

Shaping the Future of the Asia—LAC Relationship



Annual Meeting of the IDB Board of Governors
Montevideo, Uruguay • March 16-19, 2012

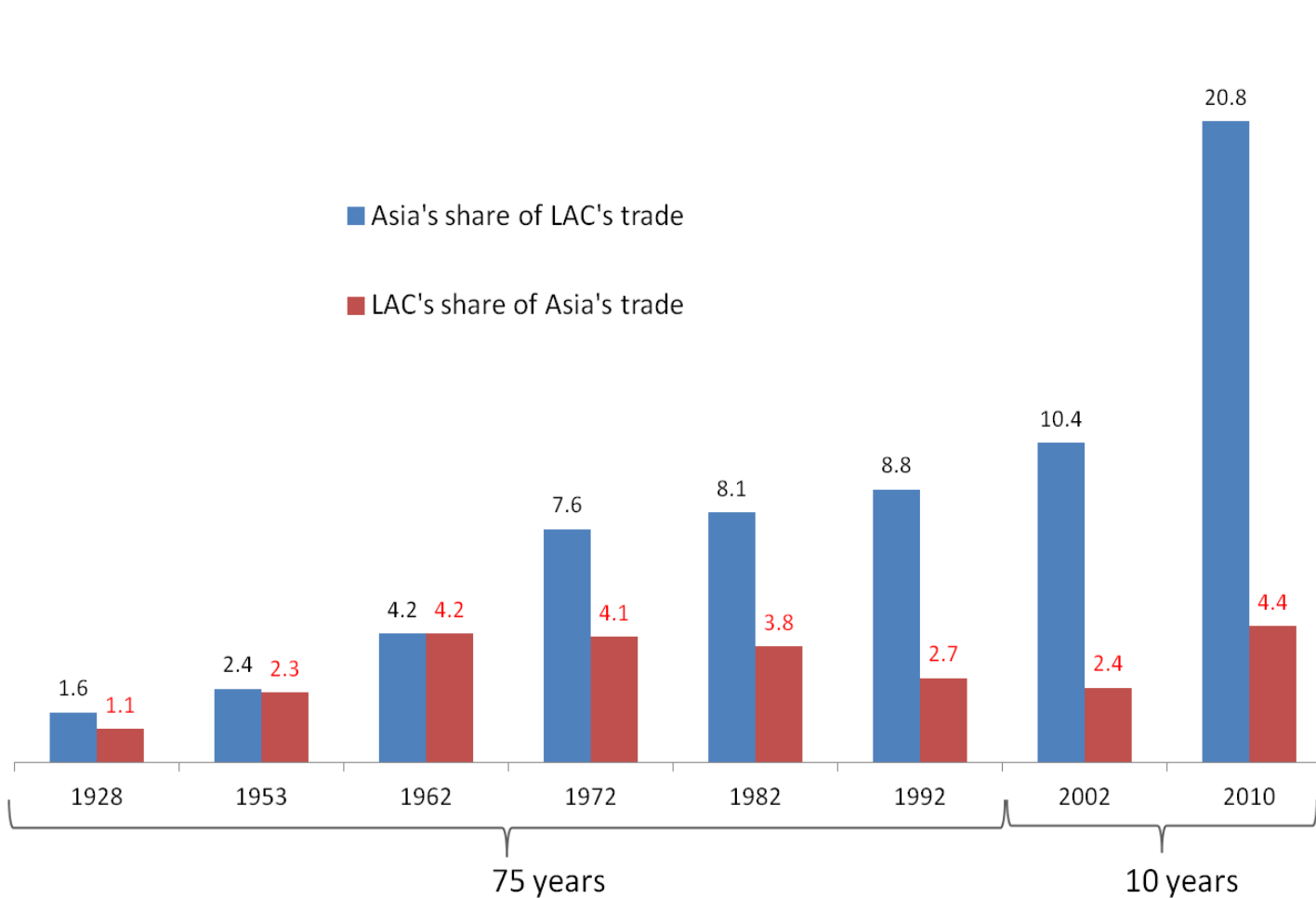
Outline

- Dealing with a trade surge
- Developing an architecture for lower trade costs
- Boosting cross-regional investment
- Exploring cooperation opportunities
- Conclusion

The trade surge

Asia's share of LAC's trade doubled in one decade

Asia's and LAC's shares of each other's Trade. 1928-2010 (%)

