

Latin America and Asia Pacific Realities: Defining the Agenda

Dr **Ignacio Bartesaghi** is Coordinator of the Latin America–Asia Pacific Observatory, a joint initiative of the Latin American Integration Association (ALADI), Economic Commission for Latin America and the Caribbean (ECLAC) and Development Bank of Latin America (CAF). He is also Associate Director of the Department of International Business and Integration Studies with the Business School at the Catholic University of Uruguay. On 2 October 2014, he spoke at an ISIS International Affairs Forum about the realities and key issues surrounding the fast-growing relationship between Latin America and Asia Pacific. The Forum was moderated by **Tan Sri Rastam Mohd Isa**, Chief Executive of ISIS Malaysia. ISIS Analyst, **Ms Zarina Zainuddin**, reports.

Latin America and Asia Pacific, specifically East Asia, have been two emerging economies for the last few decades. Yet geographical, historical and cultural distances have led to a general lack of awareness of each other. **Dr Ignacio Bartesaghi** hoped that his presence will represent the first step towards establishing and enhancing the ties between the two regions.

Bartesaghi contended that commercial links between Asia Pacific and Latin America should not be analysed without looking at the transformation in global economy and trade in the last two decades. The transformation aspects include “changes in production systems resulting

from advances in technology, the significance of services traded, the various levels of integration (economic, commercial, financial, and so on), and the new disciplines of international trade”.

While both regions are growing, Latin America’s presence in international economy has shown a gradual decline while East Asia continues to grow (see Figures 1–4). While the gross domestic product (GDP) per capita is higher for Latin America, the gap is shrinking due to the rapid GDP growth of Asia Pacific. From 1980 to 2012, Asia Pacific grew at 4.3 percent while Latin America grew at 2.8 percent during the corresponding period.

Figure 1: Asia in Worldwide Exports



Figure 2: Latin America in Worldwide Exports



Figure 3: Asia in Relation to Foreign Direct Investment (FDI)

