



Emerging Markets Forum

Latin American and East Asian Trade Strategies

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Latin American and East Asian Trade Strategies¹

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1. Introduction

The recent proliferation of trade agreements demonstrates that a reduction in trade barriers is a desirable development tool. Evidence to this respect is the creation of the World Trade Organization (WTO) in 1995 to replace the General Agreement on Trade and Tariffs (GATT), as well as North/South preferential trade agreements, such as the North American Free Trade Agreement (NAFTA). Other regional agreements between developing economies, such as the Asian Free Trade Agreement (AFTA) or MERCOSUR in South America also have been crucial elements in these regions' development.

The surge of trade agreements represented a shift in the prevailing economic model before the early 1980s. After that period, most developing countries replaced import substitution policies with trade liberalization schemes. More recently, China's active quest to expand its presence in global markets, and its formidable economic progress reveal the benefits of expanding trade. In spite of this, there seems to be no consensus among the general public in developing countries about the desirability of free trade enhancing policies. This is particularly evident in countries where trade liberalization did not lead to better economic results, and where little progress was attained in improving the social conditions of most individuals. Moreover, in some of these countries, especially in Latin America, there are proposals to reverse the trend towards openness to reestablish more protectionist policies. The stalled Doha trade negotiations suggest that protectionism will probably hinder further progress in the global free trade agenda.

In this context, this paper seeks to establish that the most successful countries in sustaining growth and improving living standards, have been those which actually broadened their participation in global markets. The East Asian experience suggests that export-led growth and outward-oriented policies, among other policies, account for the significant growth achieved by these countries. A key factor in their success is a trade

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agenda complemented with other policies designed to improve the competitiveness of the domestic economy; through these policies, productivity is improved and sustainable growth is ensured. In general, through a coherent selection and combination of bilateral, regional or multilateral trade schemes, a positive impact on development can be achieved. Nevertheless, important challenges remain, especially concerning the compatibility of different trade options.

This paper is organized into five sections (including this introduction). Section 2 presents a brief account of the main determinants behind the contrasting development performances of Latin America and East Asia. Having identified the importance of trade policy and export-orientation as determinants of productivity improvement, section 3 compares the trade regimes followed by Latin America and East Asia. This account includes a review of trade policies since the mid-1980s, when unilateral trade liberalization was pursued, until the most recent proliferation of bilateral free trade agreements between developing and industrialized economies. The debate on the coexistence of multilateralism and regionalism is also briefly covered. Section 4 outlines the opportunities and challenges associated with the broadening of trade relations between Latin America and East Asia, including China. Finally, section 5 presents concluding remarks, which focus particularly on the need to accompany trade policy with a productive transformation agenda, to ensure that the benefits of trade materialize.

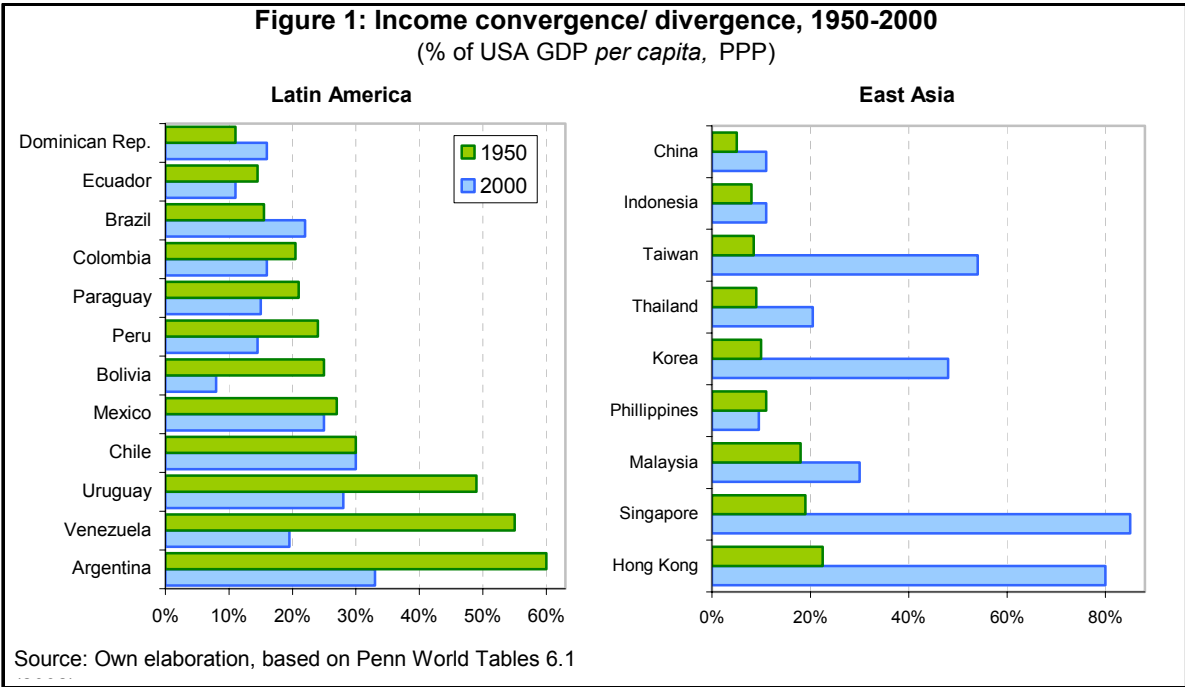
2. Latin American and East Asian development tracks

Latin America has made considerable progress during the past two decades in areas such as macroeconomic stability, greater openness to trade and international capital flows, as well as in the consolidation of democracy. In spite of this, the region has not grown enough to close a development gap that dates back to the 1950s; income distribution is extremely uneven, and social exclusion is a common element to many Latin American countries. In other words, economic growth has been disappointing, and its fruits have not been shared equitably, nor have they reached the destitute in any significant way.

Observed growth rates are relatively low when analyzed from three points of view: Latin America's average growth in the nineties was lower than in the sixties and seventies; other developing regions, such as East Asia, had higher growth rates; and growth in Latin America was substantially lower than the needed rate to improve the living conditions of

most of its inhabitants. In the first place, per capita GDP growth in Latin America between 1990 and 2003 was only 1% per annum, considerably below levels posted during the sixties (3.3%) and seventies (2.4%).² Secondly, Latin America’s growth levels lagged behind those of East Asia, with per capita income growth averaging only one-fourth of the rate reached by those Asian countries over the past four decades. This means that, while East Asia’s per capita income increased seven-fold in a forty-year span, Latin America did not even succeed in doubling its per capita GDP.³ And thirdly, the poor growth exhibited in the nineties meant that no significant reductions in poverty could be expected, as compared to the sixties and seventies, when high growth rates resulted in major social improvements.

Figure 1 illustrates Latin America’s pronounced divergence in per capita income. A comparison with the United States reveals a growing differential in per capita income between the US and Latin America over the past fifty years. When East Asian countries are considered, there is an evident convergence between per capita income of these countries and the United States’, while Latin America’s per capita income diverges.



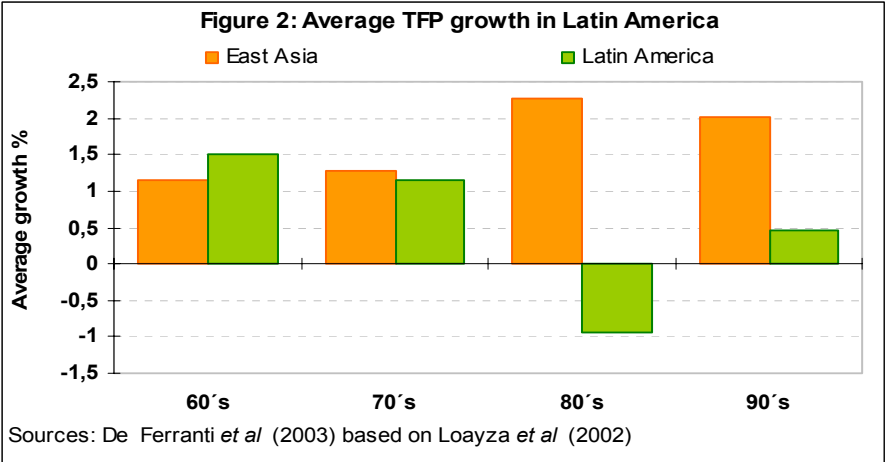
Latin America’s disappointing growth performance is largely due to its unsatisfactory record in factor accumulation and productivity growth. In their study of the

² It should be noted that growth rates slowed worldwide in the nineties, compared to growth during the sixties and seventies.

³ De Gregorio and Lee (2003).