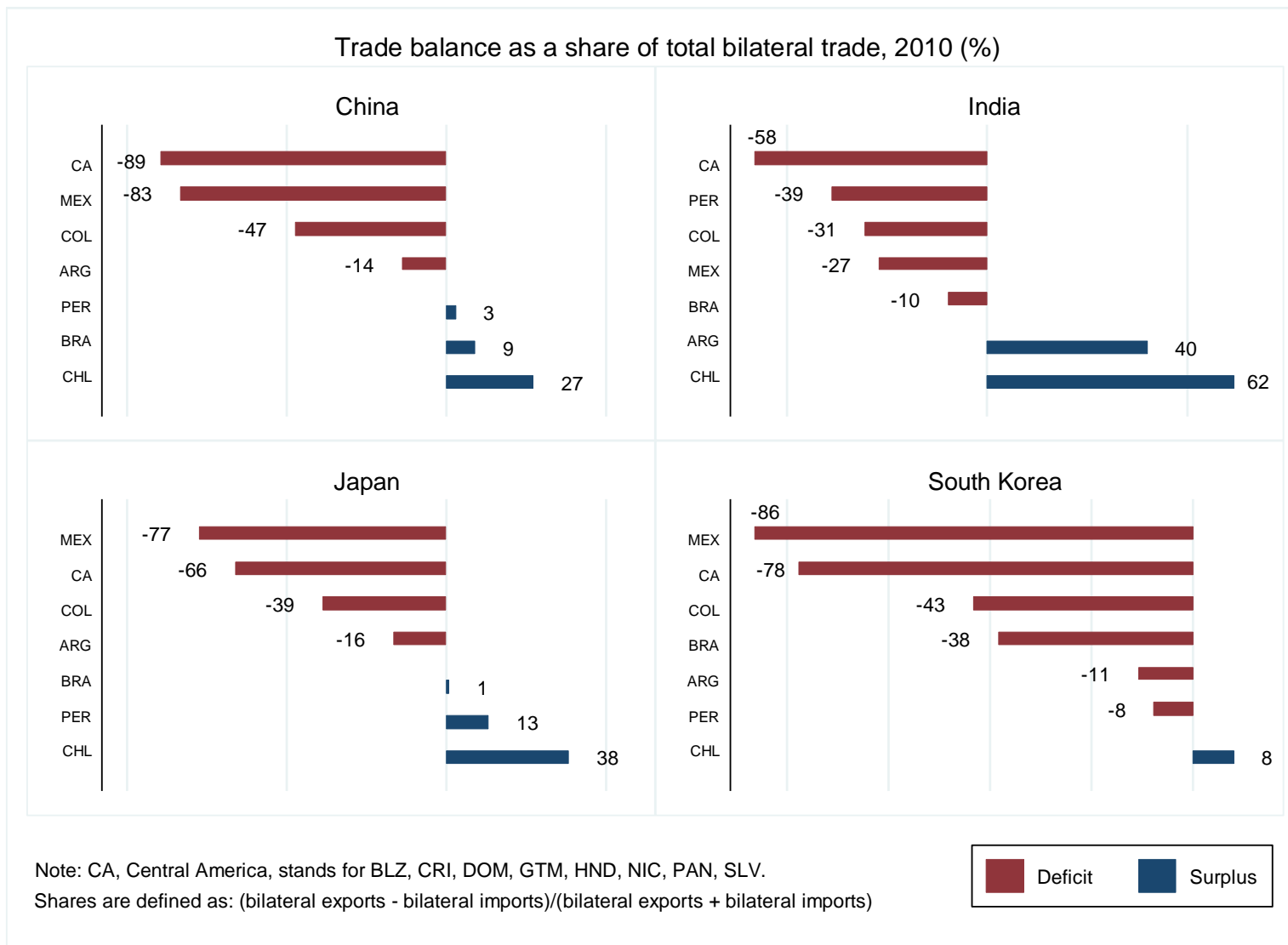


✓ Asia has become LAC's second highest trading partner, behind the U.S. (34%)