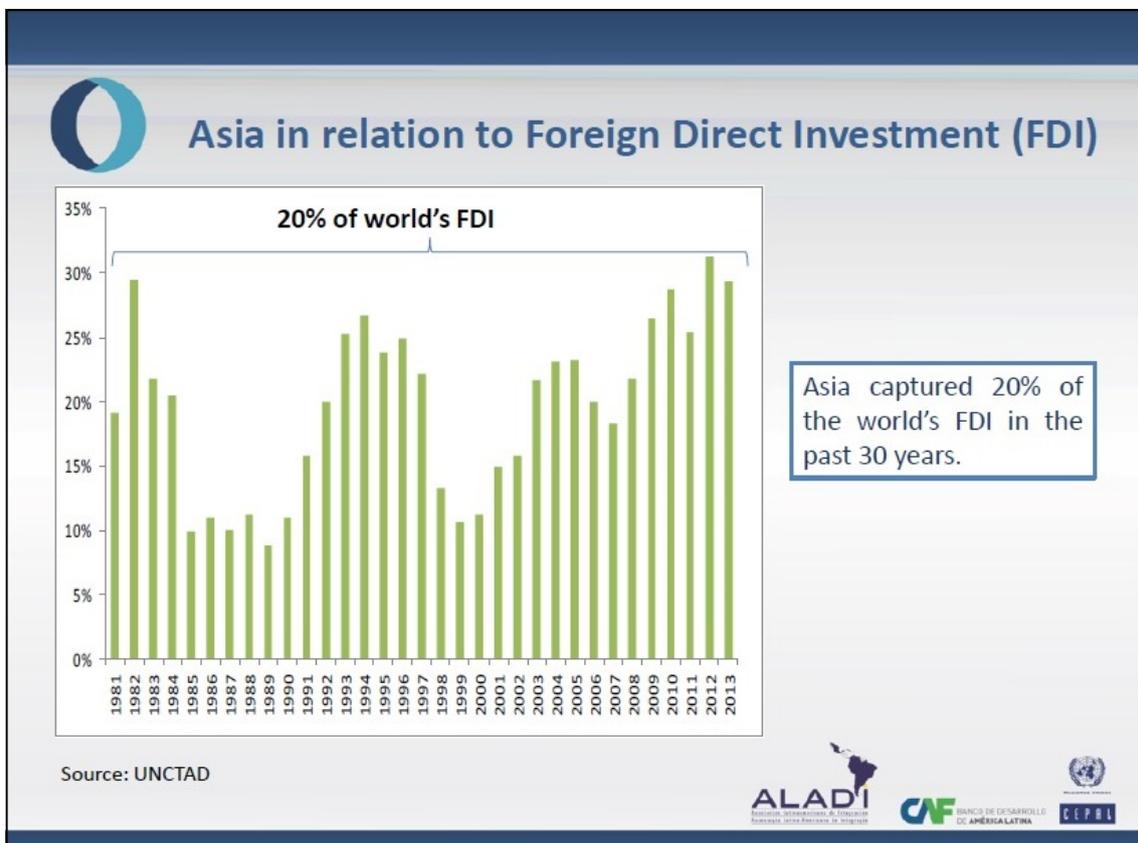


Figure 4: Latin America in Foreign Direct Investment (FDI)



The bilateral relationship between the two regions has increased in recent years, centred primarily on trade (see Figure 5). A closer look at the figures revealed a degree of concentration in bilateral trade. China dominates, accounting for an average of 46.4 percent of total imports for the past decade, followed by Japan at 16.4 percent and South Korea at 8.9 percent. Corresponding figures for total export mirrored that of import, with China's exports making up 48.3 percent of Asia Pacific to Latin America, followed by Japan and South Korea at 15.5 percent and 12.8 percent respectively.

Mexico, Brazil and Panama are the top three destinations for export for Asia Pacific, while Brazil, Chile and Mexico are top import markets. From 2001 to 2012, Latin America's exports consisted mainly of primary goods including minerals, fuels, and agricultural goods. Latin America imports industrial goods, including electrical and mechanical machinery, motor vehicles, and plastic and chemicals.

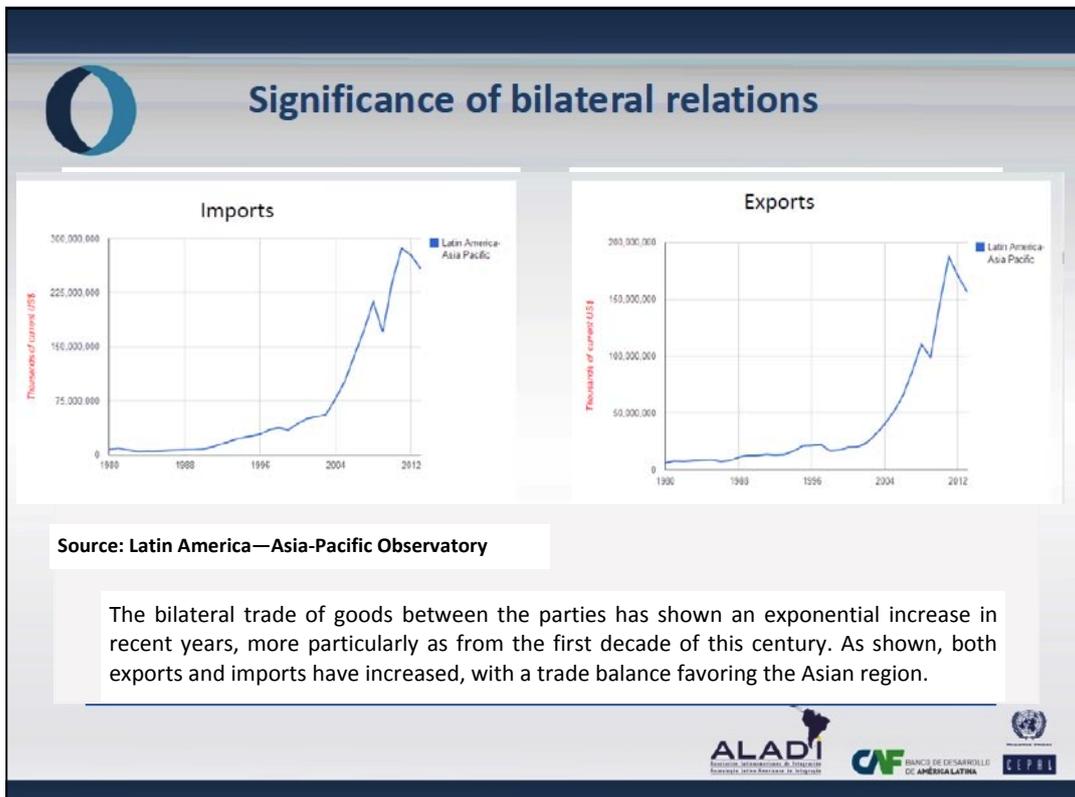
In general, Latin America sustains trade deficits against Asia Pacific. According to Bartesaghi, the negative trade balance,

