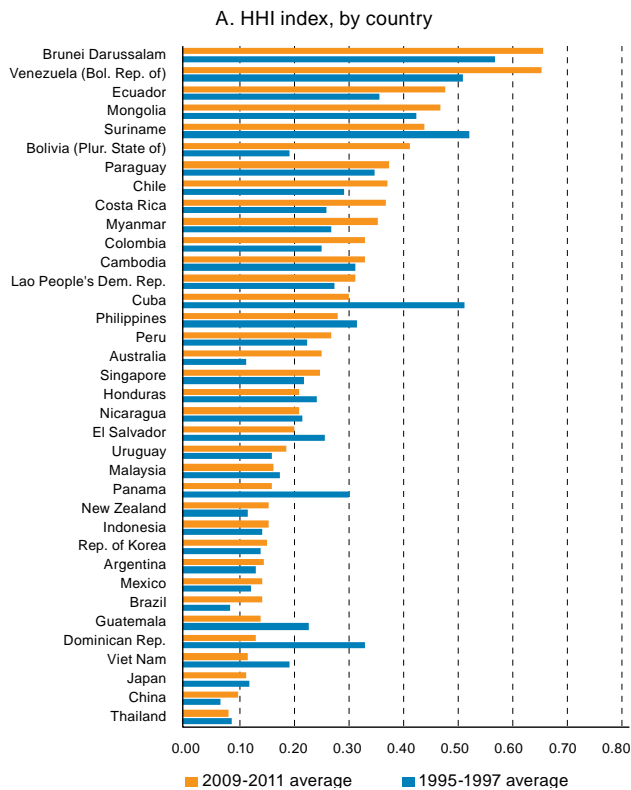
<sup>b</sup> Excluding Singapore.

## 5. Product diversification of exports continues to be a major concern for FEALAC members in both regions. For most FEALAC economies, product concentration has grown over the years.

- The exports of low- to middle-income countries in Latin America and Asia-Pacific remain highly concentrated in terms of products, according to the Herfindahl-Hirschmann index (HHI). In addition, for many countries in the FEALAC region, the HHI has been increasing over the years. The countries that

diversified their exports between 1995-1997 and 2009-2011 include Cuba, the Dominican Republic, El Salvador, Guatemala, Honduras, Indonesia, Malaysia, Panama, the Philippines, Suriname, Thailand and Viet Nam. In some cases, however, this reduction in concentration was from a very high initial level.

■ Figure III.4 ■  
**FEALAC: concentration index, by country, 1995-1997 vs. 2009-2011**  
*(Herfindahl-Hirschmann index)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Conference on Trade and Development (UNCTAD), International Trade database.  
**Note:** The concentration index, also called Herfindahl-Hirschmann index, is a measure of the degree of market concentration. Here, it has been normalized to obtain values from 0 to 1 (maximum concentration), taking into account the number of products (SITC Revision 3 at 3-digit group level).

## 6. Latin America's lags in productivity and international competitiveness are partly related to its deficiencies in infrastructure. This calls for more public investment and improved regulation to boost private investment.

- While emerging Asian economies have invested considerable resources in infrastructure since the 1980s, Latin America has reduced its investment in this area, particularly in transport and energy. Thus a widening gap has opened up between the region's needs and endowment of infrastructure. According to a recent ECLAC study,<sup>1</sup> the region would have to invest around 5.2% of its GDP annually just to meet expected levels of economic infrastructure demand during the period 2006-2020. If the target were to match the per capita infrastructure stock of a group of East Asian economies in 2005, the required annual spending in infrastructure would increase to 7.9% of GDP over the same period (2006-2020).
- Several studies and surveys conducted by East Asian countries concur with this diagnosis, by concluding that the infrastructure deficit (both in terms of quantity and quality) is one of the main obstacles for the operations of Asian firms with business in Latin America. It is worth noting that the infrastructure deficit refers not just to physical infrastructure (roads, ports, and so forth) but also to overly complicated customs and other border procedures as well as to an insufficient provision of quality logistical services at competitive prices.

■ **Table III.3** ■  
South America and East Asia: infrastructure stock, 2005

Sector	Unit	South America	East Asia <sup>a</sup>
Power generation capacity	MW per 1 000 inhabitants	0.51	1.32
Fixed telephony	Lines per 1 000 inhabitants	189	400
Mobile telephony	Lines per 1 000 inhabitants	461	835
Fixed broadband Internet	Subscribers per 1 000 inhabitants	11	205
Paved roads	Km per 1 000 inhabitants	0.82	1.86
Railways	Km per 1 000 inhabitants	0.22	0.06
Access to improved water sources	Percentage of the population	93	100
Access to sanitation	Percentage of the population	79	97

Source: Ricardo J. Sánchez and Georgina Cipoletta Tomassian (2012), *Infrastructure for regional integration* (LC/L.3408), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>a</sup> Hong Kong (Special Administrative Region of China), Malaysia, Republic of Korea and Singapore.

■ **Table III.4** ■  
South America: annual average cost of closing the gap with East Asia  
(Millions of dollars at constant 2000 prices and percentages of GDP)

Sector		
Electrical energy	69 412	3.1
Telecommunications	30 377	1.4
Land transportation	74 092	3.3
Water and sanitation	5 704	0.3
Total	179 584	8.1

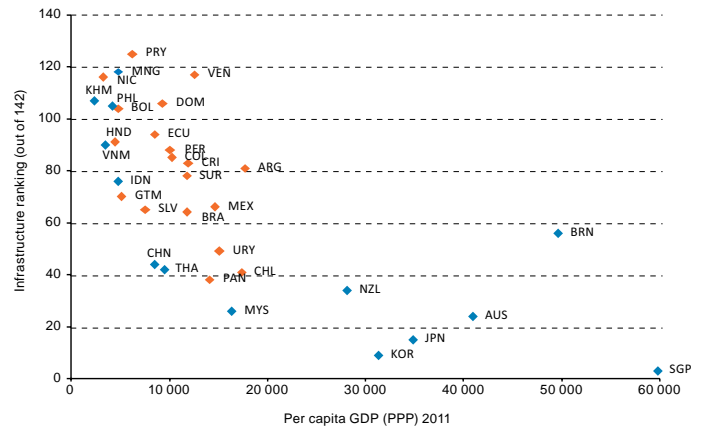
Source: Ricardo J. Sánchez and Georgina Cipoletta Tomassian (2012), *Infrastructure for regional integration* (LC/L.3408), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>1</sup> Daniel Perrotti and Ricardo J. Sánchez, "La brecha de infraestructura en América Latina y el Caribe", *Recursos Naturales e Infraestructura series*, No. 153 (LC/L.3342-P/E), Santiago, ECLAC, October 2011.

## 7. The quality of transport infrastructure (including roads, ports, airports and railways) falls short of both the world average and the South-East Asian average in most Latin American and Caribbean countries.

- Well-developed infrastructure in both regions would reduce the effect of distance, integrating domestic markets and connecting them at low cost to other countries and regions. In addition, larger and better quality infrastructure networks contribute to economic growth and reduce income inequalities and poverty. According to the World Economic Forum's Global Competitiveness Report, infrastructure quality can be evaluated in terms of the following: (1) quality of overall infrastructure; (2) quality of roads; (3) quality of railroad infrastructure; (4) quality of port infrastructure; (5) quality of air transport infrastructure; (6) available airline seat kilometres per week; (7) quality of electricity supply; (8) fixed telephone lines (per 100 inhabitants); and (9) mobile telephone subscriptions (per 100 inhabitants).
- Most Latin American countries have low scores in these areas, reflecting the region's well-known infrastructure gaps. By contrast, East Asian countries at comparable or even lower per capita income levels tend to rank higher. Biregional cooperation and investment from Asia-Pacific should aim to narrow this infrastructure gap.

