

Event organized by the Council of the Americas in collaboration with the Asian Development Bank Institute and the Inter-American Development Bank  
September 10, 2013, Washington D.C.

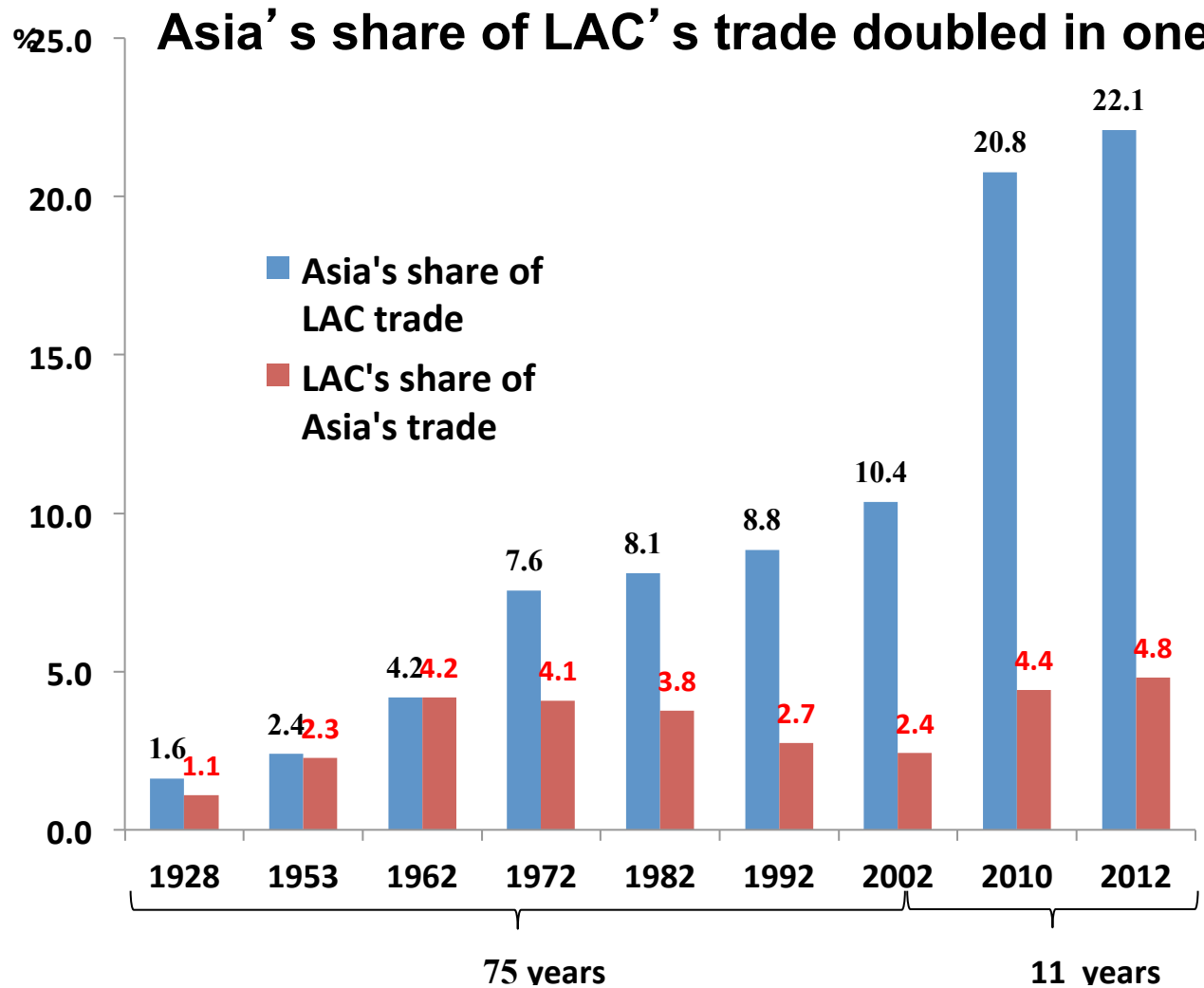
Presentation by  
Antoni Estevadeordal (Manager, Integration and Trade Sector, IDB)  
and Masahiro Kawai (Dean and CEO, ADBI)

# Outline

- I. Dealing with a trade surge
- II. Boosting cross-regional investment
- III. Emerging new regional and trans-pacific trade architecture
- IV. Exploring cooperation opportunities
- V. Conclusions

# The Trade Surge

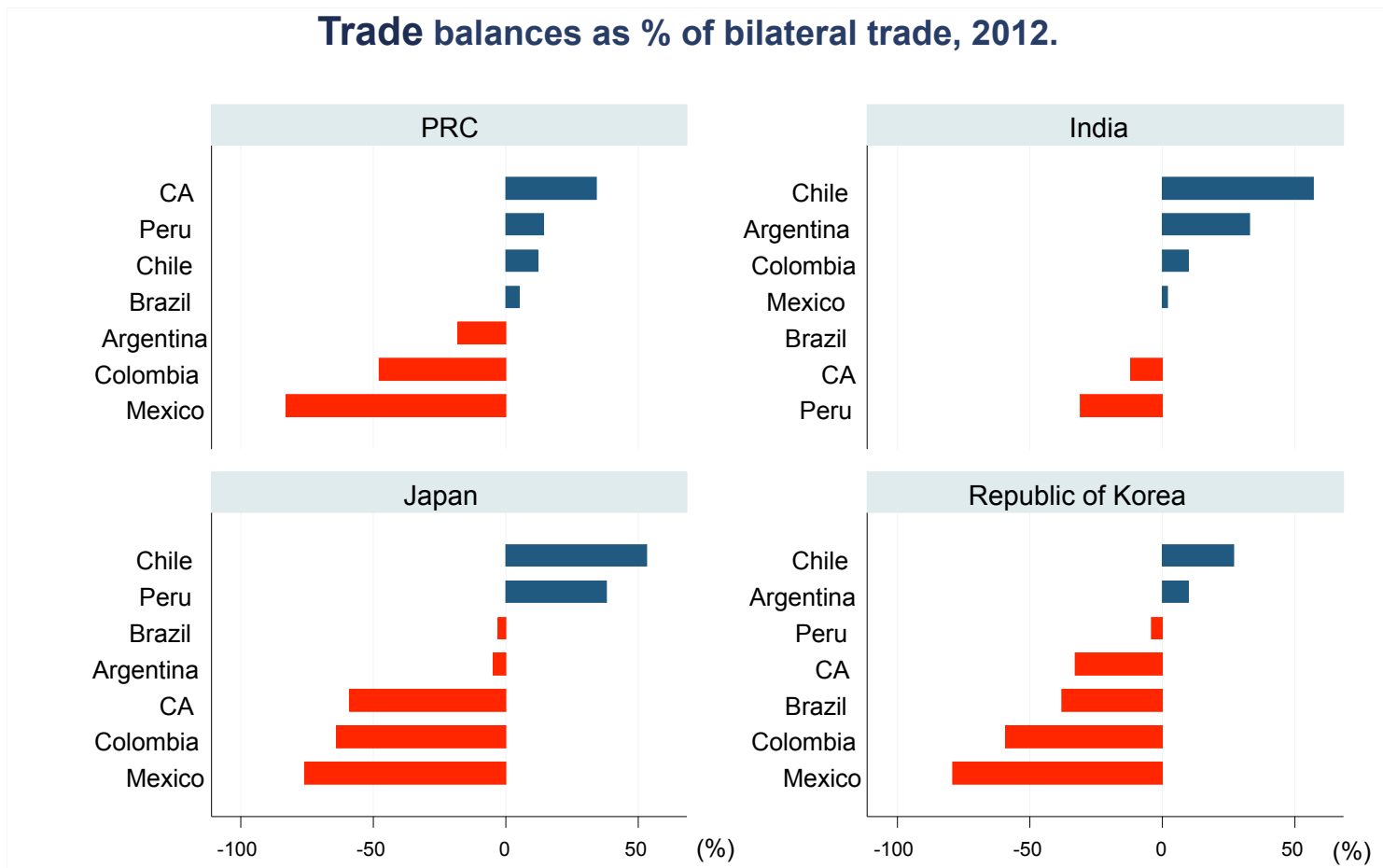
# Asia's Share of LAC's Trade and LAC's Share in Asian Trade