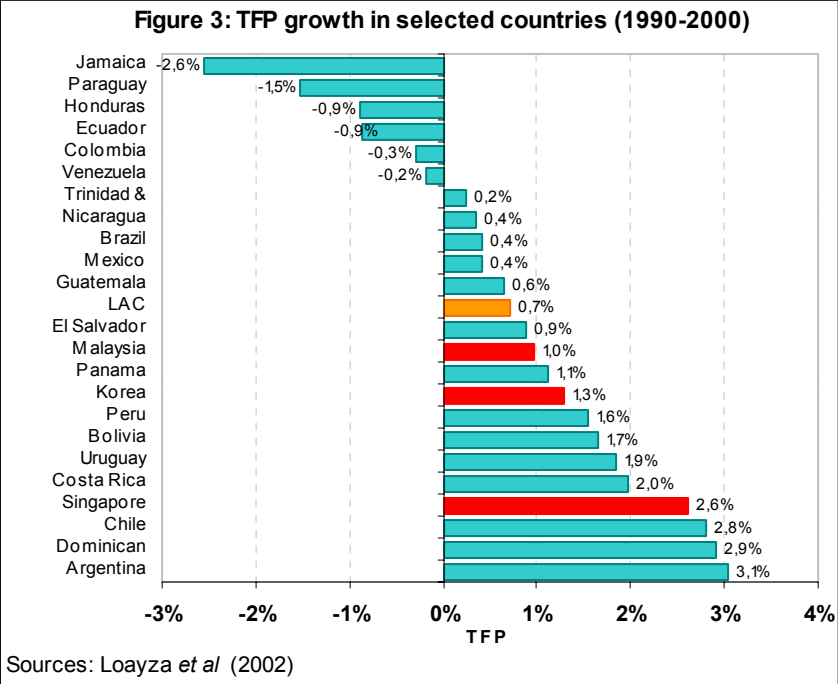
differences in growth between Latin America and Southeast Asia between 1960 and 2002, De Gregorio and Lee (2003) found that half of this differential can be attributed to factor accumulation.⁴ Investment in physical capital, has remained low in Latin America over the past two decades (20% of GDP), whereas it has increased in Southeast Asia (30% of GDP) and in OECD countries (22%). This low level of investment can be traced, in part, to Latin America’s poor capacity to generate domestic savings; according to ECLAC (2003), average domestic savings in the region declined as a percentage of GDP from 22.8% in the eighties to barely 17.7% during the 1998-2001 period. Contrastingly, domestic savings in Southeast Asia accounted for more than 35% of GDP during the 1990s.

Low productivity is another reason why Latin America has not been able to achieve sustained growth. Total factor productivity (TFP) has not grown as vigorously as in the sixties and seventies; this has widened Latin America’s productivity gap with the rest of the world. Although productivity declined in other developing regions as well, it continued to expand at a noteworthy rate in the developed world, as well as in most East Asian countries, with positive growth rates during the eighties and nineties. As shown in Figure 2, after a relatively strong expansion in the 1960s, productivity in Latin America slowed, and was actually negative during the so-called “lost” decade of the 1980s. Since then, productivity has recovered, partly due to the reforms that were put in place in the 1990s. In contrast, productivity grew at much faster rates in East Asia, greatly exceeding Latin America’s TFP average growth during the last two decades.



⁴ This differential can be broken down as follows: 20 percent represents differences in investment levels (Latin America’s levels are lower), nearly 20 percent relates to differences in fertility rates (higher rates in Latin America) and 10 percent represents differences in human capital (again lower for Latin America).

Figure 3 shows TFP trends for individual countries between 1991 and 2000, which display important differences among them. Countries like Argentina, Chile and the Dominican Republic reported annual average productivity growth of over 2%; on the other hand, in Colombia, Venezuela, Ecuador, Honduras, Paraguay and Jamaica, productivity fell. In contrast, TFP growth rates in Singapore, South Korea and Malaysia were considerably higher most Latin American countries.



A key component of the East Asian development experience has been that its growth model has been outward-oriented and export-led, suggesting a positive relationship between openness and growth. According to traditional theory, openness is desirable because it aligns domestic and international prices, allowing a more efficient resource allocation. Other channels through which openness positively affects growth are those associated with endogenous growth theory; these include technological diffusion, learning by doing, use of economies of scale, among others. There is a large body of literature which demonstrates that cross country income per capita variations can be explained by differences in the degree of openness, and that the level of openness is positively associated with real GDP growth.⁵

⁵ See for example Frankel and Romer (1999), Irwin and Tervio (2000), Sala-i-Martin (1997), Dollar and Kraay (2001), among others. Nonetheless, these results have been questioned by Rodriguez and Rodrik

The debate regarding the effect of export growth on GDP growth and development, in general, has been spurred by recent studies of developing countries at the firm level. In fact, there is evidence that firms in tradable sectors tend to be more productive and more technologically advanced; this does not necessarily imply that exports have a positive effect on productivity, but rather, that firms which are already productive are the ones which are more outward-oriented.⁶ For example, exporting firms in South Korea, Taiwan and China through their export activities, are exposed to more innovative production processes, quality control schemes, technical assistance and better training programs for their personnel.⁷ Hausmann and Rodrik (2003) argue that exporting introduces a market signal, which determines the activities in which a particular country has the most comparative advantages. In this regard, it is argued that exports can act as a mechanism of self-discovery, by helping to uncover production areas in which a country excels.⁸

The degree of openness has helped to explain East Asia's noteworthy economic performance, compared to Latin America's moderate economic results. The rest of this paper will attempt to outline the paths followed by each region's trade regimes over the past three decades. Moreover, the economic potential of an expansion in trade between both regions will also be covered.

3. Trade strategies: A Comparison between Latin America and East Asia

In the last decades, most developing countries, including Latin America and East Asia, have been committed to broadening their participation in international trade, following the global trend toward liberalization. Within the GATT framework, industrialized countries reduced their tariffs significantly, and eliminated a large part of their non-tariff barriers. Developing economies also undertook important reforms in this regard, abandoning protectionist policies in favor of export-led growth. In general, the global process toward liberalization resulted in a growing economic interrelation among

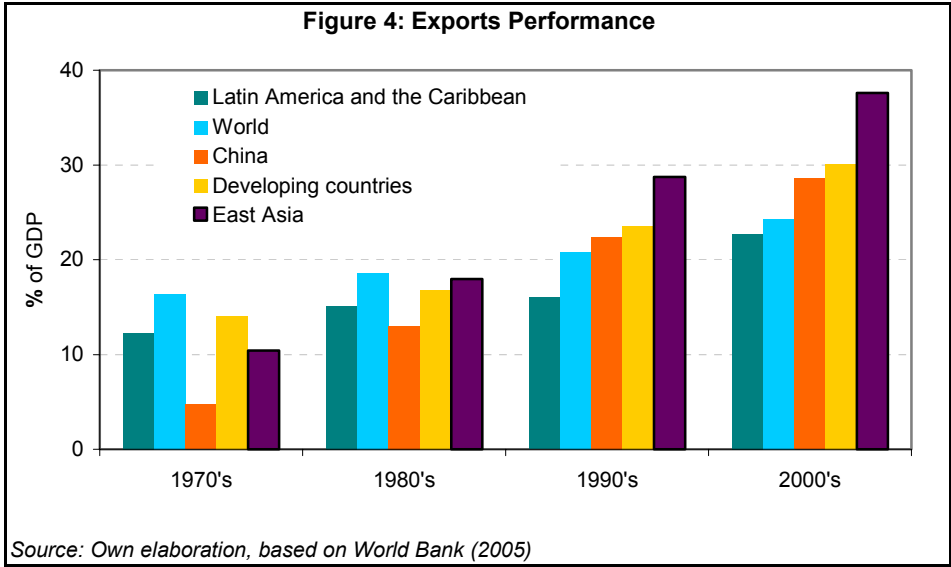
(2000) on methodological grounds, and given the difficulty to ascertain the causal relationship between these variables.

⁶ Tybout (2003) and Rodríguez Clare (2005).

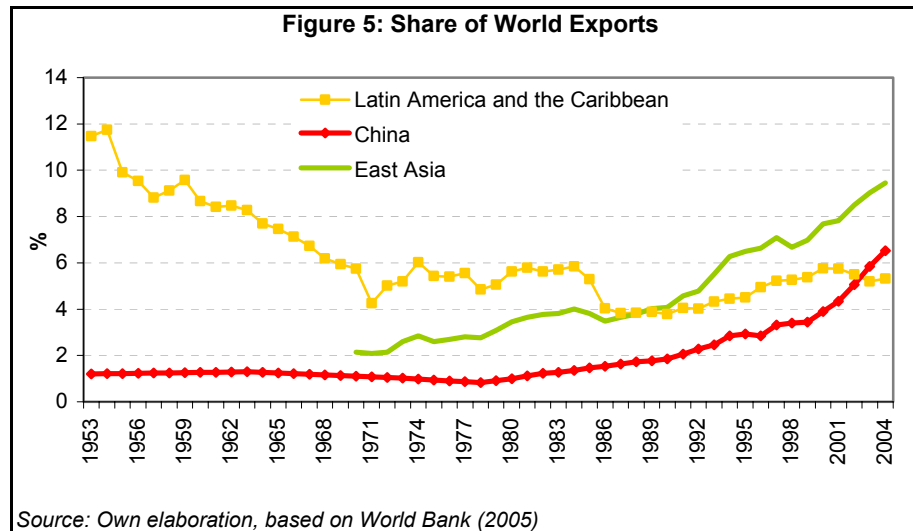
⁷ Aw, Chung and Roberts (2000) and Liu, Tsou and Hammitt (1999).

⁸ There is a growing literature about the role that exports play on learning potential and productivity growth. For the Colombian case, for example, Fernandez and Isgut (2004) find that exporting firms exhibit a greater annual productivity growth, which fluctuates around 4-5%.

countries through the trade of goods and services, capital and even immigrant flows. As a result, global exports, as a percentage of GDP, have doubled in the past 40 years, and almost half of this growth has occurred during the last decade.