■ **Figure III.5 ■**  
**FEALAC member countries: per capita GDP (PPP, 2011) and ranking in infrastructure preparedness, 2011-2012**  
*(United States dollars and ranking out of 142 countries)*



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Economic Forum, *The Global Competitiveness Report 2011-2012*.



## 8. Latin America's infrastructure is not prepared for the increasing trade volumes with East Asia.

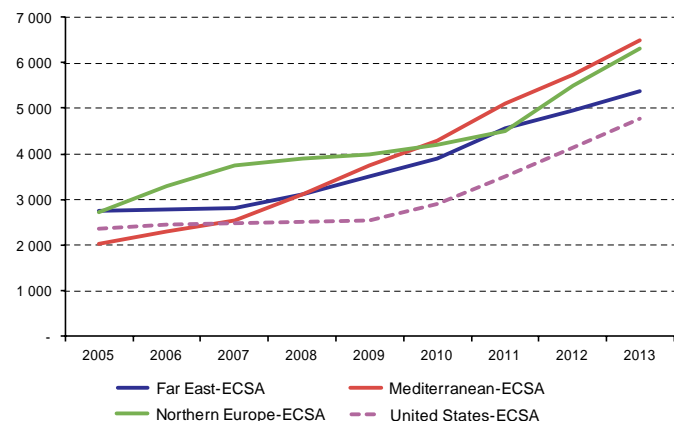
- The volume of trade between Latin America and East Asia has expanded tremendously in the past decade. While in 2000 Latin America imported 8.5 million tons by sea from East Asia, in 2010 it imported 73.9 million tons (8.7 times as much). The growth of the volume imported has been accompanied by a significant increase in the size of vessels serving the routes between the two regions. Thus, the average size of a ship connecting the East Coast of South America with the Far East has almost doubled from 2,750 TEU in 2005 to 5,379 TEU in 2013, and this trend may be accentuated when the ongoing expansion of the Panama

Canal is completed by 2015. This requires major increases in port productivity, calling in turn for increased investment. Imports by air have grown even faster. Whereas in 2000 Latin America imported 50,000 tons by air from East Asia, in 2010 it imported 1.4 million tons. However, logistics are complicated by the insufficient supply of cargo-only operators in Latin America and by the lack of cargo-only direct routes between both regions. This situation forces operators to make their shipments through hub airports such as Frankfurt or Los Angeles, thereby increasing the time and cost of their transactions.

■ Figure III.6 ■

### Average vessel size in long-haul routes between the East Coast of South America (ECSA) and selected destinations, 2005-2013

(Twenty-foot equivalent units)

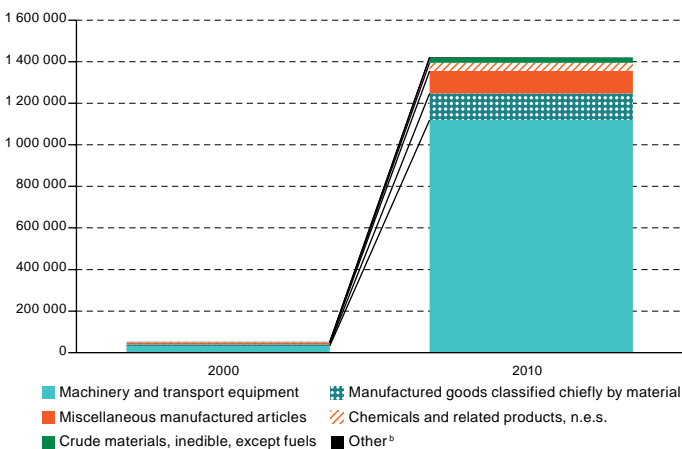


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on *Alphaliner Weekly Newsletter*, vol. 2012, No. 14, 2012.

■ Figure III.7 ■

### Latin America (11 countries): imports by air from East Asia, 2000 and 2010<sup>a</sup>

(Tons)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), International Transport Database.

<sup>a</sup> Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

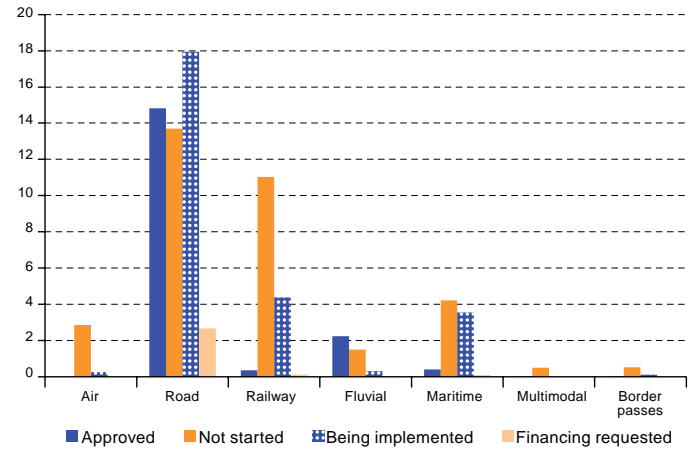
## 9. Several large-scale infrastructure projects are under way in Latin America. When finalized, these projects will facilitate biregional trade and investment flows.

- There are currently two major initiatives in Latin America to foster coordination and collaboration among governments to develop integration corridors. One is the Initiative for the Integration of Regional Infrastructure in South America (IIRSA), which was launched in 2000 and covers 12 countries. The other is the Mesoamerica Project, launched in 2008 and including Central America, Mexico, Colombia, and the Dominican Republic. The Mesoamerica builds on the previous Puebla-Panama Plan of 2001.
- IIRSA is administered by the South American Infrastructure and Planning Council (COSIPLAN), which in turn forms part of the Union of South American Nations (UNASUR). COSIPLAN seeks to facilitate physical integration and equitable and sustainable territorial development across South America. Its current project portfolio includes 474 projects as of December 2012, worth almost US\$ 88 billion. Road transport projects account for the largest category of investment within the portfolio, with almost US\$ 55 billion.
- The Mesoamerica Project is a high-level mechanism for dialogue, coordination and cooperation among its nine member countries, aiming to deliver results in the social, infrastructure, and connectivity areas. The first generation of projects (under the Puebla-Panama Plan) focused on energy provision (System of Electrical Interconnection of Central America, SIEPAC), transport (the Central American Roads Network, RICAM), communication (Mesoamerican Information Highway, AMI), and trade facilitation (International Transit of Merchandise, TIM). As of September 2012, 37 transport projects at different stages of implementation, worth about US\$ 1.4 billion, were registered under the Mesoamerica Project.