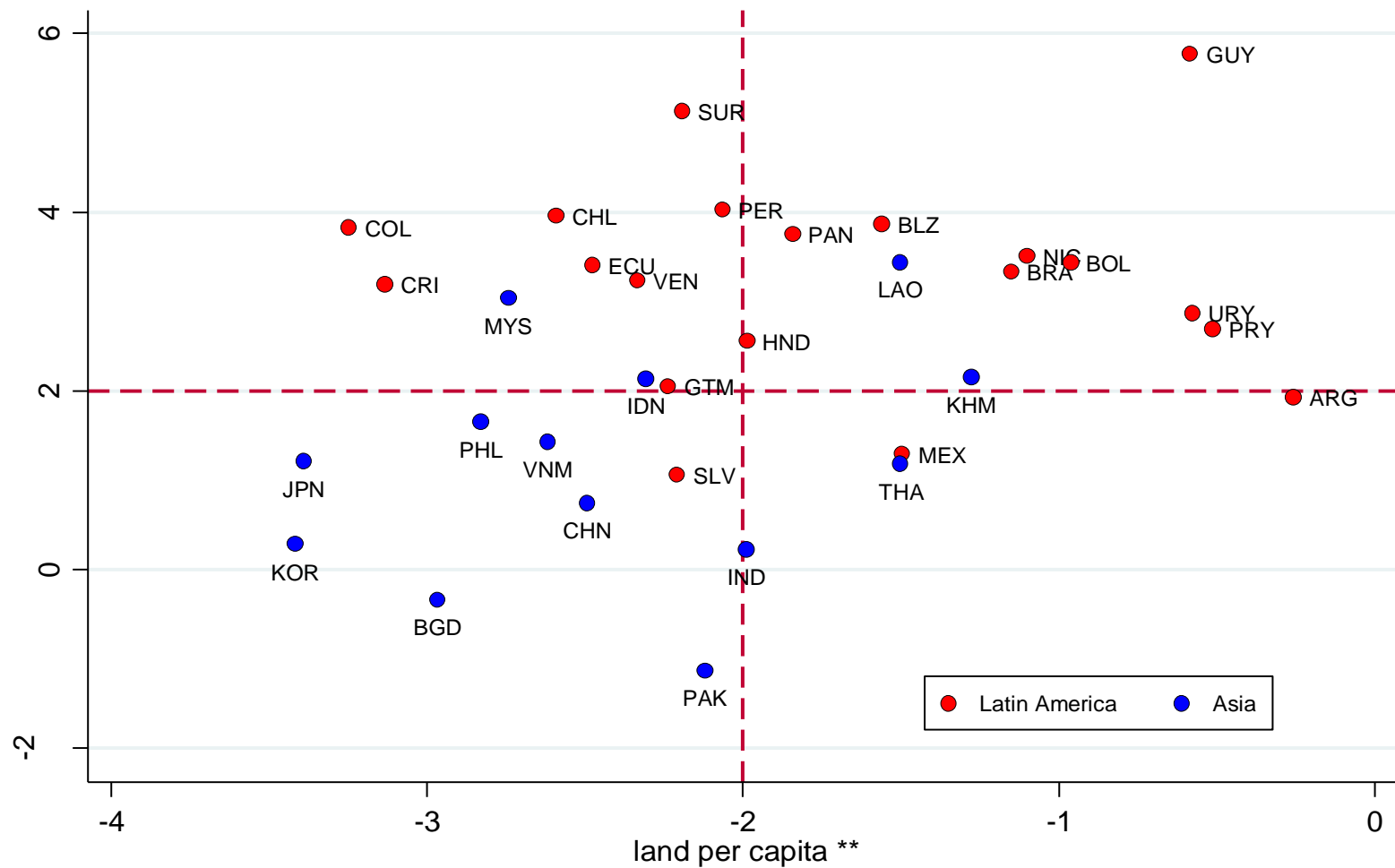
✓ In 2011, Asia-LAC trade reached an estimated US\$ 442 billion

Asia's share of LAC's trade is defined as: $(\text{LAC's imports from Asia} + \text{LAC's exports to Asia}) / (\text{LAC's total imports} + \text{LAC's total exports})$

