Exploring options towards the productive integration of Latin America and Asia Pacific

1. Proposed discussion

The Latin America–Asia Pacific Observatory organized its second academic seminar last July 8 and 9th, 2015, at ECLAC’s headquarters in Santiago de Chile, under the name “Exploring options for the productive integration of Latin America and Asia Pacific”.

During this event, and based on the nine articles presented on the occasion, a debate was held regarding a number of issues, and more specifically regarding the potential and the difficulties that exist between the two regions for strengthening integration spaces as well as the bilateral trade of goods and services. All this, in addition to trade agreements, investments, infrastructure and productive structures in some Latin American countries.

In the understanding that some of the topics discussed at the seminar allow for a more in-depth consideration, and given the significance of such topics for the experts who take part in the Observatory’s Academic Forum, it was decided that the fourth debate would be organized under the same name as the second academic seminar.

1 Paper by Mr. Ignacio Bartesaghi (Ph.D), Coordinator of the Latin America – Asia Pacific Observatory, based on comments by the participating academicians, mentioned in Note 2.

It should be noted that the considerations by both the referred Coordinator and the participating academicians at the debate do not reflect, nor are they binding upon, the opinion of the three entities that comprise the Latin America – Asia Pacific Observatory.
One of the main conclusions reached at the seminar in Santiago de Chile implied the confirmation that Asia Pacific has undergone significant transformations in recent years, which represent new regional contexts that Latin America is not quite prepared for. This is specifically due to the lack of national and regional strategies for facing the new trends in worldwide trade.

Following is a list of some of the questions used in guiding the debate, which resulted from the seminar's outcome.

It is a common opinion that relations between Latin America and Asia Pacific concentrate on the trade of goods, and on trade partners and the location of investments, as well as on the effects of re-primarization of most productive structures in Latin America due to the acquisition of primary products in the Asian region and more specifically in China. The following questions arise as the result of such scenario:

- How could Latin American countries break away from such trade pattern and from the effects of the so-called re-primarization of exports?

- Is the trade of services a way of diversifying export trends in the region?

- Could trade relations with Indian and ASEAN countries be expanded to further diversify Latin American exports? or is there a risk of repeating the same trade pattern existent with China?

- Is it necessary to define strategies for the relations with countries in Asia Pacific like those defined by China in relation with Latin America? If so, what role will the CELAC–China Group play in such definition?

China's infrastructure plans, both global and for the region, were discussed in relation to the framework of the transformations carried forward by China referred to its development model.
There was agreement as to the significance of such investments within the region and for China’s own internal growth.

The overall opinion was that China’s direct foreign investments in Latin America are expected to experience a considerable increase in coming years, so the challenges ahead will be significant for the region as regards the channeling of trends in sectors that are key to economic development. Regarding the specific case of China, the following concerns arise:

- Will Latin America benefit from China’s huge infrastructure projects and their institutional aspects?
- Does the region have incentives for capturing such projects?
- In such scenario, what is the role played by regulatory frameworks and by integration processes in Latin America?
2. Contributions made by academicians

A central topic that the discussion about trade relations with Asia Pacific continues to revolve around are the characteristics of the trading pattern, and this was an issue taken into consideration by the participating academicians. There are consistent opinions as to the trade between Latin America and Asia Pacific continuing to be a supplementary trade (with a few exceptions, the region exports raw materials and food products, while it imports medium and high-technology processed products). Moreover, it is expected to continue showing a high degree of concentration at the product and market levels (mainly in relation to Latin American exports).

The existing potential was also appreciated, when identified on the basis of Asia Pacific’s heterogeneity and when considering this aspect from a sectorial perspective. As an example of such prospect, Malaysian academician Ms. Evelyn S. Devadason mentioned the partnership between Chile and Malaysia, where the South-American country has the potential to diversify its food exports (seafood in the case of Chile), provided that it overcomes the non-tariff barriers imposed by the Asian country to that sector. Regarding restrictions by some Asian countries on imports in the agricultural and food sector, they are obviously part of the provisions contained in trade agreements, and they represent the significance of advancing in the subscription of agreements between the two regions. Also in relation to Chile, it should be

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2 The contributions by the following academicians and entities is highly appreciated (indicated in order of appearance in the debate): Ms. Evelyn S. Devadason (Malaysia), Ernesché Rodríguez Asien (Cuba), and International Trade and Integration Department of the School of Entrepreneurial Science of the Catholic University of Uruguay.

The Coordinator of the Latin America – Asia Pacific Observatory is fully responsible for the construction of the comments made by the referred academicians and entities, and such construction does not reflect nor bind the opinion of the debate’s participants.

The original comments by the participating academicians are available at:

mentioned that this country has a Free Trade Agreement in place with Malaysia (subscribed in 2010 and in force since 2012), whereby regulations were formulated in relation to sanitary and phytosanitary measures. The document subscribed also refers to technical obstacles for trade, customs administration and trade defense, among other chapters favoring the free exchange of goods between the signing parties.