■ **Figure III.8** ■

**IIRSA: total investments in transport infrastructure, by subsector and state of implementation, as of December 2012**

(Billions of dollars)

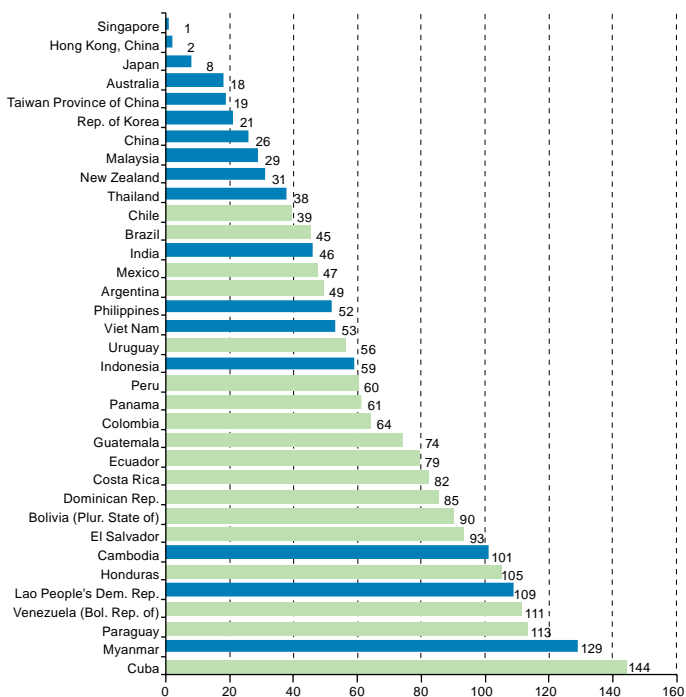


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

## 10. Latin America is far behind Asia-Pacific as regards trade-related logistics.

- The World Bank's Logistics Performance Index (LPI) is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics "friendliness" of 155 countries. The Index combines operators' in-depth knowledge of the countries in which they operate with qualitative assessments of other countries with which they trade, and experience of the global logistics environment.
- The 2012 rankings indicate that Latin American members of FEALAC lag far behind not only the top world performers such as Singapore, Japan, Australia, and the Republic of Korea, but also several ASEAN member countries such as Malaysia and Thailand. Latin American countries show deficiencies in each of the six areas analysed: customs, infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness.
- The LPI results identify challenges and opportunities that FEALAC countries on both sides of the Pacific face in their trade-logistics performance and areas in which they can improve.

■ **Figure III.9**  
**Ranking in the World Bank Logistics Performance Index, 2012**  
*(Out of 155 countries)*



Source: World Bank [online] <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/>.

## 11. Latin American countries trail their East Asian counterparts in almost all areas related to global competitiveness.

■ Table III.5 ■

Ranking of FEALAC member countries in the World Economic Forum's *Global Competitiveness Report 2011-2012*<sup>a</sup>

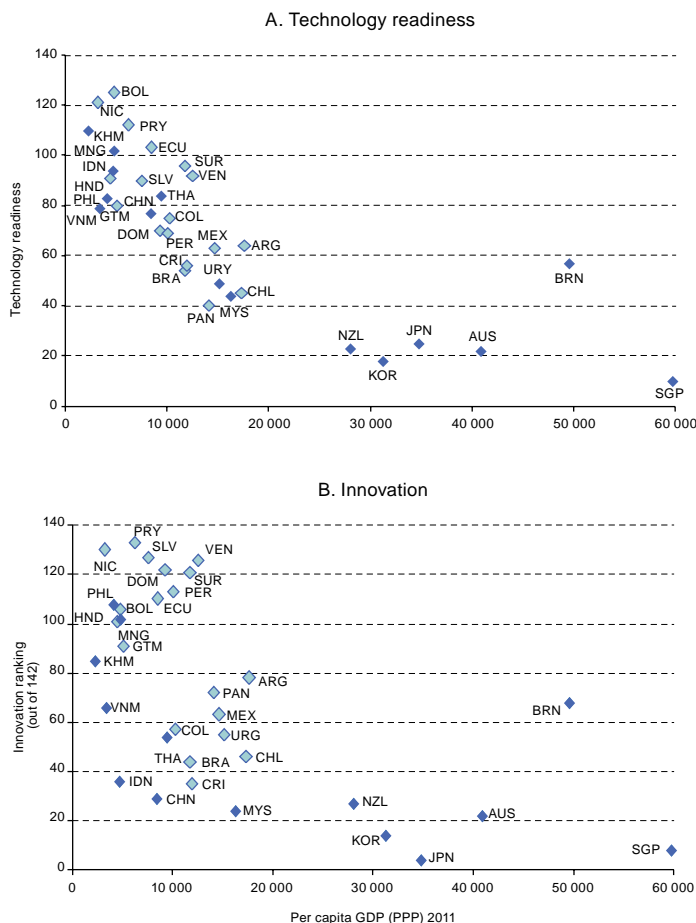
Country	Overall	Basic requirements				Efficiency enhancers						Innovation and sophistication factors	
		Institutions	Infrastructure	Macroeconomic environment	Health and primary education	Higher education and training	Goods market efficiency	Labour market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
Singapore	2	1	3	9	3	4	1	2	1	10	37	15	8
Japan	9	24	15	113	9	19	18	12	32	25	4	1	4
Australia	20	13	24	26	10	11	22	13	6	22	19	29	22
Malaysia	21	30	26	29	33	38	15	20	3	44	29	20	24
Republic of Korea	24	65	9	6	15	17	37	76	80	18	11	25	14
New Zealand	25	3	34	48	4	14	8	11	12	23	65	30	27
Brunei Darussalam	28	34	56	1	30	61	82	9	57	57	121	85	68
China	30	48	44	10	32	58	45	36	48	77	2	37	29
Chile	31	26	41	14	71	43	25	39	37	45	46	39	46
Thailand	39	67	42	28	83	62	42	30	50	84	22	47	54
Indonesia	46	71	76	23	64	69	67	94	69	94	15	45	36
Panama	49	75	38	41	79	78	46	115	27	40	85	46	72
Brazil	53	77	64	115	87	57	113	83	43	54	10	34	44
Mexico	58	103	66	39	69	72	84	114	83	63	12	56	63
Costa Rica	61	53	83	109	39	47	57	55	91	56	83	35	35
Uruguay	63	35	49	59	47	42	77	118	79	49	87	83	55
Viet Nam	65	87	90	65	73	103	75	46	73	79	33	87	66
Peru	67	95	88	52	97	77	50	43	38	69	48	65	113
Colombia	68	100	85	42	78	60	99	88	68	75	32	61	57
Philippines	75	117	105	54	92	71	88	113	71	83	36	57	108
Guatemala	84	129	70	76	100	100	65	98	46	80	76	55	91
Argentina	85	134	81	62	56	54	137	131	126	64	24	79	78
Honduras	86	102	91	81	89	108	85	135	56	91	91	81	101
El Salvador	91	118	65	80	90	105	69	108	72	90	86	74	127
Mongolia	96	119	118	34	98	84	92	31	129	102	124	119	102
Cambodia	97	79	107	101	111	120	58	38	74	110	93	90	85
Ecuador	101	125	94	40	70	90	131	138	112	103	60	93	110
Bolivia (Plurinational State of)	103	123	104	32	103	95	136	140	122	125	84	106	106
Dominican Republic	110	126	106	96	109	99	111	104	103	70	69	89	122
Suriname	112	89	78	72	88	104	130	101	101	96	138	121	121
Nicaragua	115	130	116	106	99	117	123	96	114	121	109	123	130
Paraguay	122	132	125	100	107	116	83	127	88	112	92	111	133
Venezuela (Bolivarian Republic of)	124	142	117	128	84	67	142	142	132	92	41	124	126

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Economic Forum, *The Global Competitiveness Report 2011-2012*. <sup>a</sup> Out of 142 countries.