But trade is concentrated in a few countries, with important imbalances



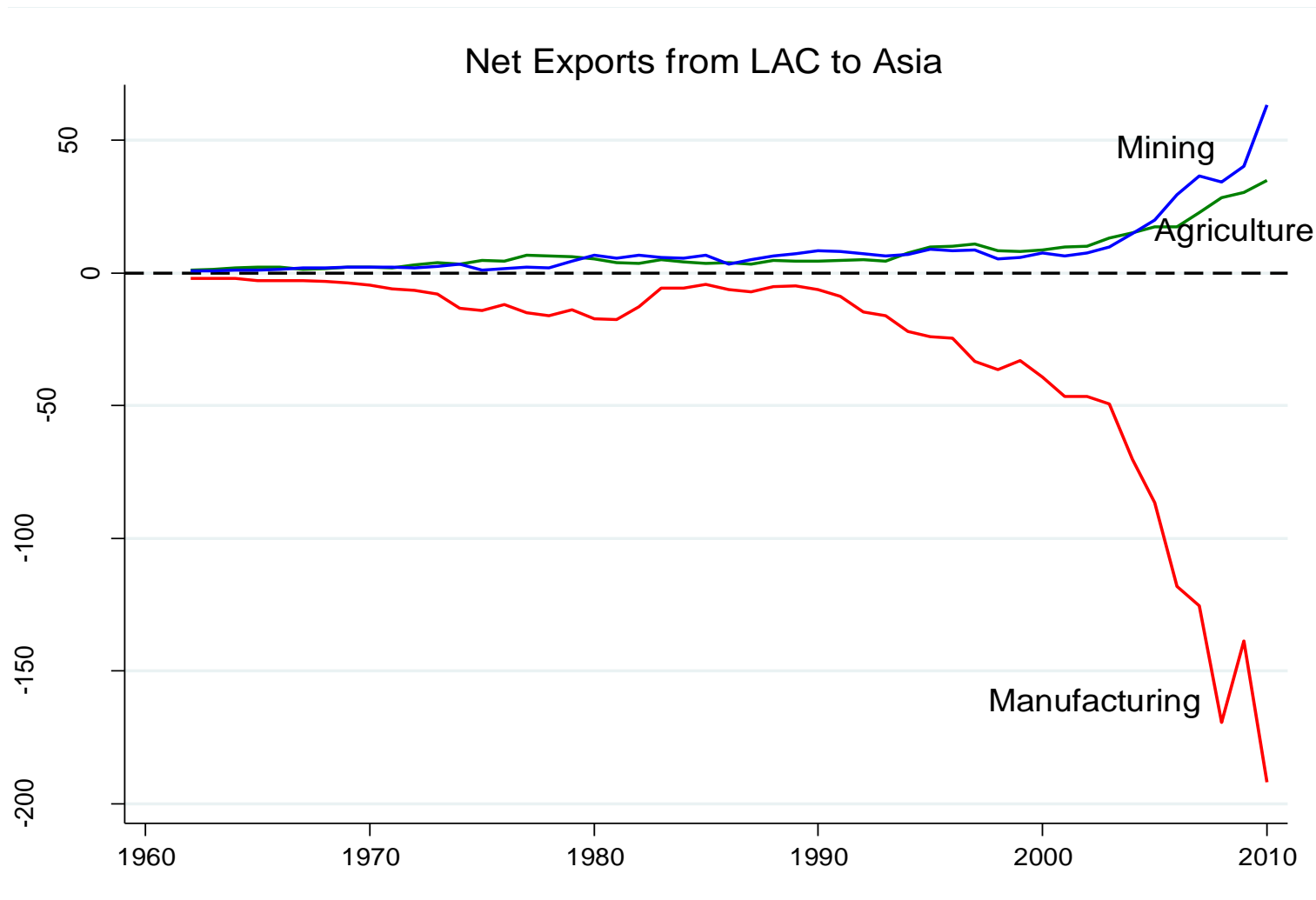
Behind these trends lie comparative advantages and resource complementarities



* log(fresh water, thousands of cubic meters per capita)

** log(arable land, sq km per capita)

This results in a deepening commodities-for-manufacturing-goods pattern of trade



Developing an architecture for lower
trade costs

The commodities-for-manufacturing-goods trade is likely to remain at the core of the Asia-LAC relationship for decades. Yet, that does not mean there are no opportunities for diversification.

Trade cost, though, need to come down.