particularly with China, has created some tension. This situation has led some countries in Latin America to call for "protectionist measures (specifically not related to taxes)" in order to protect the domestic industry from its Asia Pacific competitors.

A couple of trends have emerged from the trade between the two regions. Firstly is over dependency on China as a trading partner, and secondly, a pattern of primary goods export and industrial goods import for Latin America to Asia Pacific. Bartesaghi mentioned that Latin American countries would like to address the imbalances through increasing trade with other countries in Asia Pacific, in particular Southeast Asia and India.

The current trade pattern of primary or industrial goods is reminiscent of the old North-South trade (Latin American-Western countries). By enhancing trade with Southeast Asia and India, Latin America will not only decrease its dependence on China but will also diversify its trade component. Bartesaghi felt that these new markets from resource rich developing countries will show more interest in the industrial goods produced by Latin America.

Figure 5: Significance of Bilateral Relations



Trade and investment agreements are relatively new aspects in the bilateral relations between the two regions. Chile and Peru have signed the most trade and investment agreements with Asia Pacific; along with Mexico, they are also most active in negotiations for agreements with other nations in Asia Pacific. China and South Korea lead the Asia Pacific nations with the largest number of agreements with Latin American countries.

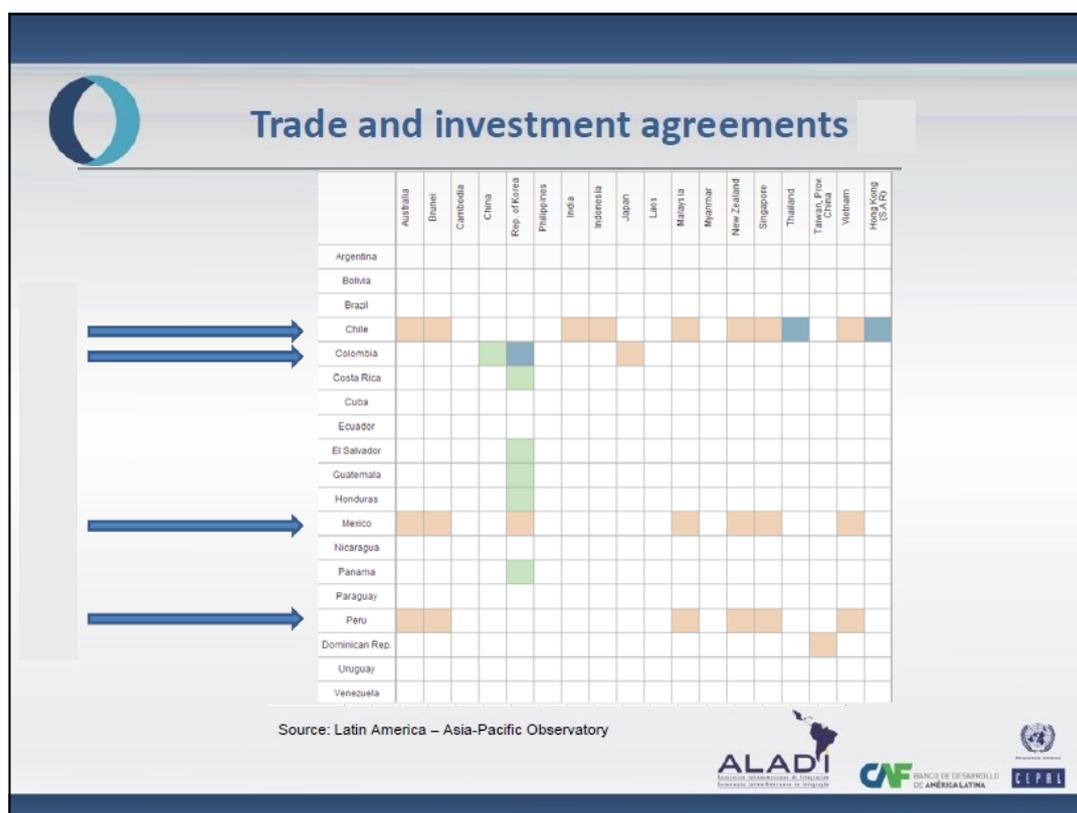
On the other hand, members of MERCOSUR (a sub-regional bloc comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela; its associate countries are Chile, Bolivia, Colombia, Ecuador and Peru) do not have trade and investment agreements with Asian countries (refer to Figure 6). He explained that this demonstrated “the different inclusion strategies” as applied by Latin American countries.

