

Latin America-Asia Trade Agreement Review: July 2006

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Latin America's trade with China has grown 528% since 1999. Their two-way trade of \$12.2 billion far surpasses that with other Asian countries.

Overview. With the Doha Round of world trade talks temporarily suspended after a last ditch effort to strike a compromise failed on July 23, further trade liberalization is likely to continue in the form of country-to-country deals. In Latin America, such deals have been negotiated or are being studied with both traditional and new trading partners including Asia, the world's most dynamic economic region. But who is trading with whom? In this review, AS/COA looks at the status of Asian-focused trade agreements in four of Latin America's seven largest economies.

Mexico-Japan. Latin America's most open economy, Mexico has negotiated over 30 trade agreements allowing for privileged access to the markets of 43 countries around the globe. The Mexico-Japan trade relationship is one of its most extensive arrangements. A wide-ranging Economic Partnership Agreement (EPA) deepened Mexico-Japan trade and extended their FTA. In June, Mexican President Vicente Fox and Japanese Prime Minister Junichiro Koizumi announced their intention to sign an Economic Association Agreement (EAA) on September 17 in Mexico City. A milestone for Japanese trade, the EAA would be the first time that Japan has entered into a bilateral agreement that includes agriculture products. In total, since taking effect in 2005, Mexico's FTA with Japan has yielded a 23% increase in two-way trade.

But Mexico's sights are not just focused on Tokyo. Bilateral trade negotiations are underway with South Korea, Singapore, New Zealand and Australia. However, negative Mexican public opinion, along with demands for greater South Korean investment in its auto industry, has contributed to the stalling of FTA negotiations with South Korea.

Peru's trade with Asia grew 30% in the last nine years, going from \$1.1 to \$1.43 billion. China represents Peru's largest trading partner in the region, comprising over half of its overall Asian trade. But in Peruvian trade circles, the non-U.S. focus these days is on FTA negotiations with Thailand, a country that has expressed its desire for Peru to become its regional trade hub. As a sign of good will, Bangkok and Lima have agreed to a so-called "early harvest" FTA, which reduces tariffs up to 75% prior to formal FTA ratification. An agreement is expected to be signed later this year.

A precursor to its current efforts, Peru formally signaled its desire to boost trade with the East when it joined the Asia-Pacific Economic Cooperation (APEC) during the organization's last wave of expansion in 1998. Since then, Peru has become one of the organization's best performing economies, with economic growth hovering around 5% for the past five years. With the exception of the European Union, all of Peru's primary trading partners are APEC members. (The U.S. is a member.)

In recent years, **Chile has been at the forefront** in fostering closer economic ties between Asia and Latin America. Taking effect last January, the Trans-Pacific Strategic Economic Partnership (the P-4), a multilateral FTA involving Chile, Brunei, New Zealand and Singapore, has eliminated 90% of all tariff among signatories and aims to eliminate all trade tariffs by 2015. In addition to covering the general FTA issues - trade in goods and services, rules of origin, technical barriers to trade, intellectual property, etc. - the P-4 has the potential to grow through an accession clause. Other APEC members have expressed a desire to join, and following recent meetings between Chilean President Michele Bachelet and Peruvian President-elect Alan García, the Chilean government announced its desire to extend membership to Peru. Beyond the P-4, Chile continues to support greater Latin American integration with Asia through APEC; in June, the Chilean government indicated its support for launching APEC accession talks with Panama.

Opening a 1.3 billion person market, Chile is the first Latin American country to sign an FTA with China. The FTA, approved by the Chamber of Deputies (94-1 vote) on July 19, must now be approved by the Chilean Senate before final ratification. Under the agreement, 92% of Chilean products will enter China without any import tariffs and another 7% will become duty-free over the next decade. On the Chinese side, 50% of exports will have immediate tariff-free access to Chile, with that number increasing to 97% in ten years; textiles, metal products, wheat, wheat flour and sugar are excluded.

Chile is also in the midst of its third and most extensive round of FTA negotiations with Japan, which is projected to be signed in November. In March 2006, Chile signed a partial trade preferences agreement with India, a likely first step before a fully-fledged bilateral FTA. Malaysia and Thailand are possible other targets for trade agreements.

Brazil-India-South Africa. Trade with China has been the driving factor in Brazil’s growing economic relationship with Asia; in the past five years, trade between the two has soared six fold. As for formal trade agreements, Brazil is considering entering negotiations with India and South Africa – an FTA would link economic powerhouses in Latin America, Asia and Africa. According to Indian Prime Minister Singh, a possible FTA will be discussed at the September 17 India-Brazil-South America (IBSA) Summit. IBSA, a strategic partnership between the three regional leaders, was originally envisioned as a loose federation to deal with macro-political and economic issues but has evolved to include issues ranging from South-South trade to health and education.

FTA status: Select Latin American and Asian/Oceanic countries

	Mexico	Peru	Chile	Brazil
Australia	Under negotiation			
New Zealand	Under negotiation	Under study	In force	
China (PRC)			Awaiting ratification	
India			Under study	Under study
Japan	In force		Under negotiation	Brazil has expressed interest
Singapore	Under negotiation	Under study	In force	
South Korea	Under negotiation		In force	Under study
Brunei		Under study	In force	
Malaysia			Under consideration	
Thailand		Under study	Under consideration	

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