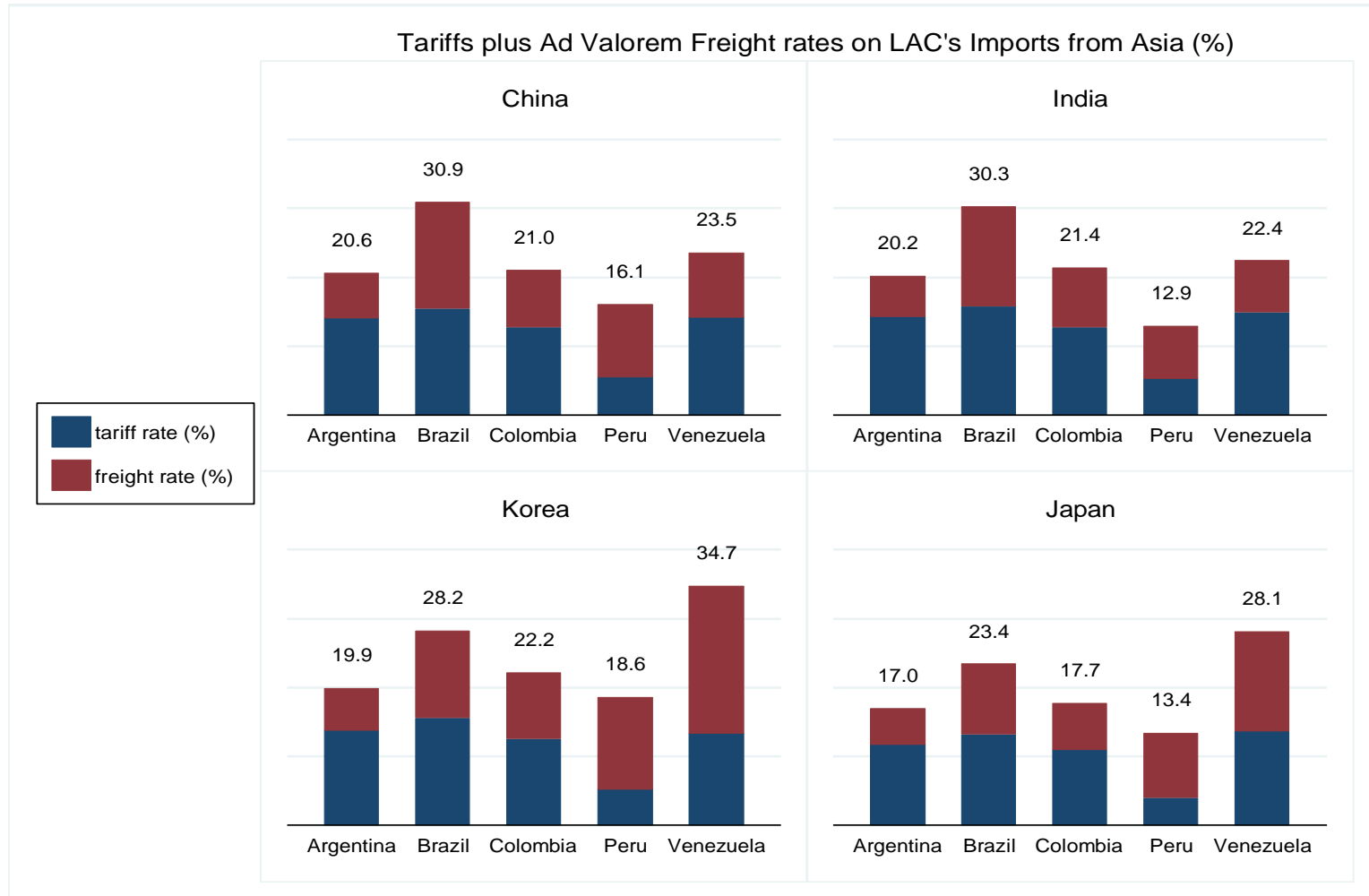
Asia's tariffs on LAC's exports (%)

Sector	ASEAN			East Asia			South Asia		
	Caribbean	C. America	S. America	Caribbean	C. America	S. America	Caribbean	C. America	S. America
Mining	0	2	1	0	2	1	8	4	4
Agriculture	17	13	7	16	10	9	38	55	21
Manufactures	5	8	7	5	6	5	11	17	13

LAC's tariffs on Asia's exports (%)

Sector	Caribbean			Central America			South America		
	ASEAN	East Asia	South Asia	ASEAN	East Asia	South Asia	ASEAN	East Asia	South Asia
Mining	7	5	6	4	5	4	6	6	4
Agriculture	16	13	17	10	13	14	11	11	14
Manufactures	10	11	17	6	7	10	8	11	15

High tariffs are compounded by high transport costs, which are particularly important for trade between distant partners that trade high weight-to-value commodities



✓ On LAC's imports from Asia, ad valorem freight rates are in most cases comparable to import tariffs.