- Asia has become LAC's second highest trading partner, behind the U.S. (35%)
- In 2012, Asia-LAC trade reached an estimated US \$ 497 billion

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

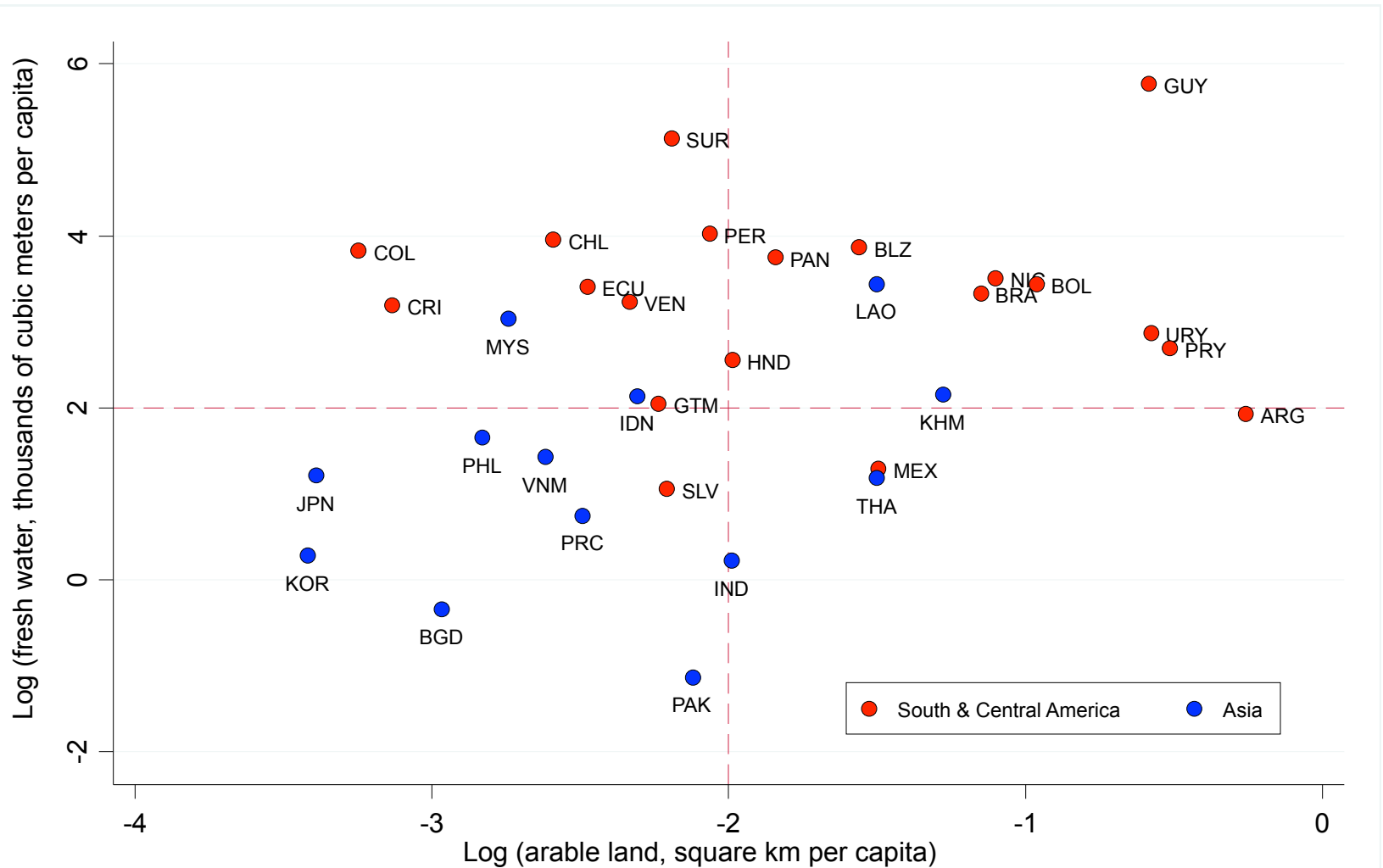
# But trade is Concentrated in a Few Countries, with Some Important Imbalances



Note: Red bars represent deficits for LAC countries. Blue bars are surpluses for Asian countries.

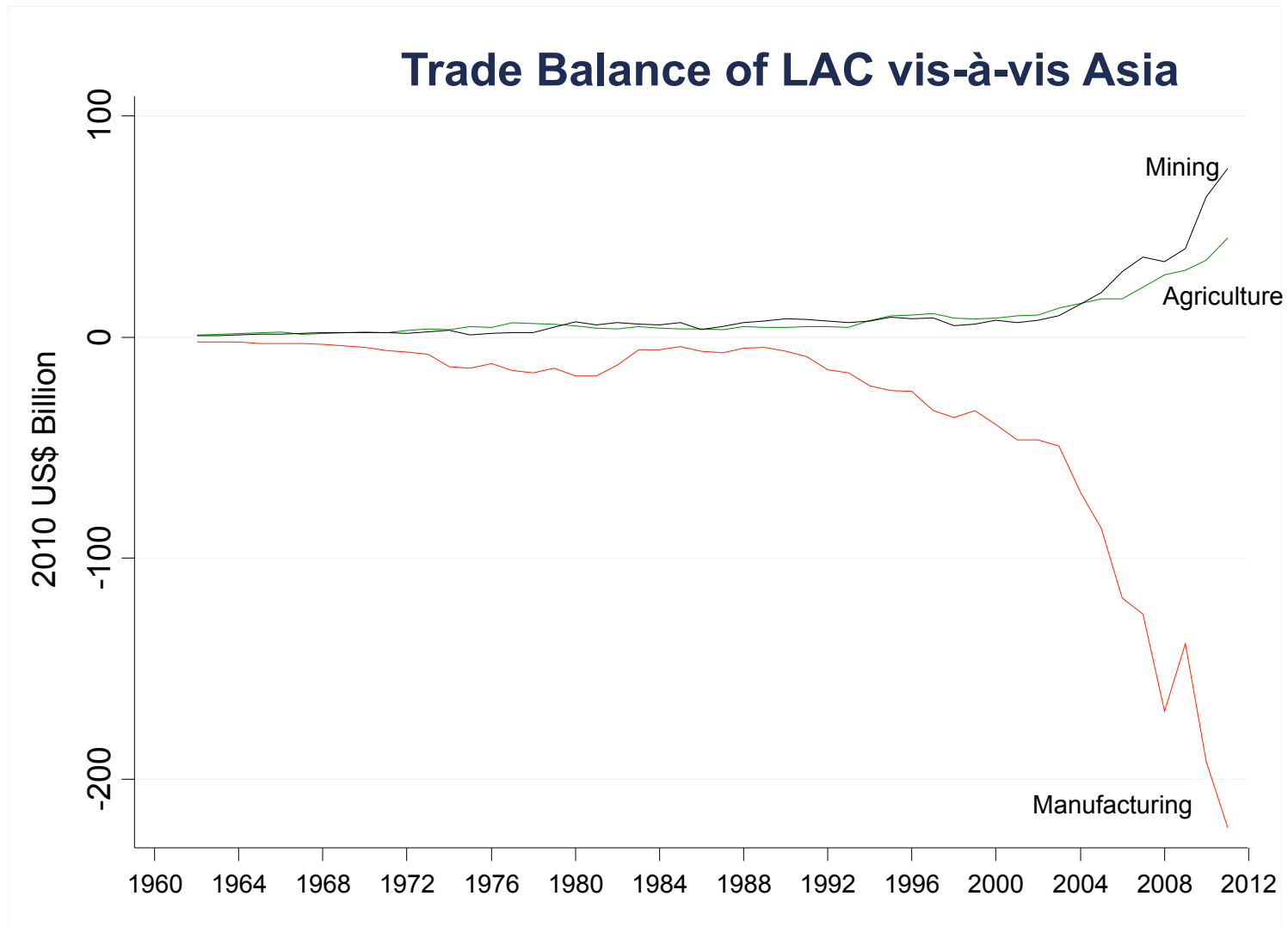
Source: Own calculation with IMF-DOTS data..