Despite these trade liberalization efforts, the impact of these reforms on development has been largely disappointing. In the case of Latin America, greater openness has not resulted in sustained growth and, as shown in Figure 5, its participation in world trade has actually declined. In contrast, East Asia boasts a consistently increasing share in global markets. This situation is partly due to each region's particular pattern of specialization (outlined below), and to the growing productivity gap between Latin America and East Asia. More recently, this situation has been exacerbated by expectations that China, given its notable economic progress, and the rapid opening of its economy, is becoming a leading player in global trade.



Furthermore, imports from developing economies are still subject to trade barriers applied by both industrialized countries and other developing countries. Despite great progress in global trade liberalization, developed countries continue to impose high levels of protection in important sectors, particularly in agricultural products and medium-technology manufactures such as a textiles and apparel. Although average tariffs are relatively low, trade regimes in industrialized economies are characterized by the imposition of peaks (tariffs over 15%), tariff escalations (tariffs that rise according to the degree of processing of the imported good), and various forms of non-tariff barriers.

According to the World Bank and the IMF (2002), trade barriers impose important costs for developing countries. For example, in the specific case of textiles and clothing, protectionism of industrialized countries has caused an estimated loss of 27 million jobs in developing countries; for each job recovered through protectionism in industrialized countries, 35 are lost in developing regions. Anderson *et al* (1999) estimate that OECD's agricultural policies result in annual losses in welfare of close to US\$18.9 billion. According to this study, agricultural trade liberalization would benefit Latin American countries in particular. Specifically, liberalization would generate per capita benefits of around US\$30 in Latin America, US\$1 in South Asia, US\$4 in Southeast Asia and US\$6 in Sub-Saharan Africa. More recent updates regarding the potential benefits of the WTO Doha round, demonstrate that cuts in agricultural domestic support, as well as the elimination of subsidies for agricultural exports in industrialized countries, would represent global real

income gains of up to US\$ 120 billion, compared to a baseline by year 2015 (Anderson *et al*, 2005).

In addition to the trade barriers imposed by industrialized countries on Latin American imports, the level of protectionism among the region's countries is also quite high. Although the region has made considerable progress in reducing its average tariff levels, and trade dispersion has decreased from 30% in 1980 to 10% at present, it continues to apply high levels of protection. The average tariff level on non-agricultural goods exported from Latin American countries to others within the region is currently 15.4%, which is approximately seven times the average tariff level applied by industrialized countries for the same group of goods. In comparison, trade within East Asia is more liberalized (in the case of non-agricultural products), since a lower average tariff level is applied to intra-regional East Asian imports. However, East Asia imposes higher tariffs on agricultural goods, whether they are imported from countries within or outside the region; Latin American products are actually taxed with the highest tariffs.

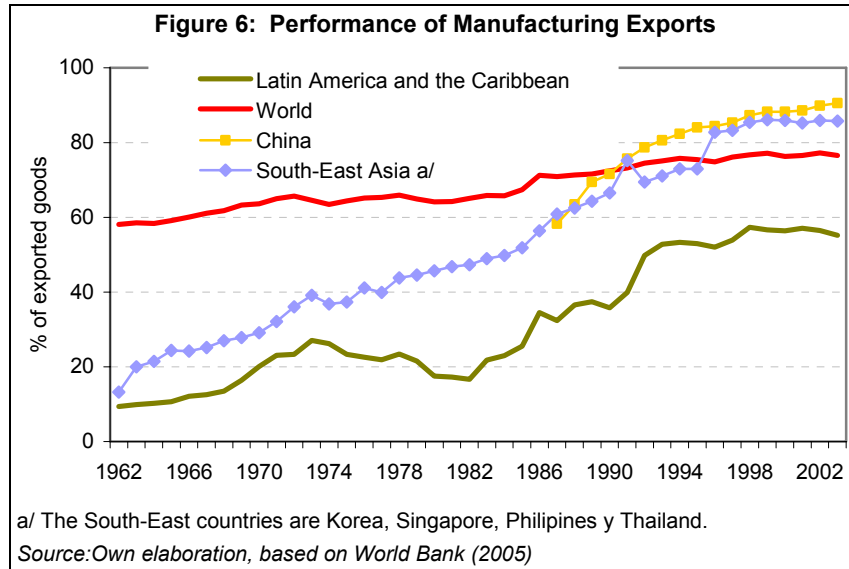
Table 1: Average tariff by type of good and by region (%)

Exporting region	Importing region		
	East Asia	Latin America and the Caribbean	Industrial countries
Agricultural goods			
East Asia	31.0	15.5	30.5
Latin America and the Caribbean	42.1	14.8	20.4
Industrial countries	33.3	20.1	15.3
Non-agricultural goods			
East Asia	8.2	15.1	5.1
Latin America and the Caribbean	4.3	15.4	2.1
Industrial countries	7.4	8.5	1.0

Source: World Bank (2003)

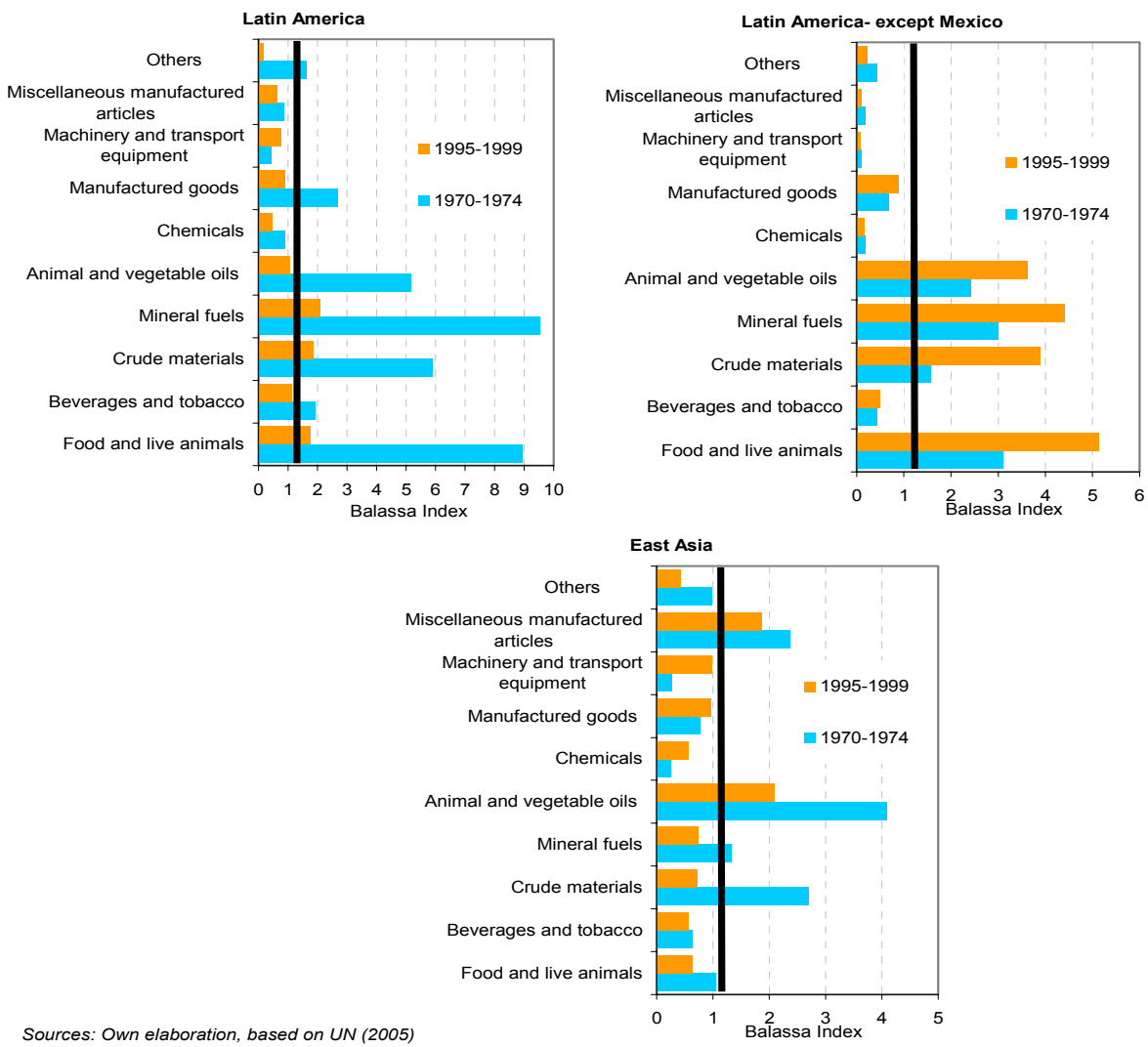
Trade patterns

Manufactured goods have been the fastest-growing exports; in the 1960s, they represented close to half of total trade, and now they amount to nearly 80% of total goods traded. Moreover, fast-growing emerging economies have been gaining ground in the manufactured goods global market, at the expense of other developing economies. For example, China and Southeast Asian countries have experienced a significant growth in manufactured exports. In contrast, Latin America, with the exception of Mexico and some Central American countries, has posted a modest growth in the last decade in manufactured exports.