## 12. Latin American countries particularly lag behind East Asia in technology readiness and innovation.

- The region's deficiencies in these areas are especially evident when the performance levels of FEALAC member countries are contrasted with their level of per capita GDP. At the same per capita income level, Asian developing countries perform much better than their Latin American counterparts.
- Latin American FEALAC countries rank below the FEALAC average, with the exception of Costa Rica, Brazil and Chile in the overall index and Costa Rica in the innovation index.
- These results show the region is lagging far behind in precisely those areas that are of growing importance in the context of the knowledge economy. This is largely because, with the notable exception of Brazil, the region's countries allocate limited resources to research and development.
- Given the limited individual capacities of many of the region's countries to substantially increase their research and development spending, it appears vital to combine national and international cooperation efforts.

■ Figure III.10 ■



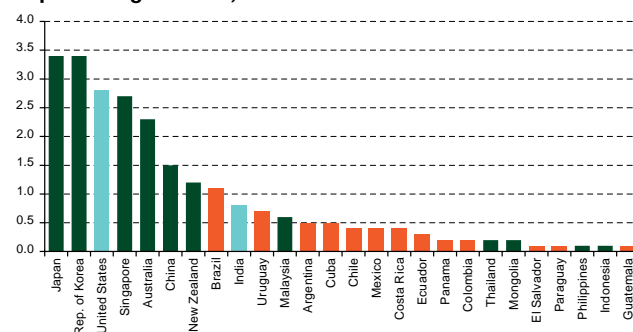
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Economic Forum, *The Global Competitiveness Report 2011-2012*.

### 13. Latin American FEALAC member countries have a low R&D expenditure (in terms of GDP) and few researchers (per million inhabitants) by comparison with leading East Asian economies.

- R&D expenditure as a percentage of GDP varies widely among the FEALAC member countries. Japan and the Republic of Korea spend even more than the United States. The most advanced Asia-Pacific countries typically spend proportionally two to three times as much on R&D than Latin American countries.
- Latin America's lower relative expenditure on R&D correlates directly with its generally lower number of researchers, graduates in science and engineering, patents granted to residents and non-residents, and royalty and licence fee receipts. All these shortcomings limit the region's growth potential.

■ Figure III.11 ■

FEALAC members, India and the United States: R&D expenditure as a percentage of GDP, 2005-2010<sup>a</sup>



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations Development Programme (UNDP), *Human Development Report 2013*, New York, Oxford University Press, 2013.

<sup>a</sup> Data refer to the most recent year available. <sup>b</sup> Includes graduates in manufacturing and construction.

■ Table III.6 ■

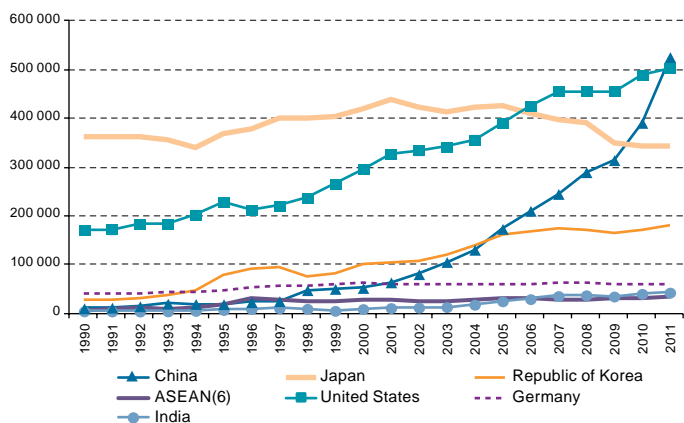
Selected FEALAC members: indicators of R&D and innovation capabilities

HDI ranking	Country	Researchers (per million people) 2002-2010 <sup>a</sup>	Graduates in science and engineering <sup>b</sup> (percentage of total) 2002-2011 <sup>a</sup>	Patents granted to residents and non-residents (per million people) 2005-2010 <sup>a</sup>	Royalty and licence fees receipts (US\$ per capita) 2005-2011 <sup>a</sup>
2	Australia	4 258.5	18.1	653.7	32.7
6	New Zealand	4 323.7	21.6	995.2	574.2
10	Japan	5 189.3	20.6	1 759.9	226.8
12	Republic of Korea	4 946.9	31.5	1 428.8	86.8
18	Singapore	5 834.0	...	873.3	367.7
30	Brunei Darussalam	268.3	21.9	107.2	...
40	Chile	354.8	20.4	59.6	3.7
45	Argentina	1 045.5	14.3	30.6	4.7
51	Uruguay	346.1	13.6	8.6	0.1
59	Cuba	...	3.3	12.4	...
59	Panama	111.3	19.2	107.5	...
61	Mexico	347.3	25.6	82.9	...
62	Costa Rica	257.4	11.9	9.7	0.9
64	Malaysia	346.6	37.7	76.7	9.5
77	Peru	...	...	12.6	0.1
85	Brazil	695.7	12.2	16.7	3.0
89	Ecuador	106.1	12.8	1.9	...
91	Colombia	157.2	23.2	...	...
101	China	1,198.9	...	100.7	0.6
107	El Salvador	...	26.4	...	0.0
108	Bolivia (Plurinational State of)	120.3	...	...	0.7
111	Paraguay	74.8	...	...	45.2
114	The Philippines	78.5	23.8	3.8	0.1
121	Indonesia	89.6	22.8	...	0.3
127	Viet Nam	115.9	...	9.4	...
133	Guatemala	39.4	16.8	7.2	1.0
138	Cambodia	17.4	12.5	...	0.0
138	Lao People's Democratic Republic	15.8	12.8	...	...
3	United States	4 673.2	15.5	707.6	387.1

## 14. Between 2000 and 2011, the East Asian members of FEALAC accounted for nearly half of world patent applications, as against 3% for their Latin American counterparts.

- The number of patent applications filed in a country is a good indicator of its R&D capabilities. It is therefore noteworthy that in 2011 China surpassed the United States in number of applications (filed by residents and non-residents) for the first time. The Republic of Korea and India are also making headway in this regard. Latin America is well behind Asia by this metric. Moreover, patent applications are very concentrated, with Brazil and Mexico accounting for roughly 40% and 31% of the regional total, respectively.

■ **Figure III.12** ■  
**Total patent applications (direct and PCT<sup>a</sup> national phase entries) in major economies (by residents and non-residents), 1990-2011**  
*(Number of applications)*



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Intellectual Property Organization [online] [pstatsdb.wipo.org/ipstats/ipstats/patentsSearch](http://pstatsdb.wipo.org/ipstats/ipstats/patentsSearch).

<sup>a</sup> Patent Cooperation Treaty.