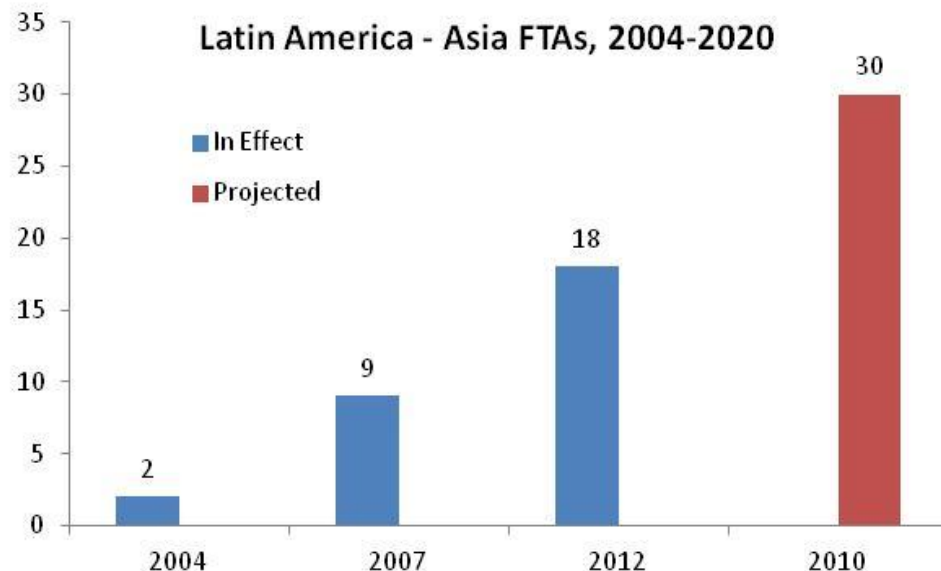
✓ If time-costs are included transport costs are likely to be much higher.

The good news is that governments are already doing something about it: FTAs

✓ Between 2004 and 2011, an average of two FTAs between Asia and LAC took effect each year.

✓ The most proactive governments have been:

- Chile (6)
- Peru (4)
- Panama (2)
- Taipei, China (4)
- Singapore (3)
- PRC (3)
- India (2)
- Japan (2)
- Korea (2)

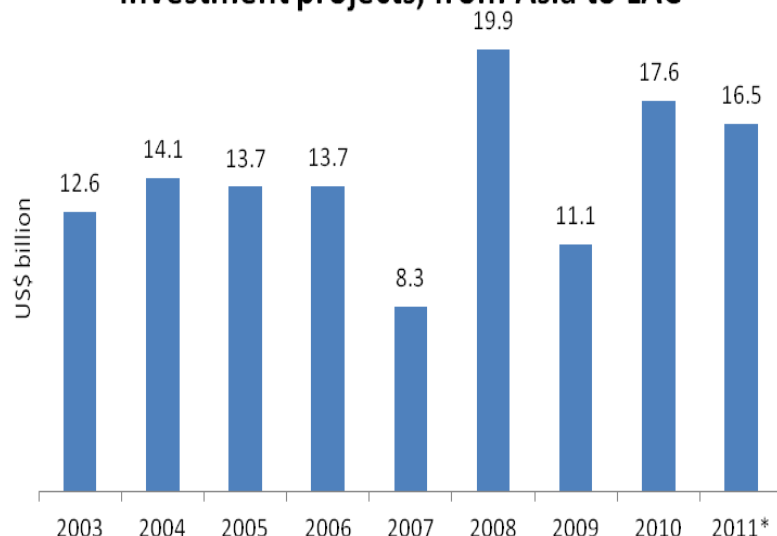


However, there is a significant variance in the scope and depth of these FTAs. Most of the Asia-LAC FTAs are in the middle of the depth scale, with gradual or fast tariff liberalization, some or high coverage of services and a low coverage of new issues, such as investment, procurement, competition and trade facilitation.

Boosting cross-regional investment

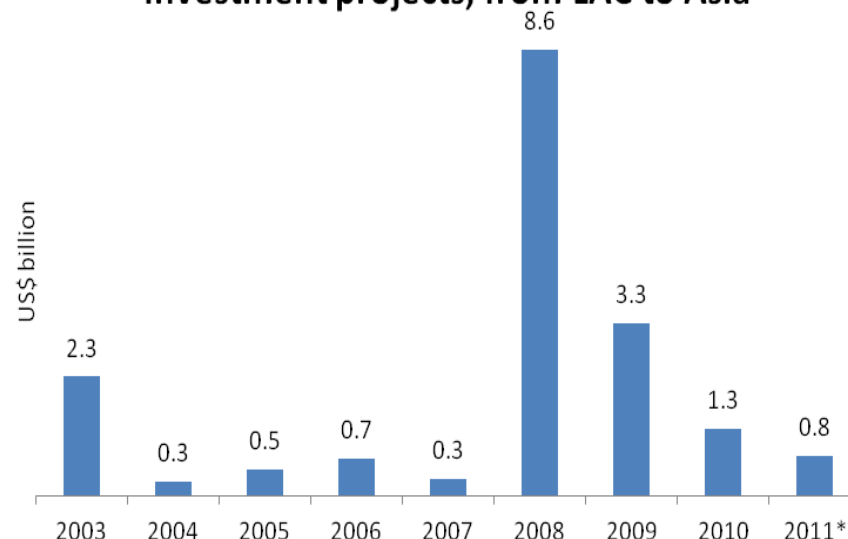
More robust cross-regional FDI can ease some of the imbalances

Investment projects, from Asia to LAC



* 2011 data is only up to August.