One of the challenges of bilateral relations between the two regions is distinguishing the differences of individual countries within each region. The differential aspects include the nation’s history, geography and culture as well as “their productive development and strategies for inclusion”. Bartesaghi observed that there is greater diversity among the Asia Pacific countries than their Latin American counterparts. It is

important, therefore, to identify these diversities in order to formulate effective strategies and policies towards Asia Pacific. Bartesaghi also noted that a higher degree of divergence exists within Latin America when dealing with the Asia Pacific and global economy.

As mentioned, Latin America’s trade relation with Asia Pacific is highly concentrated and the trade of goods between the two regions is fairly narrow. Asia Pacific, by contrast, trades widely with a variety of countries in the world and its “productive structure is more sophisticated”. Asia Pacific has greater economic integration within the region as a result of the massive supply chain network within the region. East Asian economies are also more competitive because of their relatively open economy. Bartesaghi highlighted that existing agreements (ASEAN Economic Community, AEC and ASEAN Plus) as well as those being actively negotiated (Trans-Pacific Partnership, TPP and Regional Comprehensive Economic Partnership, RCEP) could potentially affect Latin America negatively in terms of market access should they come to fruition. This is one of the reasons why some in Latin America want to initiate and enhance contacts with countries in Asia Pacific, particularly in Southeast Asia.

Figure 6: Trade and Investment Agreements



The world is changing fast, and it worries Bartesaghi that much of Latin America is still not part of the international value chain phenomenon, which has been spearheaded by Asia. While Latin America excelled at being a primary products producer, to advance as producers of goods and services, there is a need for the region to be a part of “the value and processing of products, and to identify new opportunities in sectors such as services and other industrial products”. To achieve this, a joint effort is required from the public and business sectors as well as the academics of both the Latin America and Asia Pacific region.

In addition to strategies, Latin American countries should be aware of “the dynamics of the changes, including new issues and actors”. Bartesaghi said that “the public policies implemented by the two regions should be able to enable certain agreements as to the integration mechanisms and the political harmonising of both Latin America and Asia Pacific”.

The agenda will turn increasingly complex, “demanding the definition of precise policies for different areas. This reality will demand teams of experts in the Foreign Ministries and more precise policies”. For Bartesaghi, the risk of non-action or

delayed actions could translate to the loss of spaces and opportunities.

The increasing number of issues and agendas also “defines an exponential growth of interchange between the peoples, thus generating more opportunities for entrepreneurs and academicians” to learn more about each other. The relations between Latin America and Asia Pacific justify an active role of the state in defining policies in favour of increasing interaction. At the very least, said Bartesaghi, the region must “define some general policies at least in some common issues”.

Bartesaghi said that it was good to see the agenda of the two regions gradually evolve to include new issues including trade in services, significance of financing by Asian banks (particularly from China), tourism, joint projects in the energy sector, investments in infrastructure, cooperation in new areas including the military, scientific or technological, empowerment of productive clusters, cultural, academic and political exchanges. For Bartesaghi, such development confirms that the bilateral relations have begun to expand beyond trade and commerce.