■ **Table III.7** ■

**FEALAC member countries: total patent applications (direct and PCT national phase entries), count by filing office, 1990-1999 and 2000-2011**

*(Number of applications and percentages of world total)*

Country	1990-1999		2000-2011	
	Number	Share	Number	Share
Argentina	36 240	0.39	58 279	0.28
Bolivia (Plurinational State of)	328	0.00	0	0.00
Brazil	81 879	0.89	221 029	1.07
Chile	14 898	0.16	33 245	0.16
Colombia	9 106	0.10	19 030	0.09
Costa Rica	186	0.00	1 864	0.01
Cuba	636	0.01	1 561	0.01
Dominican Republic	0	0.00	2 232	0.01
Ecuador	2 066	0.02	6 218	0.03
El Salvador	436	0.00	0	0.00
Guatemala	1 347	0.01	3 890	0.02
Honduras	266	0.00	724	0.00
Mexico	55 838	0.61	171 125	0.83
Panama	687	0.01	3 950	0.02
Paraguay	217	0.00	2 945	0.01
Peru	2 905	0.03	12 051	0.06
Uruguay	2 056	0.02	7 940	0.04
Venezuela (Bolivarian Republic of)	12 185	0.13	3 946	0.02
<b>FEALAC (Latin America)</b>	<b>221 276</b>	<b>2.40</b>	<b>550 029</b>	<b>2.67</b>
Australia	64 162	0.70	288 848	1.40
Brunei Darussalam	266	0.00	385	0.00
China	188 265	2.04	2 582 309	12.54
Indonesia	22 424	0.24	43 559	0.21
Japan	3 330 410	36.09	4 776 619	23.20
Malaysia	35 653	0.39	64 935	0.32
New Zealand	48 215	0.52	81 816	0.40
Philippines	22 075	0.24	33 642	0.16
Republic of Korea	503 973	5.46	1 754 283	8.52
Singapore	28 152	0.31	107 264	0.52
Thailand	29 884	0.32	63 252	0.31
Viet Nam	4 782	0.05	28 857	0.14
<b>FEALAC (East Asia)</b>	<b>4 278 261</b>	<b>46.36</b>	<b>9 825 769</b>	<b>47.73</b>

## 15. Secondary education in Latin American countries lags behind that of developing Asia, in terms of both quantity and quality.

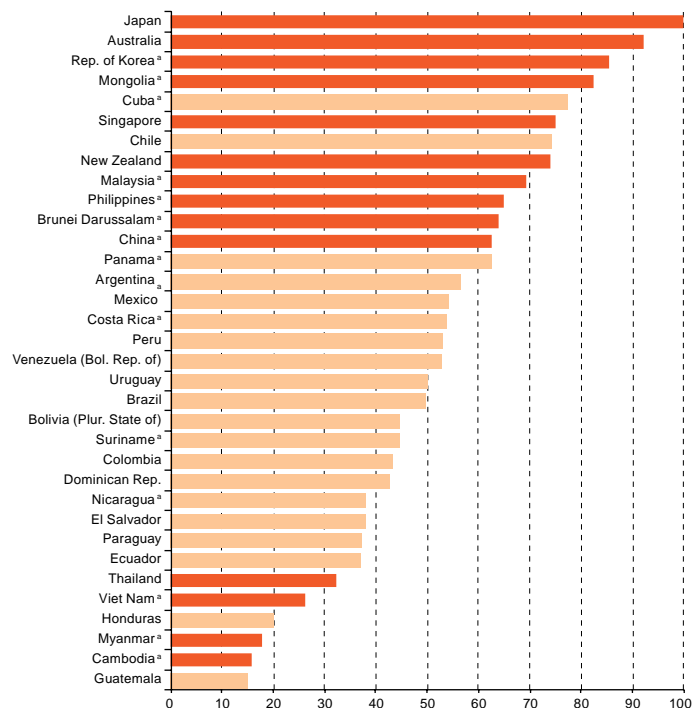
- As the knowledge economy increases the demand for higher skills, the importance of education as a competitiveness factor grows. Latin American countries generally are behind East Asian nations in secondary education in terms of both enrolment and quality. The quality aspect is measured by the Programme for International Student Assessment (PISA), a triennial survey launched by OECD in 1997. PISA measures the knowledge and skills of 15-year-olds, surveying students from 65 countries which account for more than 90% of the world economy. The latest PISA results from 2009 show that East Asian countries (with the exception of Thailand and Indonesia) score among the highest in the three areas measured (science, mathematics and reading), with Latin American countries well below the OECD average.

**Table III.8**  
Selected economies: rankings in the PISA 2009 test  
(Ordered by ranking on the reading scale)

	Reading scale	Mathematics scale	Science scale
Shanghai (China)	556	496	501
Republic of Korea	539	546	575
Hong Kong SAR	533	555	549
Singapore	526	562	542
New Zealand	521	519	532
Japan	520	529	539
Australia	515	514	527
Chile	449	421	447
Uruguay	426	427	427
Mexico	425	419	416
Thailand	421	419	425
Colombia	413	381	402
Brazil	412	386	405
Indonesia	402	371	383
Argentina	398	388	401
Panama	371	360	376
Peru	370	365	369
OECD average	493	496	501

Source: Organisation for Economic Cooperation and Development (OECD), PISA 2009 Database.

**Figure III.13**  
Selected economies: population with at least secondary education, 2010<sup>a</sup>  
(Percentage of population aged 25 and older)



Source: United Nations Development Programme (UNDP), *Human Development Report, 2013*, New York, Oxford University Press, 2013.

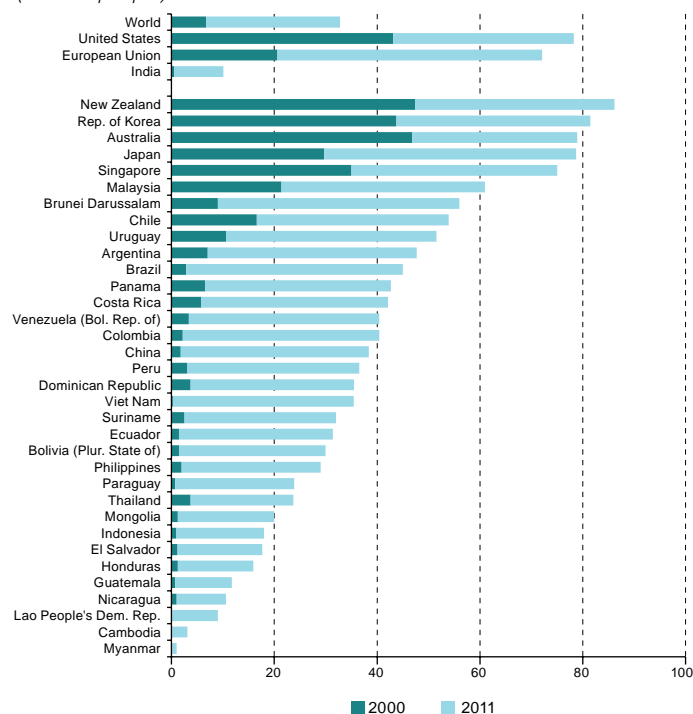
<sup>a</sup> Estimates for 2010 by R.J. Barro and J. W. Lee, "Dataset of educational attainment", 2011 [online] [www.barrolee.com](http://www.barrolee.com).



## 16. A bright spot for Latin America with regard to technology readiness is that many of the region's countries have improved Internet use in the past decade.

- Most Latin American countries significantly expanded the use of Internet over the last decade, with some (Chile, Uruguay, Argentina and Brazil) approaching the rates of Malaysia and Brunei Darussalam.
- In today's globalized world, information and communications technology (ICT) is increasingly essential for firms to compete successfully. Internet use in a country facilitates the adoption of new technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage ICTs in production processes for increased efficiency and competitiveness.
- ICT is considered to be not only a key enabler of countries' overall technological readiness, but also a critical element of productivity and international competitiveness as well as an enhancer of supply and value chains, cluster creation and inter-firm networking in individual economies and cross-border transactions.