One of the main issues discussed at the debate instance in reference to the trade pattern deals with a China, the country behind what has been identified as the re-primarization of Latin American exports. In this regard, academician Mr. Ernesché Rodríguez-Asien has recalled the importance that China will continue to have for Latin American growth, regardless of deceleration and its well-known effects on both the demand of exports from the region and international prices. The referred expert considers that the new Urbanization Plan announced by China for the 2014 – 2020 period will be a reactivation for the demand of many raw materials exported by Latin America. Other academicians believe that the mega projects of infrastructure promoted by the Chinese government abroad will have an impact, not only on geopolitical aspects, but also on the demand of primary products. Rodríguez-Asien stressed that, the referred Plan implies the investment of millions of dollars in housing, railways, roads and in the enhancement of basic services, and this will result in the purchase of raw materials and food products, all of which will have a direct effect on the exports of several countries in the region. In sum, the opinion of this author is that China’s investments in infrastructure will always imply positive effects for an increased demand of the products exported from the region (primary products and food).

Even when the relation between the plans concerning infrastructure projects in China proves positive for an increase in the exports of most countries in the region, this is not a solution to the issue of dependence affecting Latin American countries in relation to China, nor does it represent a possibility for diversifying exports. We should consider whether the region might possibly identify opportunities in services associated with those infrastructure projects (engineering and architecture services and the like), as well as in the sale of food products implying a higher degree of processing which will be increasingly demanded by China’s
growing urban population and by other countries in the Asia Pacific region. The transformations of several countries in the region, like the ASEAN member countries, combined with the network of agreements and negotiations that China has established with its neighbors, will position Latin America unfavorably in that market. In addition, this reality must be mitigated with the definition of dedicated strategies enabling the identification of business opportunities for specific niches.

Regarding the transformation of Asian economies, the International Trade and Integration Department of the Catholic University of Uruguay understands that many Latin American countries continue to face the challenge of properly assessing the changes taking place in the Asian region. This prevents them from having a timely reaction regarding the identification of business opportunities. The referred entity shares the same opinions with the other experts about the advantages existing in the food sector, particularly in relation to foods with more significant processing, for which the upper and middle classes of Asian countries have been showing an increasing demand. To this date, such advantages are being captured by the direct competitors of food-exporting Latin American countries, as is the case of Australia and New Zealand.

In this sense, as indicated in the charts presented below, Australia, as well as New Zealand and Brazil have strongly increased their sales of food products to China\(^3\), with Brazil showing a greater concentration of sales on a single product. Anyway, the better results shown by some food products implying a higher degree of processing is clear, for the demand by Asian countries continues to be on the rise.

\(^3\) This case considers Chapters 16 through 23 of the Harmonized System.
In order to strengthen sales for these goods, in addition to logistics costs—a restriction that Brazil is facing as compared to Australia and New Zealand,—Brazil has disadvantageous
access conditions because it has not subscribed trade agreements with China or with other Asian countries. It should be noted that New Zealand already had an FTA in place with China, while Australia has recently subscribed its own. China applies high tariffs to this category of products, apart from sanitary and phytosanitary regulations that represent limitations to trade. Therefore, having a preferential agreement applicable would considerably increase business opportunities.

The chart below shows the differences in access for Brazil as compared to New Zealand and the ASEAN countries (in addition to Australia due to its recently subscribed agreement), in relation to some products corresponding to each of the chapters of the universe considered in the report, all of which represent potential exports.

<table>
<thead>
<tr>
<th>Harmonized System Chapter</th>
<th>Brief description</th>
<th>Non-accorded Tariff (MEX)</th>
<th>New Zealand and ASEAN Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td>160232</td>
<td>All other products with canned meat.</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>170211</td>
<td>Dairy products and lactose syrup.</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>180320</td>
<td>Cocoa paste.</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>190230</td>
<td>All other food paste.</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>200190</td>
<td>All other pulses and green leaf vegetables.</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>210112</td>
<td>Products prepared with extracts and coffee concentrate.</td>
<td>30%</td>
<td>0%</td>
</tr>
<tr>
<td>220429</td>
<td>All other wines.</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>230990</td>
<td>Products prepared for animal consumption.</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: drawn based on data from Market Access.

Even when some countries from Asia Pacific and from Latin America have recently subscribed the Trans-Pacific Partnership (TPP), which includes cutting-edge regulations that clearly exceed the tariff scope, it must be borne in mind that for other countries in Latin America and Asia Pacific, there is still a long way to go regarding access conditions. For instance, Brazil does not have trade relations with any country in Asia Pacific (and its relations with India are part of a fixed preferences agreement that is still considerably restrictive), and it...
has been proven that such conditions affect the potential of the food sector (among others) within the Asian market.

Undoubtedly, trade agreements and integration processes have had a leading role in the progress of Asia Pacific towards productive integration. An example of this are the advances attained by ASEAN, and its integration with other Asian countries in terms of production (particularly in the case of China). The achievements in infrastructure also constitute a clear example. On the other hand, Latin America has shown different strategies in reference to productive integration and regarding its external insertion scheme. However, and as the experts have expressed, there is still much to be done in relation to both the quality and the thoroughness of the trade agreements governing the links with countries in that region, as well as in relation to infrastructure.