These trade patterns are consistent with particular comparative advantages. The fact that Latin America has lost participation in the markets for manufactured goods, partly reflects its comparative advantage in terms of its abundant natural resources, and the limited value added goods in its export basket. The only exception is Mexico, which has considerably changed its export structure to include high and intermediate technology manufactures. In contrast, exports from East Asia exhibit comparative advantages in machinery and transport equipment, animal and vegetable oils and in other manufactured articles.

Figure 7: Comparative Advantages



Sources: Own elaboration, based on UN (2005)
 Balassa Index: measure of relative export performance by country and industry, defined as a country's share of world exports of a good divided by its share of total world exports.

Latin American exports are also highly concentrated. Figure 8 displays this characteristic, which is measured by a normalized Herfindahl-Hirschmann index. When the index is close to one, the country's exports are less diversified. As can be seen in the graph, the Latin American export basket has been much more concentrated than that of developed economies; however, in recent years exports have become more diversified. In the case of East Asia, exports are more diversified than in Latin America.

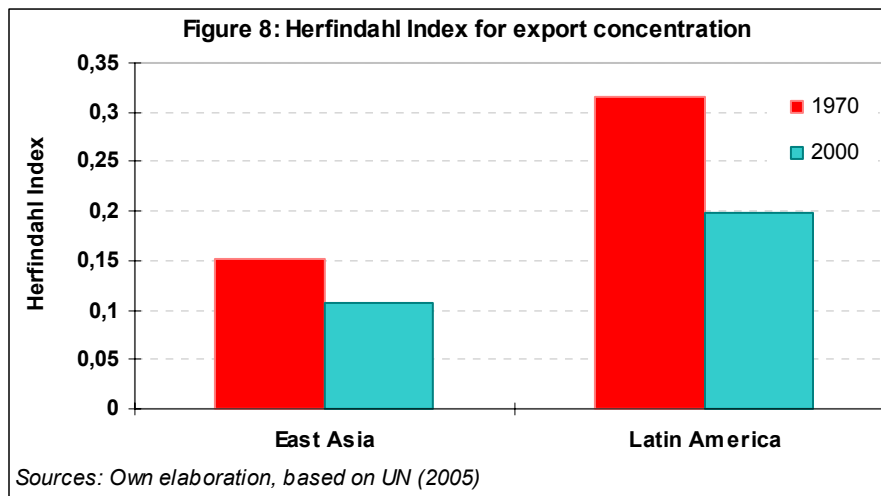


Table 2 shows the trend in manufactured exports and the share of manufactured value added goods. Although industrialized countries' share in global manufactured exports has declined between 1980 and 1997, its share of global manufactured value added goods has increased. The situation differs for developing countries: while Latin America has increased its share of global manufactured exports, its share of global manufactured value added goods has declined. In contrast, the increase in manufactured exports in Southeast Asia and in China, has been accompanied by a larger share of manufactured value-added goods in global markets. Although most Latin American countries have increased their manufactured exports, they continue to be net importers of these goods, and have not been able to move up the value chain.

Table 2: Participation in manufactured exports and manufactured value added goods by regions, 1980 vs. 1997				
	Participation in global manufactured exports (%)		Participation in global manufactured value added goods (%)	
	1980	1997	1980	1997
Industrial countries	82.3	70.9	64.5	73.3
Developing countries	10.6	26.5	16.6	23.8
Latin America	1.5	3.5	7.1	6.7
South East Asia	6.0	16.9	7.3	14.0
China	1.1	3.8	3.3	5.8

Source: UNCTAD (2002)

The rise in medium and high-technology manufactured exports respond to the fact that many of these goods are part of international production chains (i.e., trade patterns respond to the fragmentation degree of production processes).⁹ Currently, about 40% of global trade is intra-industrial (trade of similar goods between countries). In developing countries, the main form of intra-industrial trade is vertical, given that trade occurs within the same production chain (for example, in the vehicle-assembly industry). Table 3 displays these patterns in intra-regional trade.¹⁰ It is worth noting that generally different regions tend to trade more intra-industrially among themselves, than with the rest of the world. For example, 35.5% of intra-industrial trade in the European Union is vertical, 29% in the case of North America, and 24.2% in East Asia. In contrast, the share of intra-industrial vertical trade in Latin America (perhaps with the exception of Mexico) is comparatively low (10.6% in the Andean Community and 16% in MERCOSUR).

Table 3: Typology of intra-regional trade by trading blocs (% of total intra-industrial trade)

Regions	Inter-industrial	Others (not classified)	Horizontal Intra-industrial	Vertical Intra-industrial
European Union	38.31	1.53	24.66	35.51
NAFTA	27.97	19.44	23.58	29.01
Mexico	36.33	10.93	10.07	42.67
MERCOSUR	67.63	0.52	15.97	15.87
Andean Community	80.79	0.47	8.16	10.59
East Asia	62.93	4.96	7.95	24.15

Source: Zignano (2005).

These patterns reflect the growing importance of global production chains. This is the result of the reductions in transportation costs, and the improvements in domestic absorption capacities (particularly those related to human capital stocks), which have enabled technological diffusion and enhanced location advantages in certain emerging economies. International production sharing has also been associated with a rising degree of intra-regional trade in parts and components that are produced and assembled into final goods within Asia, particularly in East and Southeast Asia. For example, developing Asia's

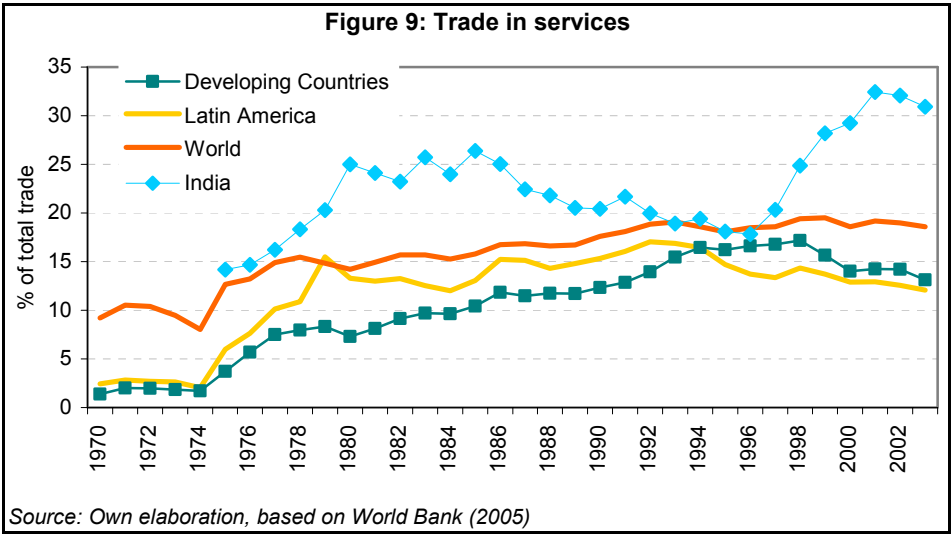
⁹ Fragmentation is defined as the distribution of the productive chain among several countries. The production site and the subsequent value added stages are determined according to the particular comparative advantages of each country.

¹⁰ The focus is on intra-regional trade, given that it concentrates the main thrust of intra-industrial trade. By contrast, within extra-regional trade, the share of intra-industrial trade is generally low.

share of world trade in parts and components rose from 16% in 1992 to 32% in 2003, surpassing NAFTA’s share.¹¹ Although components are traded within developing Asia, the ultimate destination for most assembled products remains outside the region, mainly in the EU and US markets.

In sum, while global trade of goods is increasingly being driven by the dynamic trade of manufactured goods from Southeast Asia and China, most Latin American countries (particularly in South America) continue to export mainly primary goods or natural resource-based manufactures. To a large extent, these differing trade patterns reflect relative comparative advantages and productivity differentials, which have enabled countries such as China and other East Asian economies to actively participate in global production chains. Furthermore, the persistence of trade barriers has also inhibited a larger penetration of Latin American goods in global export markets.

An important phenomenon that has also occurred in the past few years has been the significant growth of international trade in the service sector. Global trade of services has grown twelve-fold in the last 30 years, and has doubled its participation in total global trade. This trend is expected to continue in the future, not only because new transportation infrastructure has been developed, which the service market greatly depends upon, but also because the demand and supply of services tend to grow as income levels rise.



Trade patterns in services are relatively similar to those outlined for goods. Asian countries, such as India, stand out from others because of their growing participation in

¹¹ Athukorala and Yamashita (2005).

global service markets. In fact, India's exports of services multiplied four-fold in the nineties, and accounted for close to 1.3% of global service exports in 2001. Several factors explain this performance, such as the upgrade in technology and in labor skills.¹² In contrast, after an initial boom during the seventies, Latin America's participation in service markets has been diminishing steadily over the past three decades.¹³ The evolution of service trade in Latin America is explained by specialization patterns which correspond to its particular comparative advantages; for example, the region's large share in tourism partly reflects its natural resource endowments. Nonetheless, services trade has increased in spite of the numerous barriers that hinder it, such as quotas, tariffs, taxes, licensing requirements, discrimination against foreign investment, among others (McGuire, 2002).¹⁴

Trade strategies in Latin America and East Asia

Unilateral liberalization

Trade liberalization has been pursued by most developing countries for the past two decades. The debt crisis of the 1980s, and the ensuing external restrictions, revealed the limitations of import substitution policies pursued by most Latin American countries. These policies were abandoned when adjustment programs were put in place, and most countries in the region began to dismantle their protectionist regimes to participate in the world economy in a different way. The prevailing strategies until the early 1980s had promoted industrialization through high tariff barriers and quantitative restrictions; the new regimes fostered development through increased and improved participation in the world economy. Export growth, and access to new markets took on a strategic sense. It was no longer a matter of protection against imports, but of developing competitive, tradable sectors.