Investment projects, from LAC to Asia



Some good news on Asia's side

✓ Asia-Pacific announced greenfield investments in LAC in 2003-2011 totaled 127 billion.

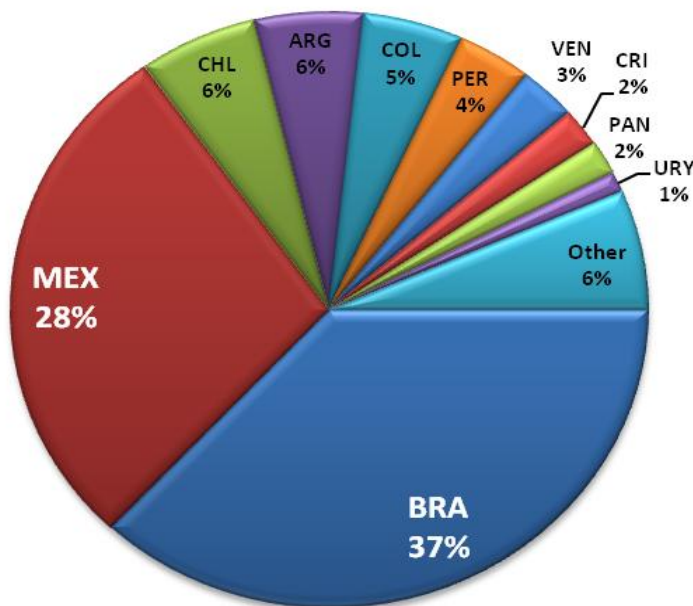
✓ But this still only amounts to 14% of LAC inflows in the period.

LAC's side has yet to reach a critical mass

✓ LAC's announced greenfield investments in Asia in 2003-2011 amounted to only US\$ 18 billion. Only 20% of the number of LAC's investment projects abroad.

Cross-regional FDI is still heavily concentrated in the large countries

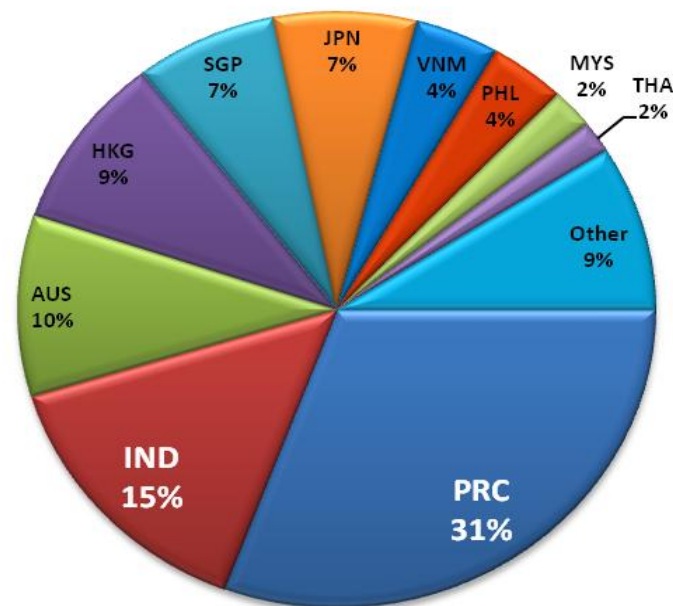
Destination of investment projects



Asia to LAC

of which:

Japan	39%
PRC	14%
India	14%
Republic of Korea	11%
Australia	8%
Others	13%



LAC to Asia

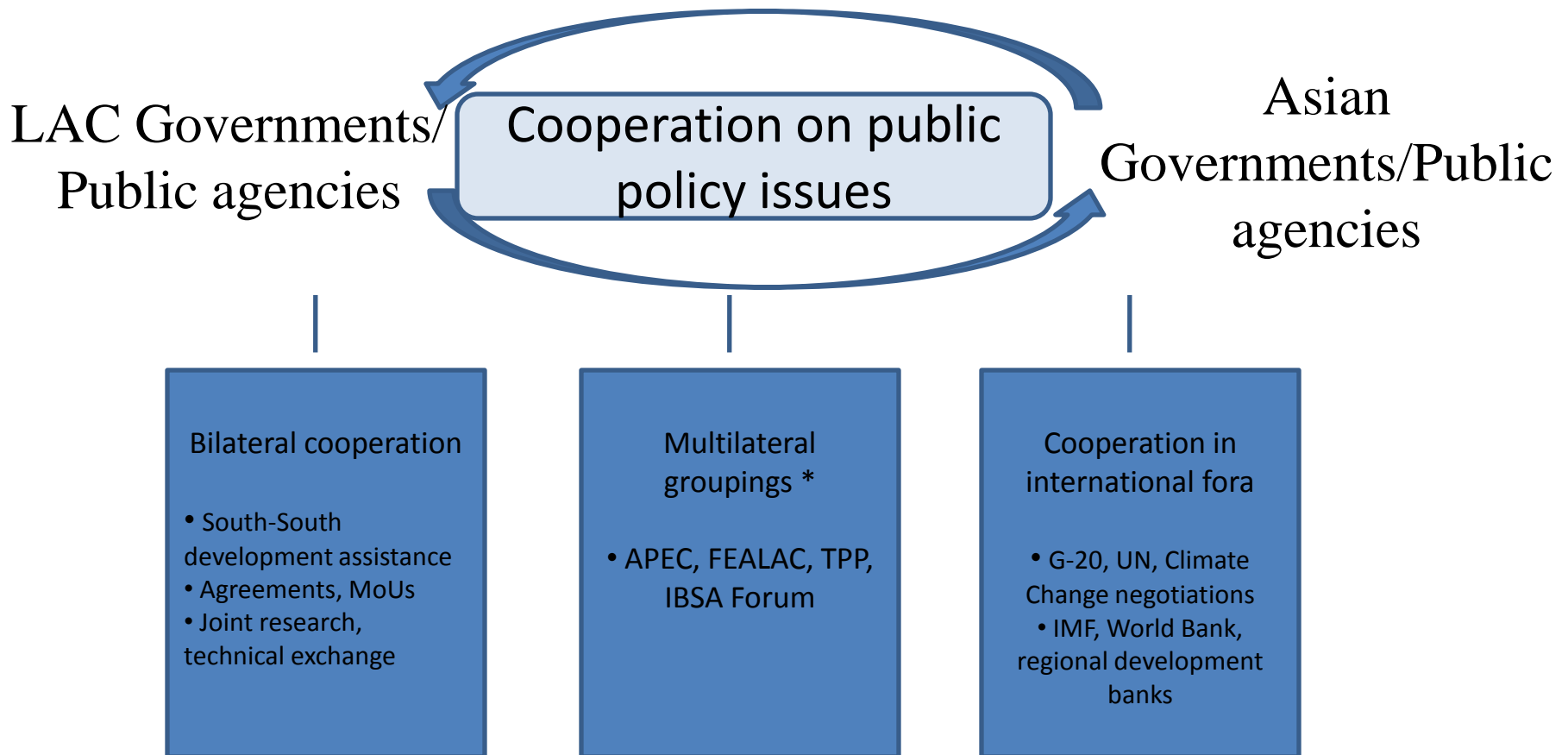
of which:

Brazil	50%
Mexico	19%
Chile	12%
Panama	4%
Venezuela	4%
Others	11%

Exploring cooperation opportunities

LAC-Asia Cooperation: building on trade and investment links

The growth of trade and investment between LAC and Asia is bringing governments in the regions closer together, creating new opportunities for broader, “non-market” cooperation



Conclusions

Bringing trade costs down and boosting investment and cooperation

- ✓ A trade surge in the last decade, mostly driven by market forces, has given the Asia-LAC economic relationship historically unprecedented importance.
- ✓ Despite its substantial benefits, trade is concentrated on a few countries and, on LAC exports side, on a few goods. Important trade imbalances have developed.
- ✓ For a more balanced and diversified relationship to become a reality, governments must address high trade costs.
- ✓ There are reasons to be optimistic. Important initiatives already have been carried out such as the 18 FTAs signed and the broader initiatives led by APEC and the Trans-Pacific Partnership.
- ✓ The challenges and opportunities brought by the trade surge can be better met by FDI. Cross-regional FDI has been growing, particularly on the Asian side, but it is still lagging behind trade.
- ✓ Cooperation between the two regions has been increasing in several dimensions reflecting opportunities to share technological and development experiences and to coordinate interests in the international arena.