# Behind These Trends Lie Differences in Resource Endowments and Comparative Advantage



Source: INT-IDB with WDI data

# This Results in a Deepening Commodities-for-Manufacturing-Products Pattern of Trade



Source: UN Comtrade

# Room for Reduction in Tariffs and Other Trade Costs

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

Note: ASEAN includes Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Vietnam, Thailand.

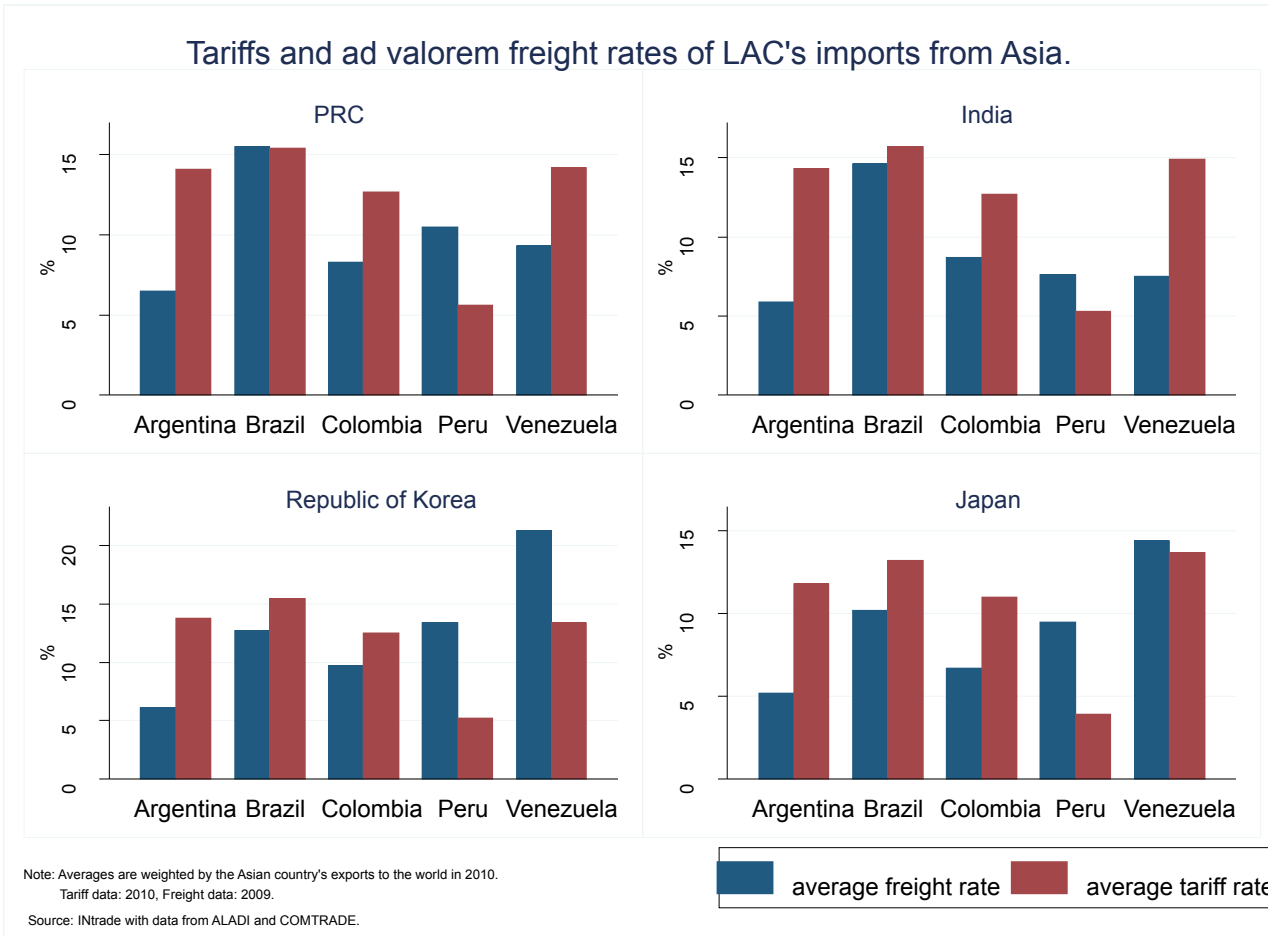
East Asia: PRC, Japan, Republic of Korea and Taiwan

South Asia: Bangladesh, India and Pakistan



# Need for Reduction in High Transport Costs

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

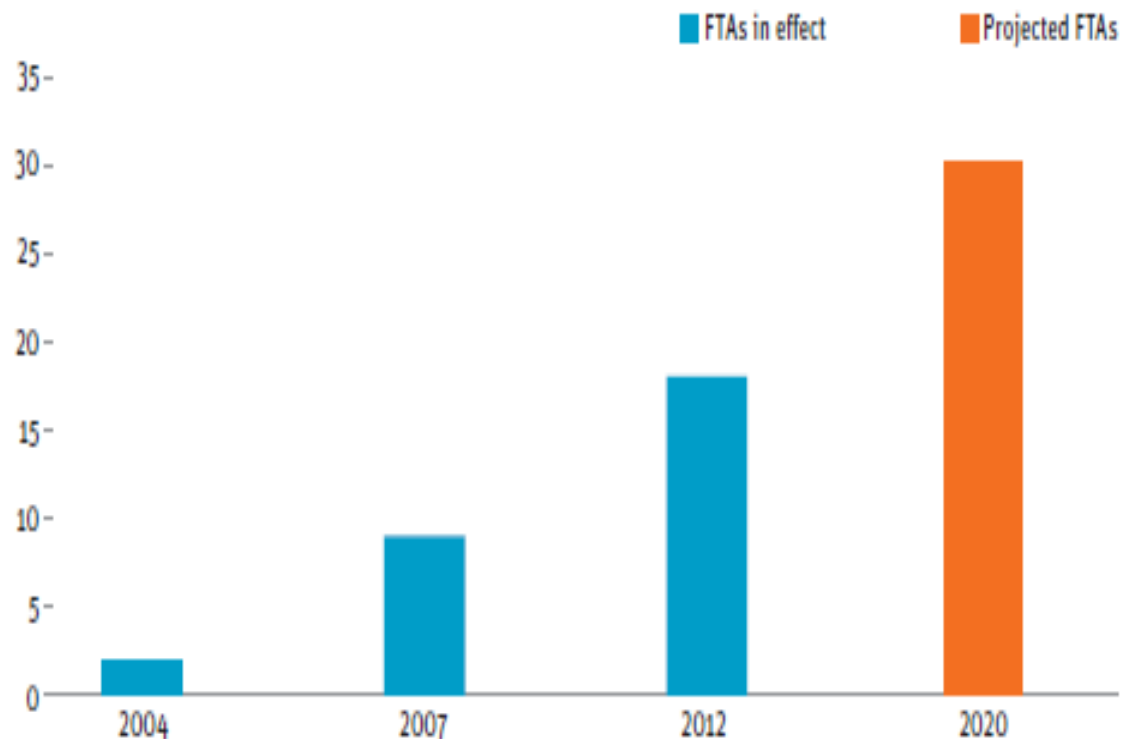


- On LAC's imports from Asia, ad valorem freight rates are in most cases comparable to import tariffs.
- If time-costs are included transport costs are likely to be much higher.