Initially, trade liberalization was unilateral, and was basically designed to address the external restrictions imposed on the region at that time. As Table 4 shows, tariff levels were drastically cut. Consistent with these measures, openness, (measured as the ratio of exports plus imports to GDP), increased considerably (Table 5).

¹² According to a management survey undertaken by A.T. Kearney (2004), labor and management skills are the two principal attributes which attract foreign direct investment in India.

¹³ Latin America's share of global service exports increased from 1.2% to almost 5%, between 1974 and 1979; ever since, this participation has diminished systematically. In 2003 this proportion was less than 3% (World Bank, 2005).

¹⁴ There are also obstacles to cross-border labor movement, such as entry barriers, residency restrictions, special taxes, and many other regulations that vary from country to country (Martinez and Villa, 2005).

Table 4: Average tariffs per region, 1980-1999				
	1980-1985	1986-1990	1991-1995	1996-1999
Latin America	30	22	15	11
OECD	18	10	9	8
East Asia	28	18	19	16

Source: De Ferranti et al (2003).

Table 5: Trade Openness by decade			
	1980's	1990's	2000's
Latin America	31.7%	40.6%	48.3%
Andean countries	37.3%	41.5%	41.9%
MERCOSUR	17.8%	19.1%	28.1%
OECD	37.3%	38.1%	45.6%
South East Asia	88.4%	119.7%	137.3%
China	21.5%	39.7%	54.5%

Source: Own elaboration, based on World Bank (2005).

Unilateral trade liberalization in East Asia was similar to the Latin American experience. The elimination of tariffs on capital and intermediate goods, as well as the reduction of non-tariff barriers in the 1980s, played a prominent role in igniting, and then sustaining trade growth in the period from 1980 to 1998. This built on previous policy developments, such as the establishment of export processing zones for manufacturing, and special economic zones throughout East Asia. In addition, technological advances which lowered transportation costs also spurred Asia's trade. In fact, an increase in trade efficiency, as well as the reduction of trade costs, may have had a more powerful effect on trade than trade liberalization itself.¹⁵ Actually, East Asia applied higher tariff levels (16%), on average, than Latin America (11%) during the 1996-1999 period. Instead, higher trade efficiency was achieved through various trade facilitation measures, such as the application and diffusion of improved telecommunications in international transactions; the development of port infrastructure, and improvements in customs procedures, among others.

Regional integration schemes

Efforts to integrate Latin American economies date back to the 1950s, when a free trade area was established between South America and Mexico (known as the Latin

¹⁵ Engman (2005).

American Integration Association), and a common market was created in Central America. However, these frameworks – and those that followed them, such as the Andean Community – exhibited the same flaws as national development strategies. Economic integration caused national import substitution strategies to be reproduced at the regional level. Thus, countries promoted “inward-looking” integration, raising protectionist barriers and stimulating regional or sub-regional industrial integration projects. As might be expected, integration made little progress in this initial period. The economies of the region were closed not only to the rest of the world, but also to their regional partners. Moreover, given the similarities of their productive structures, Latin American countries were more resistant to negotiate with their neighbors, than with the rest of the world.

However, this situation changed in the early 1990s, when an important reactivation of some of the old integration frameworks took place, and new ones were established, such as MERCOSUR.¹⁶ These new efforts to promote further integration between neighboring countries were more effective than previous ones. Tariff and non-tariff barriers were eliminated, intra-regional trade grew rapidly, and relations between economic agents in various countries were significantly strengthened. Openness produced a new type of integration, referred to as “open regionalism.”¹⁷

In this new context, the existing integration schemes in Latin America acquired greater vigor, and rapidly achieved important objectives such as the liberalization of reciprocal trade. During the first stages, trade dynamism included the active participation of business sectors, which had previously adopted a passive role in integration strategies promoted by their governments. At this point, integration was seen as a way to effectively enhance Latin America’s participation in the world economy.

Despite these efforts, regional markets have not been as active as it was expected; they represent only a limited fraction of the countries’ total trade, although this may vary according to specific countries.¹⁸ In addition, trade flows within regional groups are generally dominated by trade between the largest countries. Moreover, since the late 1990s, regional integration schemes have become sluggish. MERCOSUR is still affected by the

¹⁶ MERCOSUR was established in 1991. Its member countries, Argentina, Brazil, Paraguay and Uruguay, set an ambitious timetable of tariff reductions, which was completed by 1994, with some exceptions.

¹⁷ IADB (2002)

¹⁸ In MERCOSUR, for example, even though reciprocal trade has increased, the sub-regional market only represents 13% of its members’ total exports (after exceeding 25% in the late 1990s). On the other hand, although intra-Andean Community trade has doubled among member countries, it only represents 10% of this region’s total exports.

adverse consequences of the financial crisis that hit the region at the end of the 1990s. There has also been a systematic failure to meet integration targets, and the institutional framework, including settlement dispute mechanisms, continues to be fragile. As a result, MERCOSUR's credibility has diminished among economic agents, who have begun to doubt the stability and consistency of the scheme. In the Andean Community, for various reasons, the integration process has also been hindered, in part by the political turbulence in certain member countries.

In the case of East Asia, an increasing bias toward intra-regional trade has been observed since the mid-1980s, which coincided with the proliferation of intra-regional foreign direct investment, and unilateral trade liberalization in some countries of East and Southeast Asia.¹⁹ The expansion of FDI and FDI-related intra-industry, as well as intra-firm trade that led to greater integration within Asia, and the growth of intra-regional trade, all began before the recent boom of preferential trade agreements involving Asian developing countries; a situation quite unlike what was seen in Latin America.

AFTA, the Asian Free Trade Agreement of the Association of Southeast Asian Nations (ASEAN), conducted fast-paced trade liberalization during the early 1990s, along two tracks which coalesced into a framework of "open regionalism," similar to the one outlined for Latin America. One track implied an ambitious reduction of most tariffs from around 20% to 5% in 2005, and another one encouraged members of AFTA to reduce tariffs applied to the rest of the world, to reach a target of 10% by 2005. These measures were implemented under the assumption that ASEAN countries needed a simultaneous deepening and opening of their economies in order to face outside competition. This would allow them to become sufficiently competitive to cope especially with China, which at that time, was negotiating its incorporation to the World Trade Organization (WTO). Nevertheless, the Asian Financial Crisis changed the nature of this process. In 1997, as the financial crisis unfolded, AFTA's liberalization path was modified; the target date for the first track was changed to 2002, and the reduction of tariffs to the rest of the world was postponed. In other words, AFTA became more closed to the rest of the world, and more open among its members, thus strengthening the process of regionalism.

Regardless of this push for further regionalism, the large list of exceptions granted within AFTA produced a counter-productive reaction from some of its members, who were

¹⁹ Thee (1991 and 2003)

interested in free trade (Desker, 2004). Singapore, being a major international trading hub, was a natural opponent to this reformulation of AFTA, as well as Thailand, which was greatly affected by the financial crisis of 1997. Both countries believed that, because AFTA did not allow a rapid increase in regional trade, the ideal venue was to pursue bilateral agreements with countries beyond ASEAN (Hiwatari, 2003). Although countries have been encouraged to consider trade deals with other neighbors, progress in this front has been limited. This reflects the diversity of approaches within ASEAN countries, in terms of economic development and trade competitiveness, and also regarding their perceptions of the value of an East Asian regional bloc (Smith, 2004).

In view of these experiences, it seems necessary to rethink regional integration, to focus on the achievements so far, especially the liberalization of reciprocal trade, and to further develop new markets. The Latin American experience has revealed that the elimination of tariffs does not remove all the barriers to trade, and that many of these barriers – technical rules, customs obstacles and limitations on infrastructure, among others – are much more difficult to correct than tariffs barriers. Regional integration has to be seen as a long-term effort. Existing treaties, or those that may emerge from increased coordination, must be provided with a solid legal and institutional framework of a regional scope. The credibility of integration, and the participation of economic operators, depend on the honoring of commitments, the execution and continuity of the initiatives taken, and the existence of effective dispute settlement mechanisms.

Moreover, as the East Asian experience shows, the heterogeneous nature of the countries involved in regional integration schemes, the characteristics of intra-industry trade, and the role of FDI in fostering intra-regional trade, are also important determinants to the potential success of regional integration initiatives. In addition, more than trade liberalization per se, a more effective push was given to intra-regional trade through the improvement of infrastructure, and the adoption of trade facilitation measures.

Participation in the multilateral sphere

Most developing countries are active members of the World Trade Organization (WTO), where global free trade is pursued under a non-discriminatory, reciprocal basis. The multilateral system under the WTO is very different from the old system under the General Agreement on Trade and Tariffs (GATT); WTO's area of expertise has been

broadened, to include issues such as trade in services and intellectual property. Also, respect for the rules is more stringent and rigorous, partly due to the strengthening of dispute settlement mechanisms. In contrast, GATT limited its field of action to trade in goods, and had given developing countries a series of privileges which WTO eliminated.