■ **Figure III.14 ■**  
**FEALAC member countries: Internet users, 2000 and 2011**  
*(Per 100 people)*



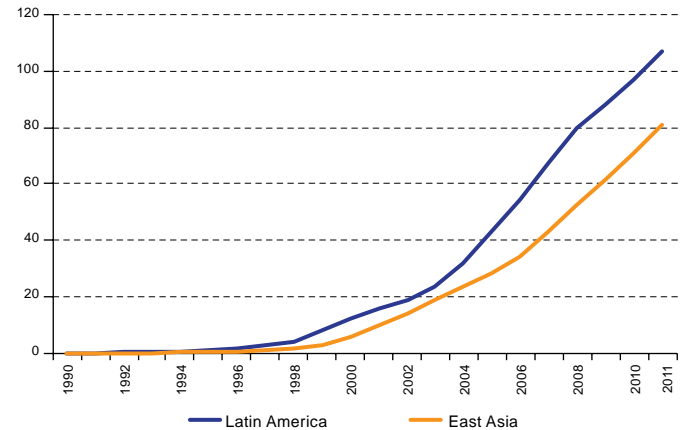
Source: World Bank, World Development Indicators (WDI) [online database] <http://databank.worldbank.org/>.

Note: Internet users are people with access to the worldwide network.

## 17. Moreover, Latin America has been ahead of East Asia in terms of mobile phone penetration since the early 1990s.

- Mobile phone subscriptions are an important part of the ICT revolution, together with the spread of computers and the internet.
- Over the years, the productive applications of mobile phones have burgeoned. In the beginning, mobile phones could be used only for voice communication. However, with the spread of 3G (and more recently 4G) networks and smart phones in many countries, workers and consumers increasingly use e-mail and Internet services.
- Mobile phone use has spread extremely rapidly in FEALAC countries, owing to network improvements and the falling costs of handsets. Around 2000, the number of mobile phone registrations per 100 people was below 20 in both regions. Within less than a decade, however, penetration exceeded 100% in Latin America, but remained 20 percentage points lower in East Asia.
- Several studies have demonstrated that the use of mobile and smart phones increases productivity. In 2005, Waverman, Meschi and Melvyn<sup>2</sup> concluded that an increase of 10 mobile phones per 100 people would increase economic growth by 0.8 – 1.2 percentage points. More recently, Deloitte<sup>3</sup> showed that for a group of 96 countries, a 10% rise in the penetration rate of 3G between 2008 and 2011 increased economic growth by 0.15%.

■ Figure III.15 ■  
East Asia and Latin America: number of mobile phone subscriptions per 100 people, 1990-2011<sup>a</sup>



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators (WDI) [online database] <http://databank.worldbank.org/>

<sup>2</sup> Leonard Waverman, Meloria Meschi and Melvyn Fuss, "The impact of telecoms on economic growth in developing countries", *Vodafone Policy Paper Series*, No. 2, 2005, pp. 10-23.

<sup>3</sup> Deloitte, "What is the impact of Mobile telephony on economic growth? : A report for the GSM Association", 2012.

## 18. Several FEALAC member countries are considered attractive locations for producing and exporting offshore services.

- Offshore services, which are part of business services, include three broad categories: information technology outsourcing (ITO), business process outsourcing (BPO) and knowledge process outsourcing (KPO).
- Global trade in these offshore services has expanded at double digit rates over the past decade. The economic crisis of 2008-2009 even accelerated its growth, in contrast to what happened in other sectors.
- Several developing countries, with India being one of the frontrunners, have succeeded in attracting many BPO and ITO subsidiaries of large multinational companies. Moreover, some countries, including India, Malaysia and Mexico, have created their own BPO and ITO multinational firms, which have expanded their business to other parts of the world.
- After Asia, several countries in Latin America also entered the global offshore services industry. This trend was reinforced by a policy of multinational companies to spread their offshore service provision geographically in order to support round-the-clock operations. Moreover, United States companies preferred to locate part of their services closer to home, a practice referred to as near-shoring.
- With the support of public-private initiatives, countries like Mexico, Chile, Brazil and Costa Rica have become part of the top 20 destinations for global service companies, according to the ranking of most attractive countries to base global services companies compiled by the consultancy firm AT Kearney. According to that study, the FEALAC countries which are financially most attractive are Viet Nam, Indonesia, and the Philippines. In terms of people's skills, the best ranked FEALAC countries are China, Brazil and Australia. Finally, the best business environments are found in Singapore, Australia, Malaysia and Chile.

### ■ Table III.9 ■

#### FEALAC members: position in the AT Kearney Global Services Location Index of 50 countries, 2011<sup>a</sup>

(Ranking out of 50 countries)

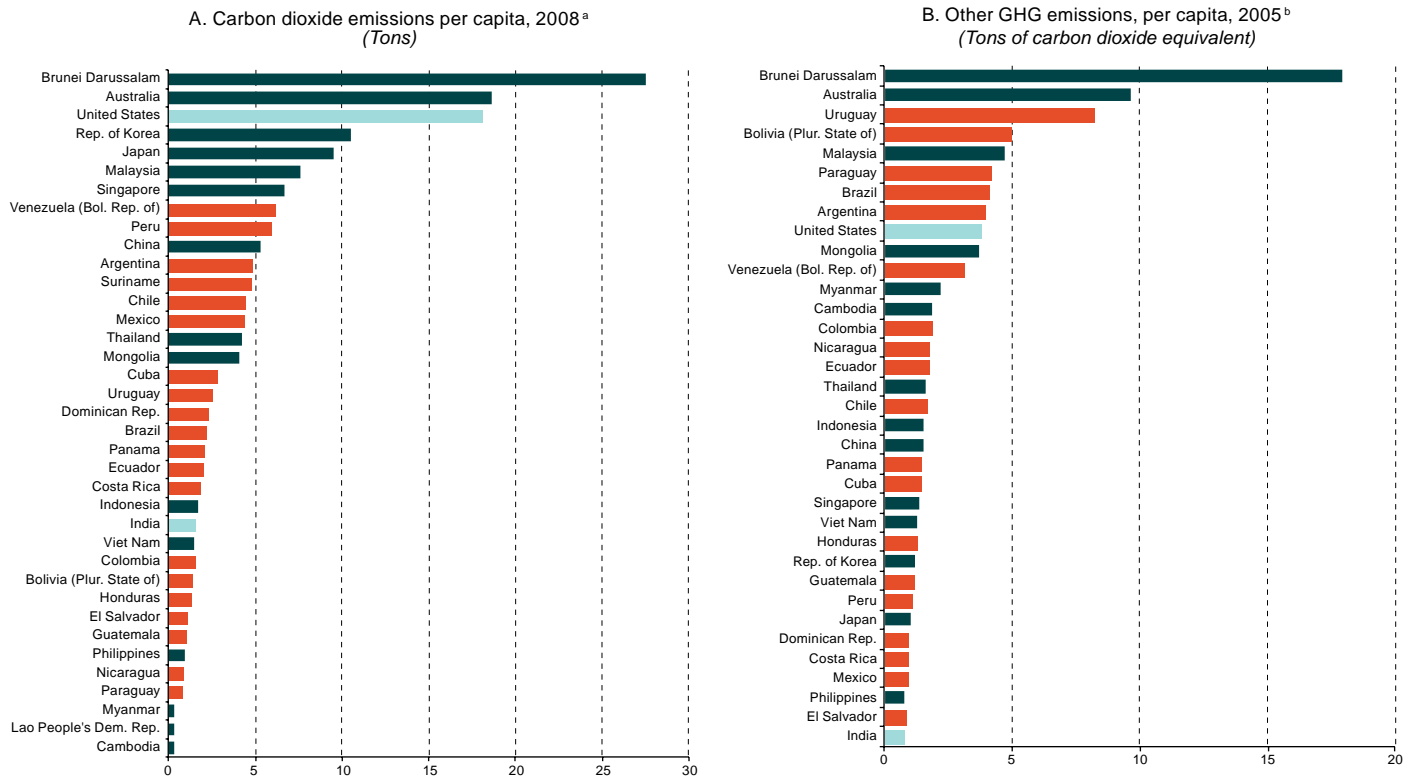
Country	Financial attractiveness	People skills and availability	Business environment	Total score
2 China	2.62	2.55	1.31	6.48
3 Malaysia	2.78	1.38	1.83	5.99
5 Indonesia	3.24	1.53	1.01	5.78
6 Mexico	2.68	1.60	1.44	5.72
7 Thailand	3.05	1.38	1.29	5.72
8 Viet Nam	3.27	1.19	1.24	5.70
9 Philippines	3.18	1.31	1.16	5.65
10 Chile	2.44	1.27	1.82	5.53
12 Brazil	2.02	2.07	1.38	5.47
19 Costa Rica	2.84	0.94	1.56	5.34
30 Argentina	2.45	1.58	1.09	5.12
32 Singapore	1.00	1.66	2.40	5.06
34 Panama	2.77	0.72	1.49	4.98
41 Uruguay	2.42	0.91	1.42	4.75
43 Colombia	2.34	1.20	1.18	4.72
46 Australia	0.51	1.80	2.13	4.44