# FTAs Can Reduce Tariffs and Other Trade Costs

Governments are already addressing the issue through FTAs

## Growth of Asia-LAC FTAs, 2004-2020



Source: Authors' compilation.

- Between 2004 and August 2013, an average of more than two Asia-LAC FTAs took effect each year, reaching a total of 21 agreements. If all negotiations are concluded, the number of Asia-LAC FTAs will reach 32 FTAs in 2020.

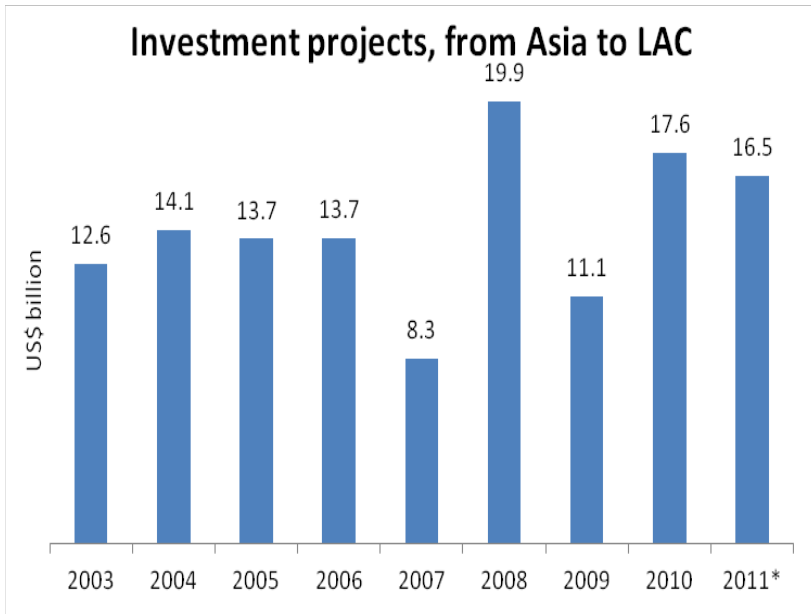
## Some Governments Are More Proactive

		Asia-LAC FTAs concluded	Asia-LAC FTAs under negotiation
<b>LAC</b>	Chile	9	1
	Peru	5	-
	Panama	2	-
	Costa Rica	2	-
<b>ASIA</b>	Taipei, China	4	2
	Singapore	4	1
	PRC	3	-
	Japan	3	1
	Republic of Korea	3	1
	India	2	-

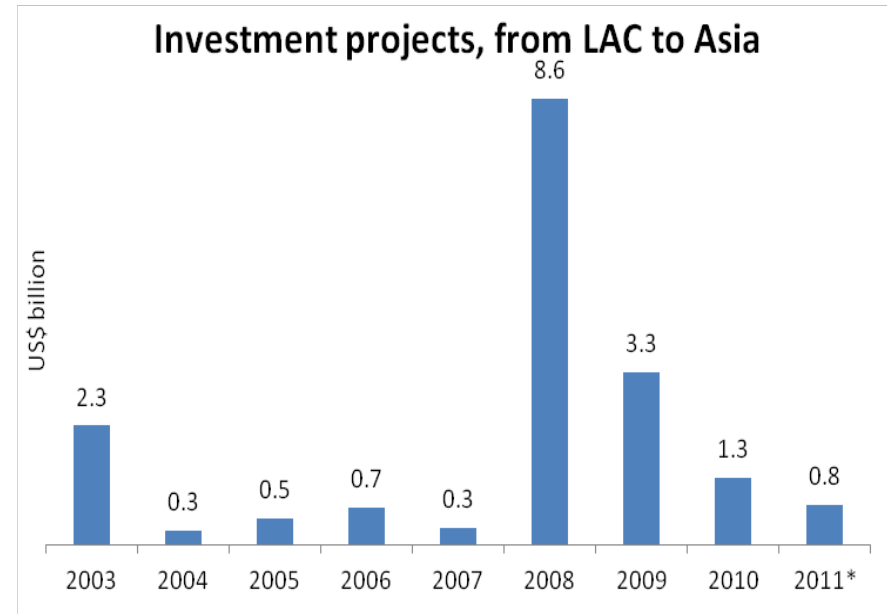
However, there is a significant variance in the scope and depth of these FTAs. Most of the Asia-LAC FTAs are in the middle of the depth scale, with gradual or fast tariff liberalization, some or high coverage of services and a low coverage of new issues, such as investment, procurement, competition and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

# **Boosting Cross-Regional Foreign Direct Investment**

# Robust Cross-Regional FDI Can Ease Some of the Trade Imbalances



\* 2011 data is only up to August.



## Some good news on Asia's side

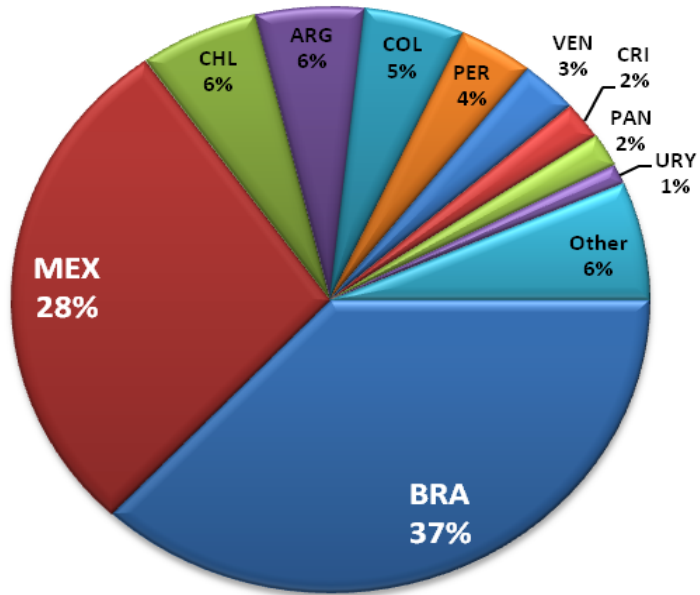
- Asia-Pacific's greenfield investments in LAC totaled 127 billion in 2003-2011.
- But this still only amounts to 14% of LAC inflows in the period.

## LAC's side has yet to reach a critical mass

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

# Cross-Regional FDI Heavily Concentrated in a Few Countries

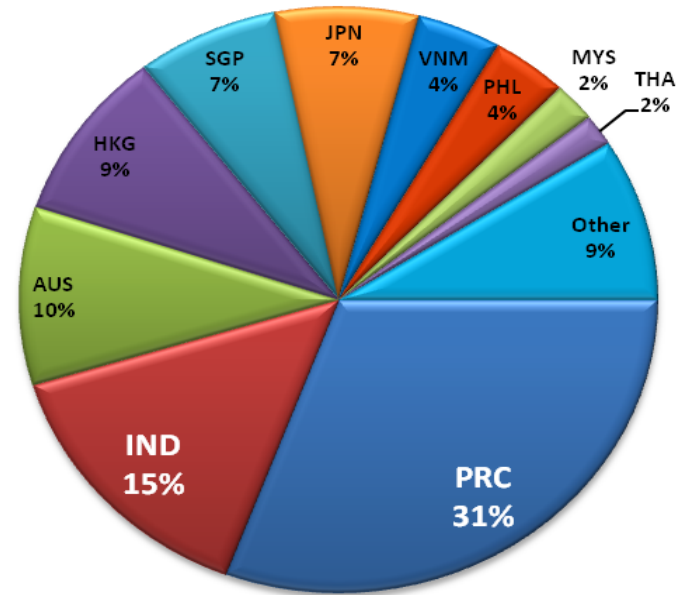
## Destination of investment projects (2003-2011\*)



### Asia to LAC

of which:

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



### LAC to Asia

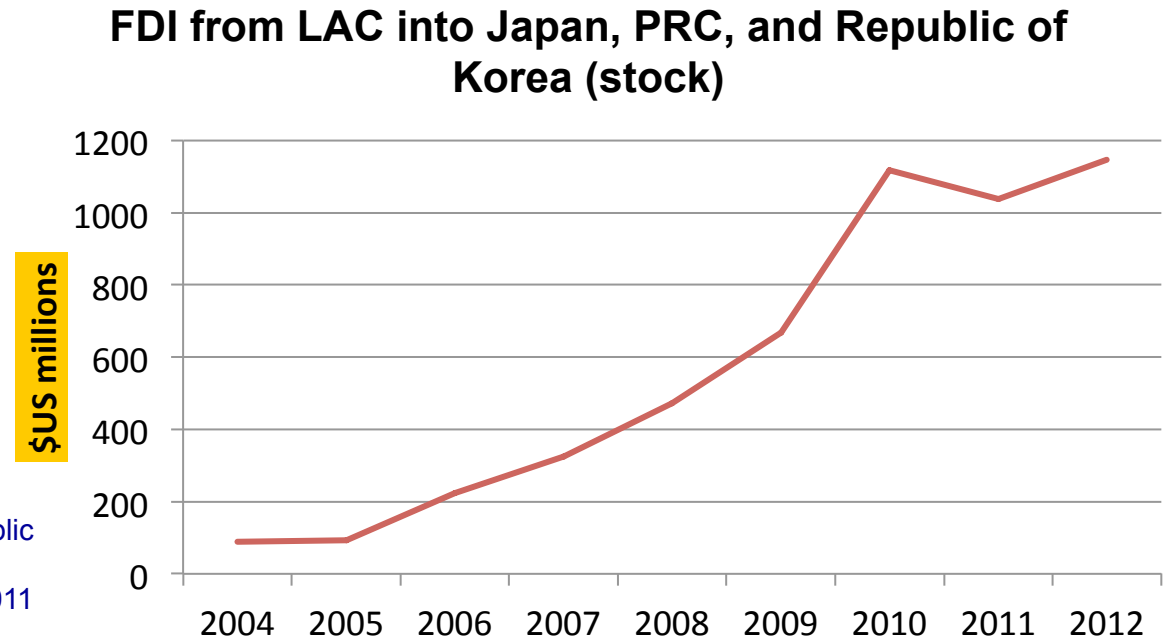
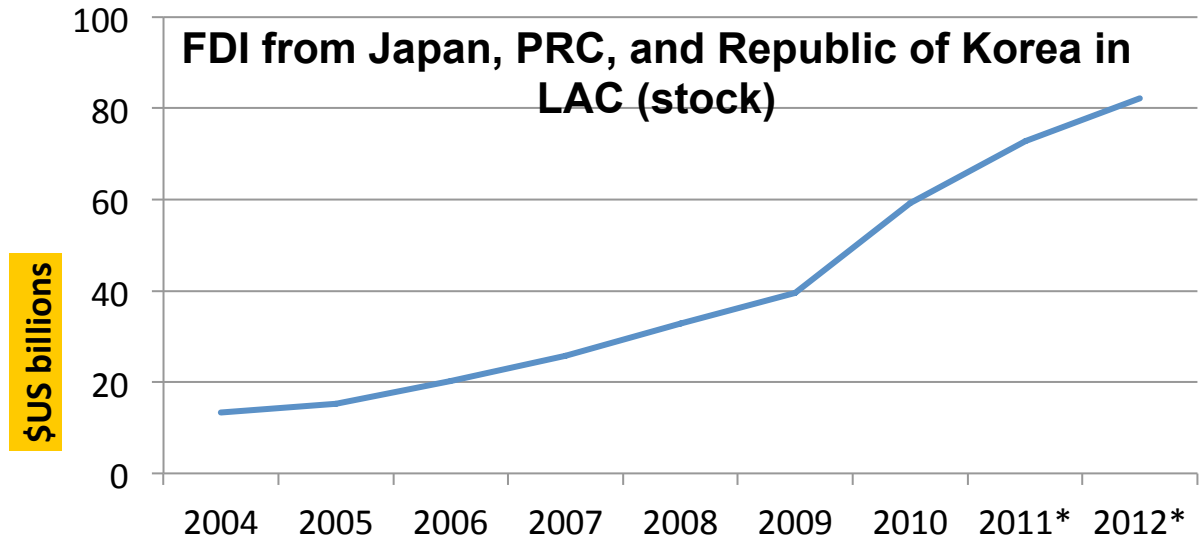
of which:

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

\*Until August

# FDI Rising, but with an Imbalance

The view from official FDI statistics: strong growth in both directions, but Asian investment still dwarfs LAC investment



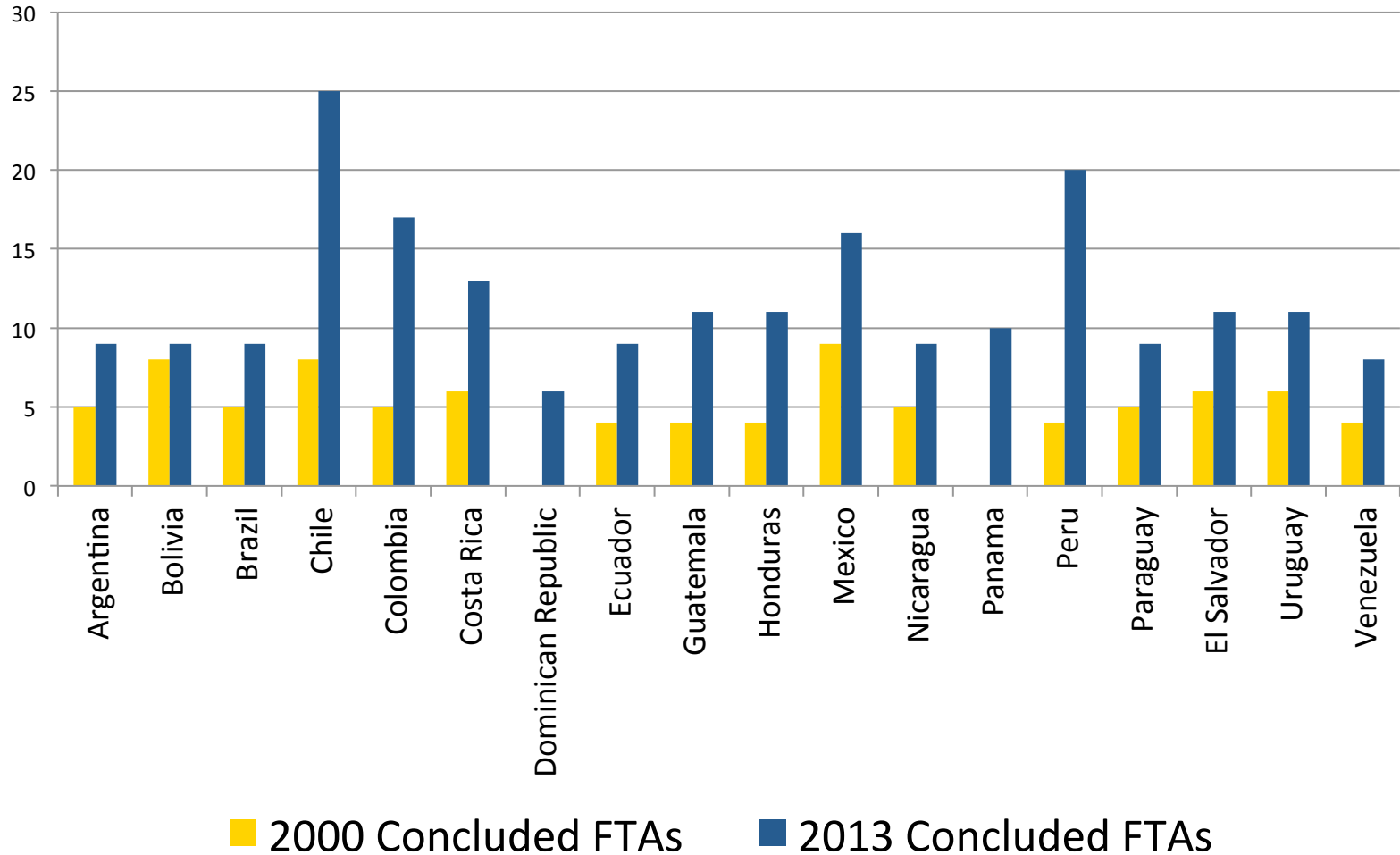
Sources: Japan JETRO, PRC MOFCOM, Republic of Korea Ex-Im Bank, and OECD Statistics;  
\*Data for PRC outward investment in LAC for 2011 and 2012 are projections