During the GATT period, developing countries were excluded from the trade liberalization commitments achieved in negotiating rounds, given the special and differential treatment they enjoyed. When the multilateral system was established, the negotiating rounds became the framework through which trade concessions were negotiated, generally between pairs of countries, which were then applied to all participating countries under the most favored nation (MFN) clause.

For developing countries, the shift from a more flexible GATT system, to a more demanding WTO, clearly involved important commitments. First, countries agreed to consolidate tariffs, such as fixed ceilings, which prevented an increase in tariffs without negotiating equivalent concessions with the affected WTO countries. Second, most developing countries agreed to execute their trade policy in conformity with the WTO multilateral guidelines, which cover a broad range of areas, such as export subsidies, trade-related investment policies, sanitary and phytosanitary requirements, and the application of compensatory rights and antidumping. Consequently, WTO membership contributed significantly to the strengthening of economic reforms, and to further economic openness. Member countries can also rely on a stable legal framework to expand their markets, promote their trade interests, and assert their rights.

The ongoing negotiations, grouped into what is known as the Doha Development Program, will prove whether multilateralism is effective for developing countries. These ambitious negotiations will define WTO's role as an institution capable of promoting liberalization and the growth of world trade. One of the key issues included in these negotiations is the expansion of markets for agricultural products, industrial goods and services. Also, there is an attempt to improve WTO regulations, so that they may be better adjusted to the reality of international trade, and to the differences between WTO members, particularly regarding their size and their specific characteristics and interests. However, the Doha negotiations are currently stalled, due to the inability of negotiating countries to agree on measures to further liberalize agriculture, considered to be the most protected sector worldwide. Both the US and the EU have not reached an agreement on the reduction

of domestic support policies in key sensitive agricultural sectors, which tend to distort relative prices, and render international competition asymmetrical. This led to the suspension of the current round talks in late July 2006.

The experience of developing countries in Latin America and East Asia can shed some light on the present debate regarding the compatibility between multilateralism and regionalism. Recent experience reveals that it is possible to participate actively and constructively in different trade negotiation schemes, to use the existing negotiating fora effectively, and to promote particular trade interests where successful dialogue may take place. However, the relation between regional initiatives and the multilateral trade system is not trivial. Although the WTO has tried to establish criteria that may allow regional initiatives and multilateral rules and obligations to coexist in harmony,²⁰ there is no consensus about the desirability of this coexistence. It is argued that preferential trade agreements, which grant trade preferences only to members, are, in principle, incompatible with the WTO system, which is based on non-discrimination, and on the unrestricted application of the MFN clause. Therefore, it is contended that regional agreements should not exist, because they are contrary to the spirit of the multilateral system. However, this has not prevented the proliferation of regional agreements; Latin America and East Asia have been very active regions in this respect.

The number of regional agreements presented in the WTO has grown exponentially during the last decade: around 200 regional agreements were in place in the first months of 2005 (Crawford *et al*, 2005). Moreover, practically all WTO member countries have negotiated this type of agreement, which is a relatively new development. For example, although up to the early 1990s, the US only used the multilateral system to conduct its trade relations, it is now an enthusiastic defender and promoter of preferential trade agreements. Japan, Hong Kong, Singapore, South Korea and other Asian countries, had also kept regionalism at arm's length; however, they are now active participants of regional agreements. In fact, Southeast Asia is one of the areas where regional initiatives are being actively implemented. Some of these have emerged around China, Japan and South Korea, the largest economies of the region. In Europe and Latin America, regionalism has also been pursued for many years. The EU is historically the most effective bloc in the area; it

²⁰ GATT Article XXIV contains the rules that govern the formation of customs unions and free trade areas.

has grown continuously, and has created a wide network of free trade agreements with its neighbors and with countries beyond the region.

In any event, regional preferential trade agreements are part of the existing framework of international trade relations, which will not change in the foreseeable future. Therefore, a way has to be found for these agreements to coexist in harmony within the multilateral system. To do this, the multilateral system must regain its effectiveness and credibility. If the current stalemate continues, and the WTO fails to adapt to the new realities of world trade, and fails to address the needs of its members – especially those of developing countries, which are the most vulnerable – regional agreements will not be considered as complementary, but rather as alternatives to the multilateral system. Consequently, it is important to define, in a practical sense, the relation between regionalism and multilateralism, and to establish an appropriate framework for its constructive development.

Bilateral trade agreements

As outlined above, there has been a proliferation of preferential trade agreements. The most common have been bilateral trade agreements between developing and industrialized countries (North-South agreements), as well as agreements among developing countries (South-South agreements). In response to the sluggishness of multilateral trade negotiations, East Asian trading partners were led to consider liberalizing trade on a reciprocal basis. In this case, bilateral agreements, viewed from a strategic perspective, allow “like-minded” countries to make more progress on a wider range of issues, and in a shorter period of time; this would be hard to accomplish within the diverse and complex WTO environment (Heidrich, 2006). Before 1998, only three preferential trade agreements involving East Asian developing countries were notified to the WTO. By 2005, 13 additional agreements had been presented, and a large number of other agreements are currently under negotiation.

Another interesting fact is that not all preferential trade agreements have been intra-regional; this demonstrates that Asia is increasingly interested in “cross-regional agreements,” with economies across the Pacific, for the most part, but also with the rest of the world. Furthermore, Asia’s emerging giants, China and India, are also seeking to be a part of this trend. The fact that many of the new preferential trade agreements extend

beyond the Asian region, underscores the importance of extra-regional markets, particularly with respect to the export of final products. These cross-regional agreements are driven by factors such as energy security, access to minerals and other natural resources (as will be argued below for the case of Latin America and China), and countries' efforts to "lock in" reforms, by making them part of a formal trade treaty with a major developed country or region. Moreover, many of these agreements are politically motivated; countries seek to strengthen diplomatic alliances by providing economic benefits to their partners (Heidrich, 2006).

In the case of Latin America, there is also a growing interest in the pursuit of bilateral trade agreements with the region's main trading partners. In the early 1990s, Mexico began negotiations for a free trade agreement with the United States, which Canada joined later. These countries signed the North American Free Trade Agreement (NAFTA), the first agreement of this type between industrialized and developing countries. NAFTA inspired the launch, shortly afterwards, of a hemispheric integration initiative of a broader scope, the Free Trade Area of the Americas (FTAA). However, this process reached an impasse a few years ago, and its prospects today are still uncertain.²¹

NAFTA was presented as a modern agreement, which included guidelines for tariff reductions, trade in goods and in services (which covers a wide range of economic activities), and investments, an area until then excluded from the external trade agenda of Latin American countries. Therefore, NAFTA rules were attractive to countries embarking on the modernization and liberalization of their economies. As the negotiations for an agreement with the US began, Mexico experienced a considerable increase in FDI and in trade with the US. In fact, NAFTA has become the standard for the bilateral negotiations which have recently surfaced between numerous Latin American countries and the US.

Most countries in Latin America have begun to negotiate broader bilateral agreements with their main trading partners. Such is the case of Mexico, which also

²¹ The FTAA process could not resist the opposing views of some of its key actors, mainly the US and Brazil. In what should have been the final stage of negotiations, the divergent positions of these two countries on the content of the FTAA, and its relation to WTO negotiations, delayed the process. These differences were particularly evident in 2003, when the US formally declared that it was not willing to negotiate some issues in the FTAA framework which, in its opinion, should be dealt within the WTO (namely, domestic aid for agriculture, subsidies for agricultural exports, and anti-dumping regulations). This position triggered an immediate reaction among Brazil and other MERCOSUR countries. They decided to exclude areas considered by the US as top priority, such as services, investments, government purchases and intellectual property. On view of this, countries agreed to negotiate "minimum" common commitments, and allow countries to negotiate broader agreements among themselves; this was called a "light" FTAA.

negotiated bilateral agreements with the EU, Japan, and other countries and regions. Chile followed suit, implementing an ambitious strategy of bilateral negotiations with its main trading partners, more recently with China. MERCOSUR also began negotiations with the EU, and Central America, in addition to some Andean countries (Colombia and Peru), are also pursuing this form of bilateralism.

The recent proliferation of this type of negotiations has had a number of important complementary effects. First, these agreements offer a wider and more secure access to markets in industrialized countries, since they make permanent trade preferences which were previously granted unilaterally and temporarily. Moreover, exposure to international competition enhances productivity, which is necessary to comply with more demanding conditions. Also, the new bilateralism establishes rules, obligations and commitments which may hinder a reverse in the trend toward greater openness.

In sum, an important factor in the evolution of the trade regimes described so far is the desire to increase a country's participation in global markets. These strategies, grouped around regional agreements, trade agreements between developed and developing countries, and multilateral negotiations, are complementary and not substitute strategies, designed to expand markets, stimulate international competitiveness, and promote stable and sustainable economic development.

Nevertheless, the multiple initiatives under way constitute an important challenge for developing countries, both in Asia and Latin America. Participation in various negotiations requires the mobilization of important institutional, human and material resources, combined with an increasingly sophisticated technical analysis. Moreover, the need to ensure a complementary approach between the many initiatives adds complexity to this task.