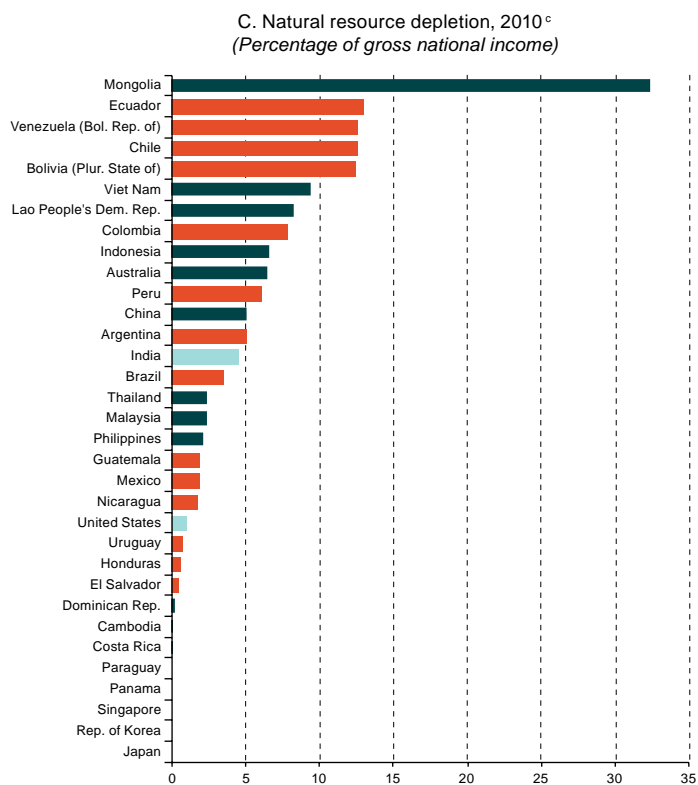
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of AT Kearney, *Offshoring opportunities amid Economic Turbulence*, 2011.

<sup>a</sup> The higher the score, the more attractive a country is for the location of offshore services producers. The country ranked first was India. Attractiveness is based on three criteria: financial attractiveness (wage costs, infrastructure costs, taxes and regulatory costs), people's skills and availability (service sector experience, labour force availability, education and attrition risk), and business environment (country environment, infrastructure, cultural exposure and security of intellectual property). The first criteria is weighted at 40% and the second and third 30% each, respectively.

**19. Some Latin American countries emit significant amounts of greenhouse gases (GHGs) per capita. Natural resource depletion in mining and oil-exporting countries in the region is also a serious concern. Biregional cooperation on innovative clean technologies can play a critical role for environmental adaption and climate mitigation policies.**

■ **Figures III.16** ■  
**FEALAC countries: selected environmental indicators**





**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from United Nations Development Programme (UNDP), *Human Development Report*, 2013, New York, Oxford University Press, 2013.

<sup>a</sup> Carbon dioxide emissions means the human-originated carbon dioxide emissions stemming from the burning of fossil fuels, gas flaring and the production of cement, including carbon dioxide emitted by forest biomass through depletion of forest areas.

<sup>b</sup> Greenhouse emissions per capita refers to the emissions from methane, nitrous oxide and other greenhouse gases, including hydrofluorocarbons, per fluorocarbons and sulphur hexafluoride, divided by mid-year population. Carbon dioxide emissions are not included.

<sup>c</sup> Natural resource depletion means the monetary expression of energy, mineral and forest depletion, expressed as a percentage of total gross national income (GNI).

## IV. Conclusions and recommendations



Prospects for the global economy for the remainder of the decade point to several years of slow growth in the industrialized countries. Such a scenario would expedite a longer-term trend towards a growing contribution by the developing economies (in particular those in Asia) to global economic variables. Against this background, a wide range of opportunities exist for mutually advantageous cooperation between Latin American and East Asian countries. Several promising cooperation areas have been highlighted in this document, including education and labour training, science and technology, innovation, environmental policy, trade facilitation, infrastructure and the improvement of transport links between both regions. FEALAC is ideally suited to serve as a mechanism for biregional cooperation in these and other areas. Some proposals are presented below for the consideration of FEALAC members.

## A. Trade and investment promotion

Trade and investment promotion constitutes an important pillar of any international cooperation forum. In recent years, East Asia has become a key trade partner for several Latin American countries, especially in South America. However, Asia continues to be an unexploited market for numerous Latin American countries. In contrast to the dynamic trade flows in recent years, investment flows between the two regions have been small.

FEALAC is not a forum for trade negotiations. Nevertheless, it can play a useful role in promoting dialogue, cooperation and even joint initiatives for enhanced trade and investment ties between both regions. While APEC plays that role to some extent for a number of FEALAC members (especially those in East Asia), its narrower membership means that for most Latin American countries FEALAC is the only regular forum for engaging collectively with East Asian countries. For the same reason, FEALAC is the only forum in which East Asian economies can collectively engage the majority of Latin American countries which are not APEC members.

In sum, FEALAC is the only institutional setting for a truly “region to region” dialogue.

Specifically, the following activities are proposed:

- (i) Regular information exchange on market opportunities and market access conditions in each FEALAC member, including: (a) basic economic indicators; (b) tariffs; (c) standards (technical, quality, sanitary, environmental, etc.) applicable to trade; (d) relevant regulatory regimes (FDI, services, government procurement, intellectual property, etc.); (e) recent trends in trade and investment; and (f) participation in regional integration initiatives and trade negotiations.
- (ii) Policy dialogue to promote biregional trade and investment, aimed at identifying bottlenecks and capacity- or institution-building needs.
- (iii) Review of best national practices in public policy areas such as trade facilitation, internationalization of SMEs, e-commerce and development of production networks and value chains, among others. On the basis of this review, opportunities for targeted cooperation among FEALAC members could be identified.
- (iv) Regular exchange of information and dialogue on the major economic integration initiatives taking place in both regions (RCEP, TPP, ASEAN Economic Community, Pacific Alliance, enlargement of MERCOSUR, and so forth).