# **Emerging New Regional and Trans-Pacific Trade Architecture**



# LAC Active in Forging FTAs since the 1990s

## Number of concluded FTAs by country in LAC

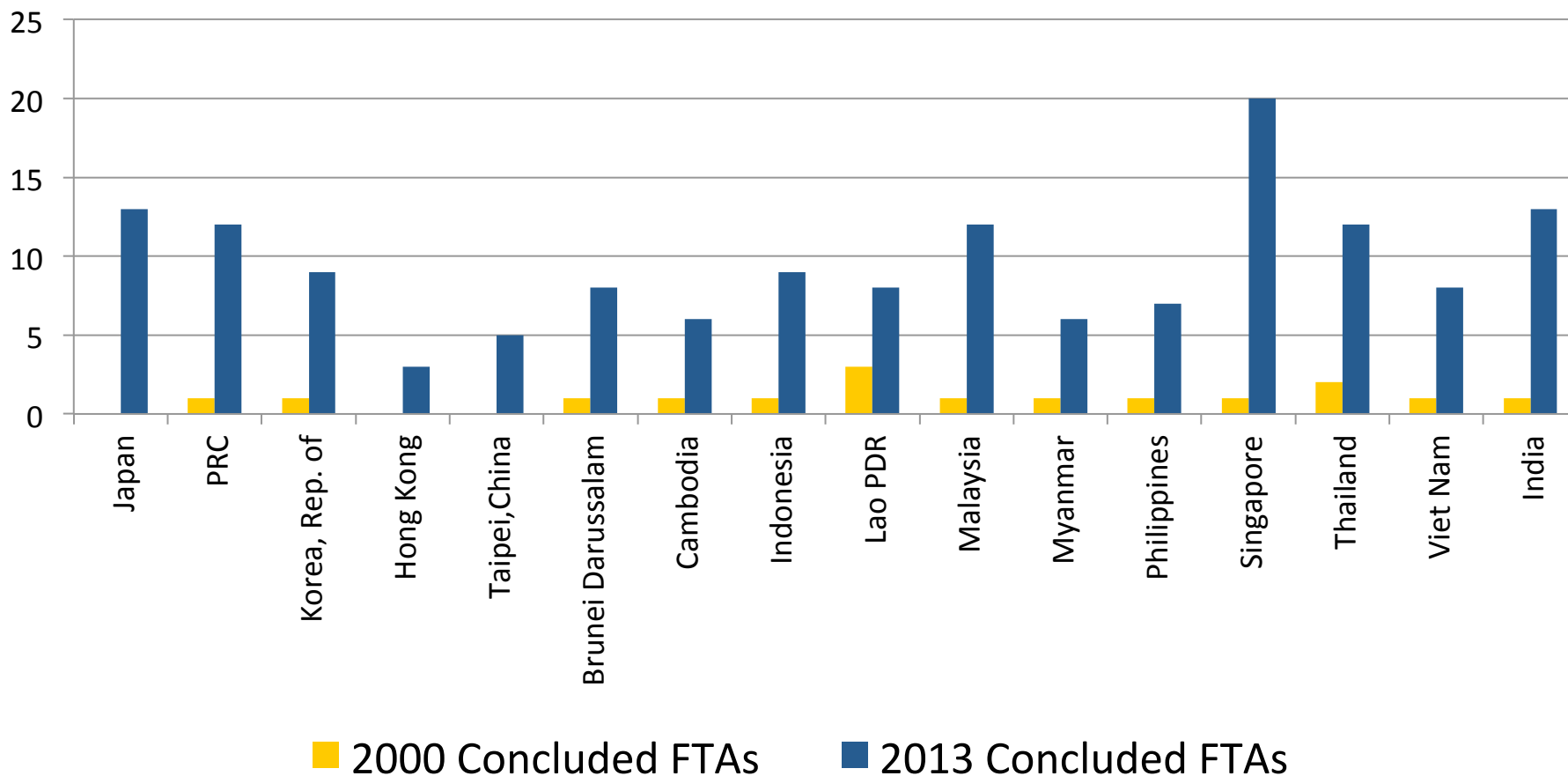


*Note:* Concluded FTAs include those that are in effect as well as those that have been signed but are not yet in effect.

*Source:* IDB INTrade

# Asia a Latecomer to FTAs, but Rapid Spread Recently

## Number of concluded FTAs by country in Asia



*Note:* Concluded FTAs include those that are in effect as well as those that have been signed but are not yet in effect.

*Source:* ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)), data as of April 2013.

# LAC and Asian FTAs Spreading, but Many Challenges

- Though a latecomer, the number of FTAs in Asia increased from 3 to 71 between 2000 to 2013
- With Doha Development Round stalled, FTAs have brought net benefits for LAC and Asian economies & businesses
- However, the spread of FTAs has also posed several challenges:
  1. Increasing use of FTA preferences
  2. Tackling the risk of LAC “spaghetti bowl” & Asian “noodle bowl”
  3. Promoting comprehensive coverage of agricultural trade
  4. Facilitating services-trade liberalization
  5. Increasing WTO-plus elements
- To resolve these concerns, innovative policy options are needed

## Policy Options

- Use WTO-consistent provisions
- Multilateralize LAC & Asian regionalism
  - Make rules of origin (ROOs) multilateral friendly, e.g., rationalizing ROOs, adopting co-equals for ROOs, upgrading ROO admin., harmonizing regional ROOs
  - Consolidate bilateral and plurilateral FTAs into a comprehensive region-wide FTA
- Connect with the rest of the world
- Improve business support for SMEs (finance, technology, and marketing)

\* Richard Baldwin and Masahiro Kawai, “Multilateralizing Asian Regionalism.” ADBI Working Paper Series, No. 431 (August 2013), Tokyo: Asian Development Bank Institute.

## Emerging Initiatives for FTA Consolidation in LAC

- New LAC integration platform emerging: **Pacific Alliance** (Members: Chile, Colombia, Mexico, Peru, + observers)
- Objective: to create an economic integration area with free flow of goods, services, capital and people, to booster regional competitiveness and strengthen relations with Asia-Pacific
- Market access liberalization agreement completed: full tariff elimination (immediate for 90% products) and harmonized ROO.
- Comprehensive provisions governing: services & investment (negative list approach); government procurement and standards.
- Important progress towards non-traditional disciplines:
  - trade facilitation (single windows connectivity, customs cooperation, authorized economic operator, etc.)
  - export and investment promotion (joint promotion activities, etc.)
  - movement of persons across borders (visa elimination, etc.)
  - cooperation beyond trade (education exchanges, etc.)
  - financial integration (stock-market integration, etc.)