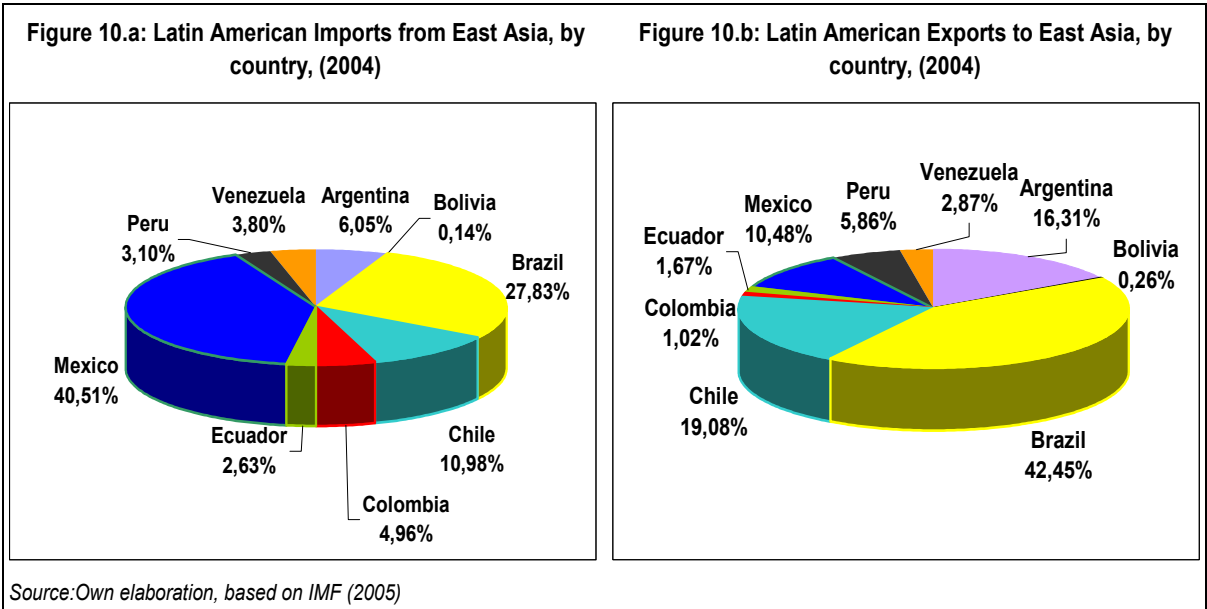
4. Fostering stronger trade relations between Latin America and East Asia: Challenges and Opportunities

Trade flows between Latin America and East Asia have been growing steadily for the past 25 years, and have intensified in the last five years. This is a very accurate reflection of each region's particular comparative advantages; the main products exported by Latin America to East Asia are natural resources and primary products, while imports from East Asia consist primarily of manufactured goods. Although emerging East Asia,

especially China, can potentially become an important market for Latin American exports, domestic producers need to face the important challenge that Asian competition entails, not only in local markets, but also in those of traditional trading partners, like the US and the European Union.

Trade between East Asia and Latin America

Trade between Latin America and developing East Asia is still relatively modest for both regions. Latin America represented only 2.4% of total East Asian trade in 2004,²² while trade flows with these Asian economies corresponded to 8.8% of Latin America’s total trade. Figure 10 reveals that East Asia’s main trading partners in Latin America are Brazil, Argentina, Mexico and Chile.



Nonetheless, trade between East Asia and Latin America has been extremely active since the 1980s. During the past 25 years, East Asian exports to Latin America have increased thirty-fold to over US\$36 billion in 2004, whereas Latin American exports to East Asia grew 13 times, surpassing US\$40 billion in 2004. This exchange has been particularly vigorous in the last five years, growing at an average annual rate of 25%, stimulated especially by the expansion of Brazilian trade with East Asia. Latin American exports to East Asia tripled in the last five years, while Latin American imports from East

²² Understood as the sum of total imports and exports.

Asia have grown more than 50%, Mexico being the most important destination for East Asian imports. To a great extent, the more dynamic trade flows between these regions is caused by the stronger presence of China, especially after its accession in the WTO in 2001. Table 6 illustrates this trend in Latin American trade with East Asia for the 1980-2004 period.

Table 6: Trade Flows between East Asia and Latin America (US\$ millions)					
		1980	1990	2000	2004
East Asian Exports (FOB) to:	LAC	3,098.4	5,617.4	27,639.9	40,610.1
	Andean	242.3	322.3	2,193.6	4,074.3
	Argentina	264.5	169.7	1,785.9	1,684.0
	Brazil	543.7	439.5	4,741.6	7,750.3
	Chile	151.6	378.5	2,187.8	3,057.8
	Mexico	188.4	1,210.9	7,286.0	11,282.4
East Asian Imports (CIF) from:	LAC	1,768.3	6,429.9	13,230.8	36,523.9
	Andean	254.7	585.8	1,700.3	3,917.5
	Argentina	232.3	937.3	1,856.7	5,468.1
	Brazil	464.6	2,902.2	4,155.9	14,234.7
	Chile	228.7	708.8	2,775.6	6,398.0
	Mexico	209.9	626.4	1,824.3	3,514.9

Source: IMF (2005).

These trends show that East Asia is becoming an important trading partner for Latin America. The growth of trade between these regions from 1980 to 2004 strongly exceeded Latin America's trade flows with the rest of the world, which increased five-fold during that period. The trade balance between East Asia and Latin America has benefited the former, as shown in Table 7. However, there are marked differences among the region's countries regarding their trade balance with East Asia; most MERCOSUR countries, including Argentina and Brazil, enjoy a trade surplus with East Asia, whereas Mexico and the Andean bloc have a trade deficit with East Asia.

Table 7: Latin American Trade Balance with East Asia (millions of US\$)					
	Region	1980	1990	2000	2004
Trade Balance with East Asia	LAC	-1,330.1	812.5	-14,409.1	-4,086.1
	Andean	12.4	263.5	-493.3	-156.9
	Argentina	-32.2	767.6	70.9	3,784.1
	Brazil	-79.1	2,462.8	-585.7	6,484.4
	Chile	77.0	330.4	587.8	3,340.3
	Mexico	21.5	-584.5	-5,461.8	-7,767.5

Source: IMF (2005).

With respect to the composition of trade by economic sector, Latin American exports to and imports from East Asia are markedly different. In a clear reflection of its relative comparative advantages, Latin America mainly exports natural resources and other primary-based manufactures to East Asia. The main Latin American export products in 2004 were crude materials (excluding fuels), as shown in Table 8. These products, together with manufactured goods, animals, vegetable oils and food exports accounted for more than 80% of total Latin American exports to East Asia.

Exports	LA-9	Andean	Argentina	Brazil	Chile	Mexico
Food and Live Animals	7.2%	5.7%	4.7%	94.6%	3.7%	28.0%
Beverages and Tobacco	1.7%	0.6%	1.7%	0.0%	3.1%	0.9%
Crude Materials, except fuels	44.3%	41.9%	45.5%	4.5%	50.0%	2.3%
Fuels, Lubricants, etc.	4.3%	2.5%	4.4%	0.0%	6.1%	62.4%
Animal, Vegetable Oils, Fats, Wax	8.0%	9.6%	8.2%	0.0%	6.8%	1.7%
Chemicals	2.6%	2.6%	2.6%	0.1%	2.7%	0.3%
Manufactured Goods	23.4%	28.3%	24.2%	0.6%	18.7%	0.5%
Machines, Transport Equipment	7.0%	6.6%	7.2%	0.0%	8.2%	0.3%
Misc. Manufactured Articles	1.5%	2.1%	1.5%	0.1%	0.7%	3.7%
Unclassified Goods	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%

The table was constructed following Sitc. Rev. 3 trade classification

Source: Own elaboration, based on UN (2005)

Regarding imports, Latin America is fundamentally supplied by East Asian manufactured products, that is, goods with higher added value. As Table 9 shows, the most important items are machinery and transport equipment. Together, these products represented 64% of total imports in 2004.

Imports	LA-9	Andean	Argentina	Brazil	Chile	Mexico
Food and Live Animals	1.1%	1.3%	1.5%	2.2%	1.8%	0.6%
Beverages and Tobacco	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Crude Materials, except fuels	1.6%	2.1%	3.2%	4.2%	1.7%	0.7%
Fuels, Lubricants, etc.	2.0%	0.8%	1.8%	7.3%	2.0%	0.7%
Animal, Vegetable Oils, Fats, Wax	0.2%	0.3%	0.6%	0.7%	0.1%	0.1%
Chemicals	5.0%	8.5%	15.5%	9.2%	4.8%	2.3%
Manufactured Goods	9.3%	18.3%	11.6%	10.1%	11.9%	7.1%
Machines, Transport Equipment	63.8%	44.0%	50.1%	53.3%	32.3%	74.6%
Misc. Manufactured Articles	15.6%	24.1%	15.7%	13.0%	45.3%	11.9%
Unclassified Goods	1.3%	0.7%	0.0%	0.0%	0.0%	2.1%

The table was constructed following Sitc. Rev. 3 trade classification

Source: Own elaboration, based on UN (2005)

In sum, trade flows between East Asia and Latin America since the 1980s have been most favorable, in net terms, for East Asia, and have experienced a vigorous growth. However, trade is still modest for both regions. Trade between these blocs has been marked by the import of manufactures from East Asia, and the export of natural resources from Latin America, reflecting a clear pattern of inter-industrial trade, based on particular comparative advantages. Lastly, export growth with East Asia reflects a real market expansion for Latin America.