In the area of trade facilitation, FEALAC could promote “best practice” studies analysing national and regional cases (for example within ASEAN) on the following aspects:

- (i) Progress in implementation of national and regional electronic single window systems (interagency single windows).



- (ii) Customs procedures and regional coordination (electronic billing, electronic certificates of origin, etc.).
- (iii) Adoption of international standards, for example under the United Nations Centre for Trade Facilitation and Electronic Business (CEFACT).
- (iv) Harmonization and/or mutual recognition of technical, sanitary and phytosanitary standards on a regional/subregional basis.
- (v) Interface between the public and private sectors on the foregoing issues.
- (vi) Implementation of the aid-for-trade initiatives at the national and regional levels.

Implementing the above agenda will likely require a reorganization of the current working group structure of FEALAC. Specifically, the creation of a working group on trade and investment promotion is proposed. In order to avoid duplication of efforts, this working group could take over any trade- and investment-related agenda currently being addressed by the working group on economy and society. This would have the added benefit of allowing the latter group to deal with a narrower, more focused agenda.

The participation of the business community is essential to reinforce economic links between the East Asian and Latin American members of FEALAC. Therefore, the FEALAC business summit process should be institutionalized and given a higher profile, by integrating it more closely with the proposed FEALAC activities in the field of trade and investment. While retaining its essential role as a platform for mutual knowledge-building among businesses from all FEALAC members, the Forum's agenda should also include discussions on relevant policies and measures to strengthen biregional ties. In so doing, businesses could provide valuable inputs on the most important bottlenecks to trade and investment to be addressed by government officials in the framework of the proposed working group on trade and investment promotion.

## B. Science, technology and innovation

The knowledge economy presents new challenges to both regions. Education, science, technology and innovation play increasingly important roles not only for the integration of countries into the global economy but ultimately for their development prospects. Innovation and competitiveness cannot be properly fostered without well-educated human resources. Therefore, linkages between the education system and the production system must be strengthened to allow the former to provide the skills the latter needs. This requires long-term strategies and action plans for education. In the field of education, Latin America has much to learn from East Asia's many successful experiences on curricular design, the adoption of new technologies, teacher training and refresher courses, online classrooms and distance education, among other topics. Accordingly, it is proposed that the FEALAC working group on science and technology concentrate on the following agenda:

- (i) Preparation of studies on successful national and regional experiences in the areas of education (at all levels), science and technology, innovation, and diffusion of ICTs in the government and business sectors. Studies on ICTs could focus on initiatives targeted at increasing their use by SMEs, as well as in the following areas: (a) e-education; (b) ICT-related industries (for example, software production and different types of business process outsourcing); and (c) e-health.
- (ii) On the basis of the above studies, a systematic policy dialogue could be opened on each topic. Such dialogues could help identify specific needs in FEALAC countries to be addressed through targeted cooperation projects. Both the dialogue and subsequent cooperation could take place within the framework of a dedicated FEALAC innovation forum.
- (iii) A dialogue on possibilities to promote closer cooperation among technology centres across FEALAC in areas of common interest, so as to generate a critical mass of human and financial resources.

- (iv) Possibly, the establishment of a FEALAC cooperation fund for innovation, to finance programmes or actions of regional interest identified within FEALAC or at other relevant forums.

### C. Infrastructure and transport

Infrastructure services are essential for further expanding economic links between Latin America and East Asia. However, Latin America's economic infrastructure shows several important deficiencies, such as: (a) the physical inadequacy (or outright lack) of infrastructure services, in terms of both quality and quantity; (b) logistical inefficiencies; and (c) regulatory and institutional failures which impede an efficient and sustainable provision of infrastructure services. Transport infrastructure receives particularly low rankings: the region's highway density, port capacities and railway penetration levels are all lower than those in East Asian countries, and logistics costs are many times those in OECD countries in GDP terms. By contrast, several East Asian countries are among the world's top performers in these areas. Against this background, FEALAC could play a valuable role in fostering mutually beneficial interregional cooperation aimed at improving travel and transport links between both regions. The following activities are proposed:

- (i) Organizing workshops to share experiences on public-private partnerships for infrastructure projects, to draw lessons from experiences within each region and beyond. For example, in the field of air transport, the agenda could focus on how to make this mode of transport more competitive (development of airports specialized in cargo and logistical centers for air cargo, introduction of direct air cargo routes between the two regions, etc.).
- (ii) Presenting within FEALAC the different infrastructure initiatives under way in Latin America (COSIPLAN/IIRSA, Mesoamerica Project, and so on) and discussing how East Asian members of FEALAC could support these efforts technically and/or financially.

- (iii) Organizing sessions to discuss topics such as: infrastructure planning; low-carbon infrastructure and transport; and performance indicators to follow-up the implementation of transport and logistics policies.
- (iv) Developing standardized, comparable statistics to support policymaking, for example on logistical costs for different value chains, waiting periods at different border crossings or ports, and so forth.

If deemed appropriate by FEALAC members, the proposed infrastructure and transport agenda could be dealt with as a priority by the existing working group on economy and society.

### D. Public policies and public-private alliances for sustainable growth

Some Latin American countries have started exploring green economy strategies, while others have adopted specific measures. As the instruments and policies associated with the green economy are employed to move forward along the path towards sustainable development, some measures will provide "win-win" solutions that permit simultaneous progress towards economic, social and environmental goals. Others will involve trade-offs between policy goals. Latin American countries often experience institutional difficulties in incorporating the principles of sustainable development into policies and programmes. In these areas, several East Asian countries have made great strides towards a green economy in recent years. The expertise of those countries could support national and regional efforts in Latin America to make headway towards a green economy, with FEALAC being an ideal forum to conduct mutually beneficial dialogue between both regions. Specifically, the following topics could be discussed:

- (i) "Getting the prices right": internalizing externalities and encouraging sustainable consumption and production choices through the use of economic instruments (including taxation and fiscal incentives).
- (ii) Public procurement policies to create critical demand for green products and services.

- (iii) Public investment in sustainable infrastructure.
- (iv) Targeted public support for research and development on environmentally sound technologies.
- (v) Strategic investment through public-sector development outlays, incentive schemes and partnerships in order to lay the foundations for a self-sustaining process of socially and environmentally sustainable economic growth.
- (vi) Public policies to reconcile social goals with existing or proposed economic policies geared towards a green economy.

As far as ECLAC is aware, there is currently no FEALAC body specifically addressing the sustainable growth agenda. Therefore, if the grouping's members deem such an agenda appropriate for discussion within FEALAC, an institutional forum would have to be identified for it. One possibility would be to create a new, dedicated working group; another would be to task the existing working group on economy and society to deal with the sustainable growth agenda-as a priority.

In all the above areas, FEALAC could and should play a crucial role in promoting and facilitating biregional initiatives. The time is ripe to do so. As both East Asia and Latin America increase their weight in the global economy, both regions can benefit from greater dialogue and cooperation around an agenda of common interest.



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