## Likely Scenario for FTA Consolidation in Asia

- For now, 2 competing/complementary processes in Asia
  - Regional Comprehensive Economic Partnership (RCEP) among ASEAN+6 countries
  - Trans Pacific Partnership (TPP) among 12 countries
- RCEP respects ASEAN centrality. It requires a PRC-Japan-Korea FTA and its connection with ASEAN+1 FTAs
- TPP will unlikely include the PRC for some time while RCEP does not include the US
- Both RCEP and TPP are open to new members
- An APEC-wide FTA (FTAAP) can be forged by combining RCEP and TPP, convergence of the two, or absorption of RCEP by TPP

## RCEP and TPP – Salient Feature

- **RCEP**
  - Negotiations launched in November 2012 and expected to be completed by the end of 2015
  - Focus: goods trade, services trade, and investment
  - Common tariff tables for each country
  - Special and differential treatment of developing countries
- **TPP**
  - Negotiations to expanded P-4 membership started in March 2010
  - Comprehensive coverage of new trade issues e.g. intellectual property, government procurement, competition, labour and the environment
  - Bilateral tariff tables, potentially 66 in total
  - High degree of openness and hence limited membership
- Both are building blocs for an APEC Free Trade Area

# Opportunities and Challenges for RCEP

## Opportunities

- Expansion of markets based on an increasing middle class
- Deepening of production networks
- Enlargement of membership (other Asia-Pacific countries' participation)
- Capitalizing on ASEAN institutional framework (AEC)

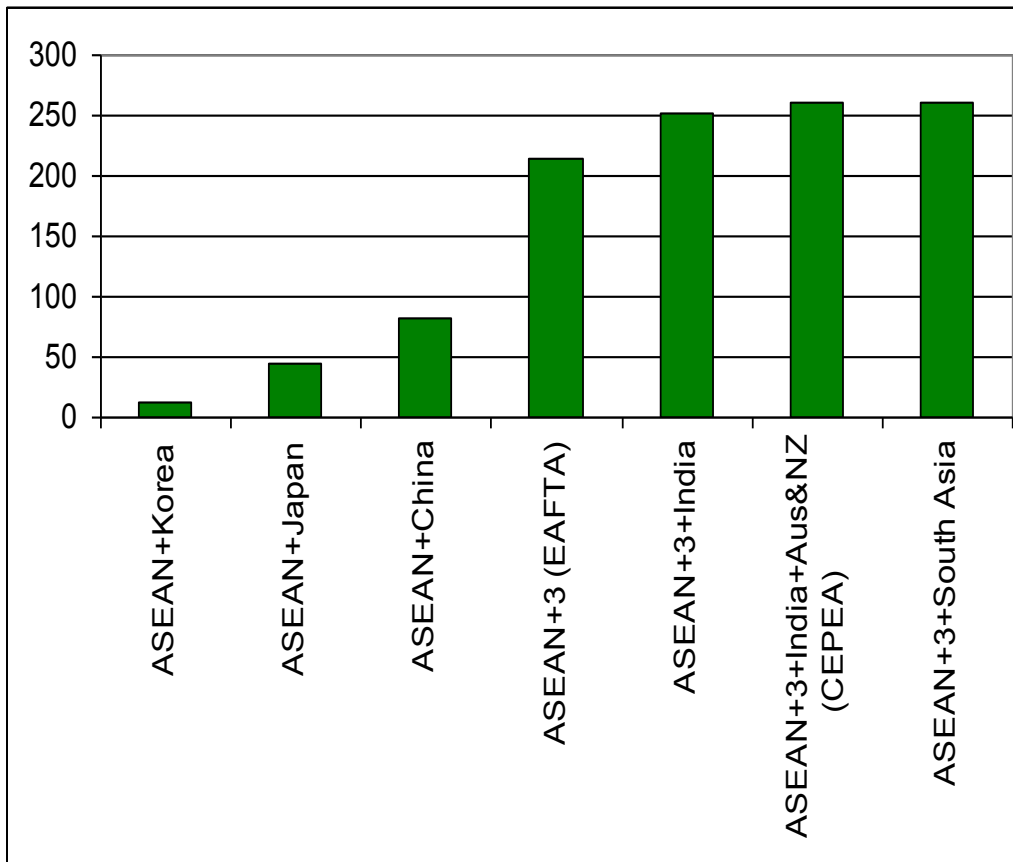
## Challenges

- Dealing with increased competition from PRC and India
- Improving business use of the FTA
- Ensuring compatibility of regional trade and investment rules with global WTO rules
- Achieving convergence with TPP and connecting with EU



# Larger Groupings, Larger Gains #1

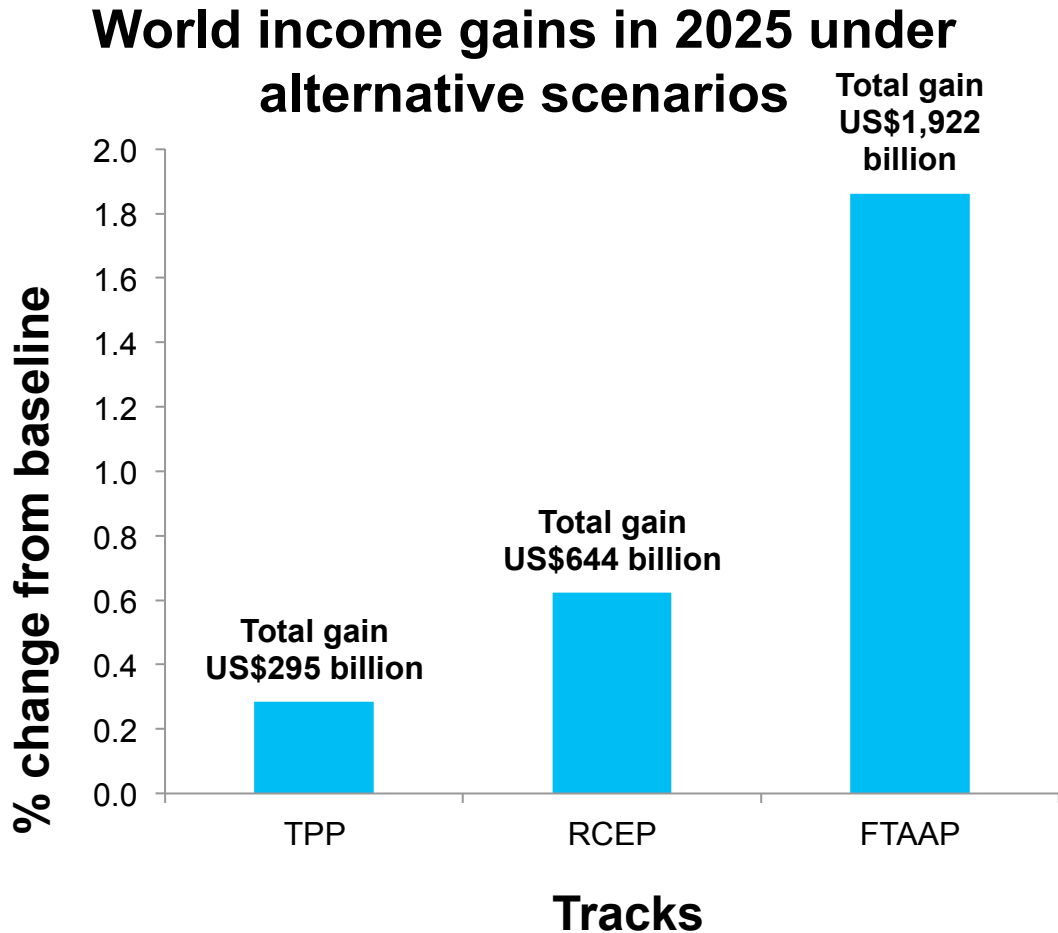
## Change in income compared to 2017 baseline, %



- A region-wide FTA offers larger gains to world income than the current wave of bilateral and plurilateral FTAs
- An ASEAN+6 FTA (RCEP) offers larger gains than an ASEAN+3 FTA
- Third parties lose little from being excluded from a region-wide agreement

Source: Kawai and Wignaraja (2011)