Trade between Latin America and China

Trade links between Latin America and Asia cannot exclude a specific analysis of China's performance, given that this country's trade liberalization has altered global trade patterns. China's record growth in the last 30 years has placed it in a key position within the world economy. Some predictions even suggest that China could, in less than two decades, displace the United States as the world's largest economy.²³ China's economic accomplishments have been based on high rates of domestic investment, accompanied by a significant trade liberalization, which have had a considerable effect on global trade and FDI flows. In fact, China's international trade grew 17 times between 1980 and 2003, and represented an average of 4.8% of world trade in the 2001-2003 period; China also received about a third of global FDI flows.²⁴

China's unprecedented growth has had a substantial effect on other emerging economies, such as those in Latin America. In the first place, China is increasingly affecting commodity markets, by becoming a key driver of global demand. China's growth rate in import volume for several primary commodities, such as iron, copper and soybeans, greatly exceed the import growth rate of these goods in all industrialized economies. In fact, China has become the world's leading importer of vegetable oil, wood and pulp, iron, aluminum, among others. This explains the current persistence of high international commodity prices. Moreover, an increasingly large portion of the growing demand in China is being supplied by Latin American economies. For example, 62% of Argentina's

²³ China has grown at an average annual rate of 9% in the last three decades, and represents a 4% share of world GDP. It is also worth mentioning that Chinese GDP per capita has risen from less than 4% of US GDP per capita in 1982, to over 12% in 2002.

²⁴ China is the country that creates most confidence among international investors (AT Kearney, 2004).

vegetable oil exports (it is the third largest exporter in the world) and over a fifth of Brazil's iron exports (the largest exporter in the world) are exported to China (see Table 10).

Table 10: Main Chinese Imports and suppliers									
Commodity		Chinese imports			World exports				
Code	Commodity	Value (million US\$)	World rank	World share	Exporting country	Value (million US\$)	World rank	World share	Share exported to China
222	Vegetable oil	5,514.15	1	25.8%	USA	8,302.8	1	41.3%	34.1%
					Brazil	4,301.9	2	21.4%	30.5%
					Argentina	1,983.6	3	9.9%	61.8%
					Bolivia	30.1	25	0.1%	0.0%
					Mexico	16.5	35	0.1%	0.8%
251	Pulp and waste paper	3,891.87	1	16.6%	Canada	4,949.2	1	22.9%	12.1%
					USA	4,216.3	2	19.5%	14.2%
					Brazil	1,744.5	3	8.1%	15.2%
					Chile	863.7	6	4.0%	23.7%
					Argentina	115.1	22	0.5%	16.9%
281	Iron ore	4,856.21	1	29.8%	Brazil	3,455.9	1	31.4%	22.1%
					Australia	3,310.2	2	30.1%	34.1%
					India	1,111.9	3	10.1%	14.2%
					Chile	140.1	11	1.3%	26.8%
					Peru	94.1	12	0.9%	60.4%
282	Ferrous waste and scrap	1,405.32	2	10.0%	USA	1,945.0	1	15.8%	35.2%
					Germany	1,361.9	2	11.0%	0.6%
					United Kingdom	1,170.5	3	9.5%	3.3%
					Mexico	117.9	19	1.0%	0.3%
					Venezuela	13.7	49	0.1%	3.2%
285	Aluminium ore	1,391.44	1	19.6%	Australia	2,342.5	1	46.2%	n.a.
					Brazil	441.8	2	8.7%	2.9%
					Ireland	422.5	3	8.3%	0.0%
					Venezuela	92.9	11	1.8%	30.4%
					Guyana	22.7	18	0.4%	0.0%
288	Non-ferrous waste, scrap	1,807.34	1	17.0%	USA	1,525.1	1	16.7%	48.5%
					Germany	1,188.3	2	13.0%	13.1%
					United Kingdom	693.7	3	7.6%	29.3%
					Mexico	258.9	10	2.8%	0.3%
					Chile	121.0	17	1.3%	13.8%
333	Crude oil	19,782.40	5	4.8%	Russia	36,841.0	1	14.2%	2.2%
					Norway	29,019.9	2	11.2%	0.1%
					Iran	28,179.0	3	10.8%	0.0%
					Venezuela	20,235.8	5	7.8%	0.0%
					Mexico	16,826.5	6	6.5%	0.0%

Source: Own elaboration, based on UN (2005).

Chinese manufactures are also aggressively penetrating the consumer markets of the main industrialized economies, competing with – and in some cases substituting – the

supply from other developing countries. Additionally, Chinese manufactures are being increasingly imported by developing countries; therefore, China has become a significant competitor in domestic markets. Trade liberalization in China, and its broader participation in mature markets, due to the gradual removal of quotas on Chinese imports, constitute important challenges for countries with similar manufacturing export baskets, especially for countries with abundant low-skilled labor. For example, Chinese competition has increased, as expected, in the US textile and apparel market for some Central American countries, as well as in markets for low- and medium-technology manufactures. In fact, some US and Japanese automobile and auto-parts assembly facilities are relocating from Mexico to other countries which offer lower costs, in view of Chinese competition.

These economies could face such a strong competitor through the production of higher value added goods, by upgrading technological content – which promotes product differentiation – and by reducing costs in production processes and in transportation of exports. In fact, infrastructure investment and trade facilitation have been critical determinants in China's increasing competitiveness within the US market. Important differentials in the quality of infrastructure between China and Latin America are explained by very significant differences in investment (9% of GDP in China versus 2.5% in Latin America). Moreover, regarding logistics and trade facilitation, especially customs, China, as most East Asian economies, possesses a competitive edge with respect to Latin America. For example, an imported good takes, on average, 7.5 days to clear customs in China, whereas it takes 17 days in Ecuador and 7.3 in Peru (World Bank, 2000).

Broader bilateral trade flows between Latin America and China are also limited by the imposition of trade barriers, especially non-tariff ones, by the Chinese government on agricultural imports from Latin America. These barriers, which primarily consist of rigorous sanitary and phytosanitary standards, limit export penetration in the Chinese market. Therefore, efforts to expand trade must reduce non-tariff barriers. Further progress in this regard could be achieved through the negotiation of bilateral trade agreements with China. In fact, Chile is the only Latin American country that has signed a free trade agreement with China. Mutual economic benefits are expected, since both nation's export baskets are complementary. A bilateral trade agreement between other Latin American countries and China could also reduce the frequent application of contingent measures,

such as anti-dumping charges and safeguards, on Chinese imports.²⁵ The strengthening of trade links between China and Latin America, also requires the development of efficient mechanisms for the exchange of commercial and technical information, and trade opportunities in key sectors.

In sum, there is a great potential in broadening trade relations between China and Latin America (especially South America). From the perspective of Latin America, the desirability of doing so hinges upon diversifying trading partners and taking advantage of complementary export baskets. However, the region also needs to effectively deal with competitive pressures, both in domestic and international markets; this requires that an active trade strategy oriented at reducing trade barriers be accompanied with an agenda to improve competitiveness. From the perspective of China, the attractiveness of furthering trading ties resides in the enlargement of markets for Asian goods and the provision of needed natural resources, particularly raw materials.

5. Concluding Remarks

As has been argued throughout this paper, successful emerging economies have been able to broaden existing and potential markets, by pursuing aggressive trade liberalization agendas. However, while global trade of goods is increasingly being driven by the dynamic trade of manufactured goods (with an increasingly larger value added content) from East Asia, most Latin American countries continue to export mainly primary goods or natural resource-based manufactures. To a large extent, these differing trade patterns reflect relative comparative advantages and productivity differentials. Furthermore, the persistence of trade barriers has also inhibited a larger penetration of Latin American goods in global export markets.

Recently, several developing countries, both in Latin America and in East Asia, have chosen to extend the commercial relationship with their trading partners, through preferential trade agreements, a strategy that will increase their participation in the global economy. There are, however, other alternatives that countries can choose from to participate in world trade, ranging from the WTO framework and regional integration schemes, to bilateral trade agreements with other developing economies. The various

²⁵ Although the desirability of a free trade agreement with China would certainly depend on each country's specific defensive and offensive interests.

options that an emerging country has available are not mutually exclusive, and indeed can complement one another. Countries must weigh in the pros and cons of each alternative, before deciding on the best course of action. They must also consider the heterogeneity of their trade partners, in terms of per capita income, competitiveness, degree of industrialization, market structure, among others.

However, as the East Asian experience shows, without the underpinnings of complementary measures designed to boost competitiveness, efforts to improve a particular country's presence in global markets could be doomed to failure. A comparison between the trade strategies pursued by Latin America and East Asia show that, more than trade liberalization per se, East Asian success in effectively competing in global markets has been partly determined by improvements in infrastructure and the adoption of trade facilitation measures.

A key element needed to improve a country's participation in the global economy is also to put in place a process of productive transformation based on fostering productivity gains, and on increasing export diversification, both in terms of new activities and markets. Fostering stronger trade links between East Asia and Latin America would contribute positively in this regard.

In sum, enhancing a country's participation in the global economy should be a fundamental component of a comprehensive long-term development agenda. A strategy that targets higher growth must take into account greater access to world markets, use comparative advantages as the foundation for a successful diversification strategy, and boost competitiveness. This requires joint efforts by all agents of society within the framework of a long-term agenda. Lessons from emerging East Asia in this regard can clearly help other developing nations in the pursuit of their development goals.

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