## Larger Groupings, Larger Gains #2



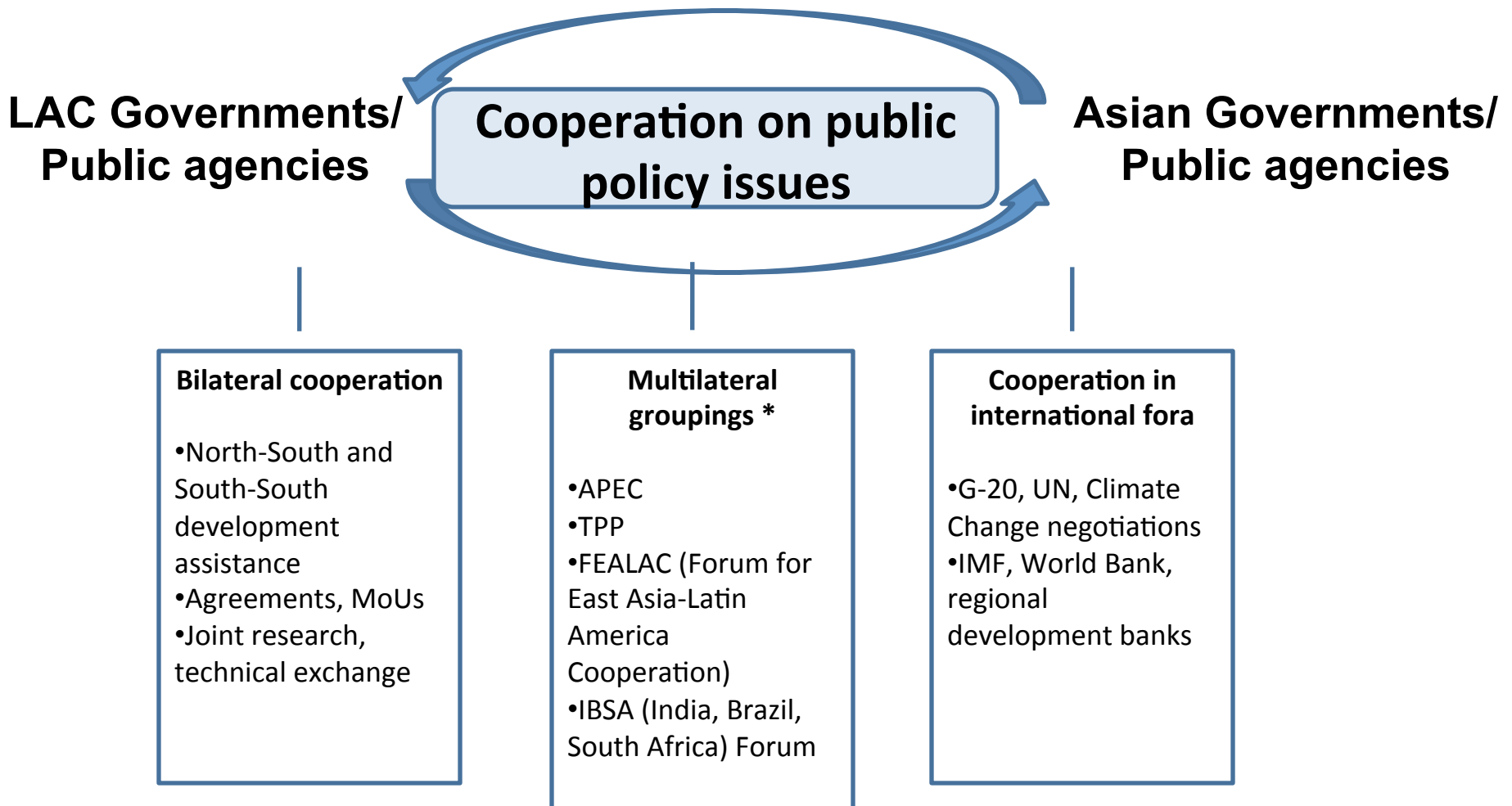
Source: Petri, Plummer and Zhai (2011) and their updates

- RCEP creates larger gains than TPP
- A large cross-regional FTA, such as FTAAP, offers notable gains over RCEP and TPP
- Insiders gain while outsiders lose little
- Other Asian countries need to be brought in

# Exploring Cooperation Opportunities

# Wider Asia-LAC Cooperation: Building on Trade and Investment Links

Deeper Asia-LAC trade and investment linkages can lead to broader, “non-market” cooperation



## Trade Agreements can be a Stepping Stone to Broader Cooperation

- Traditional trade agreements have provided the basis for concrete cooperation in wider policy areas, such as visa procedures and data privacy, education and human resource development, agriculture, and science and technology
- These occurred through bilateral agreements such as the Japan-Mexico EPA, as well as regional forums like APEC
- Key motivation for cooperation is the presence of complementarities
- Possible areas for more cooperation where there are clear synergies between trade and cooperation include:
  - Infrastructure connectivity to promote trade and investment
  - Behind-the-border policy issues including trade facilitation
  - Poverty reduction, disaster response, climate change, financial regulation
  - Global dialogue

## Leverage Regional Multilateral Institutions

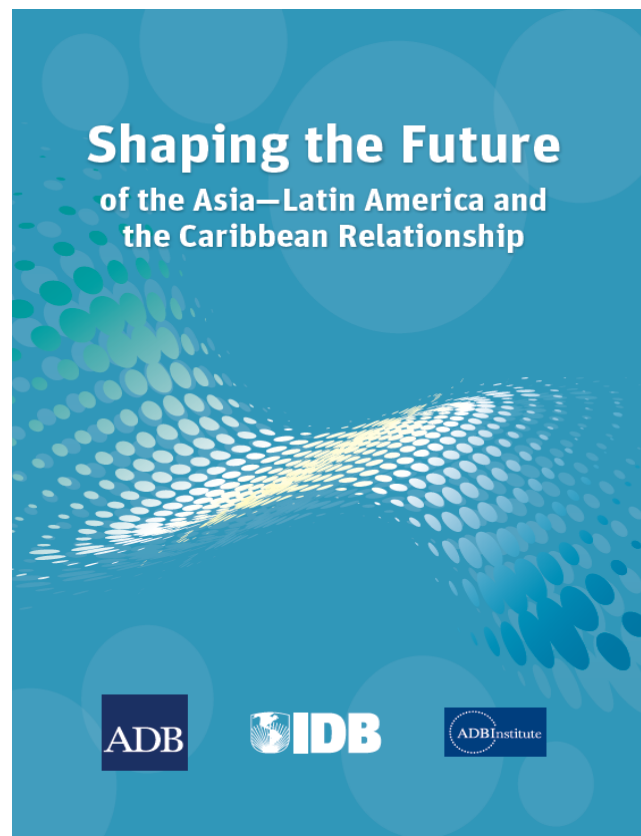
- Asia and LAC can strengthen cooperation through joint work between the two regions' multilateral institutions such as the ADB and IDB
- The two banks are working together under a formal partnership; ADB and IDB Presidents have signed agreements to support sustainable, low-carbon transport, and to share access to trade finance programs that link more than 100 financial institutions to support trade between the two regions
- The two banks are well positioned to facilitate exchanges and knowledge sharing among policymakers, academics and businesses from the two regions on a wide set of issues, particularly for cross-regional cooperation and on key global issues

# Conclusions

## Bringing trade costs down and boosting investment and cooperation is key to maintain the momentum

- Despite a substantial rise in Asia-LAC trade and investment, trade is concentrated on a few countries and, on LAC exports side, on a few commodities. Asia-LAC trade imbalances have developed
- Cross-regional FDI has been growing, particularly on the Asian side, but it is still lagging behind trade
- To promote balanced and diversified relationship and cross-regional FDI, high trade costs and high barriers to investment can be reduced through cross-regional bilateral FTAs and the broader initiatives led by APEC and the Trans-Pacific Partnership
- Mega regional FTAs (RCEP in Asia and Pacific Alliance in LAC) can set conditions for a more ambitious cross-regional FTA, i.e., FTAAP
- Global recovery from the global financial crisis could be slow, putting constraints on Asia-LAC trade and investment. But the two regions can overcome this by deepening the relationship through FTAs and wider cooperation on technological & development experiences and on others, and by coordinating interests in the international arena





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