



Prospects of economic relations between Southeast Asia and Latin America: Some policy options including SMEs

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Prospects of Economic Relations between Latin America and Southeast Asia: Present Position and Future Prospect

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Outline

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- Present Economic Relation between Latin America and Southeast Asia: Trade and Investment
- The Development of Regional Economic Cooperation Initiatives in Southeast Asia and Latin America
- Future Prospect and Challenges Ahead
- Some Policy Recommendations

Introduction

- Over the last decade, economic linkages between Asia and Latin America continue to expand with unprecedented level, with the increasing of the creation of trade agreement and a rise of bilateral trade and investment in the two regions.
- Although trade and investment between the two regions continues to grow at a rapid pace, it has not yet reached its full potential.
- the governments of both regions have increasingly understood the need to institutionalize the mechanism of consultation and to possibly implement joint actions in order to strengthen the economic relation between the two regions.

Overview of LA Trade (1)

- Grew very fast during the period 1970-80,
 - Then stagnant for 1980-90, probably due to debt crisis in the LA countries.
 - As of 1990s trade has resurged.
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- In 2008, LA recorded trade deficit:
 - total import was USD 664 billion
 - total export was USD 736 billion.

Overview of LA Trade (2)

- Since 1990, trade intensified firstly with US.
 - Share of LA export to US jumped from almost 40% in 1990 to 60% in 2000, then down to 44% in 2008.
 - Share of LA import from US also rose from 40% in 1990 to 50% in 2000, then down to 32% in 2008.
 - In 2008 part of US share in LA trade has been overtaken by rest of the world due to the recent global crisis.

Overview of LA Trade (3)

- There is an increased portion of LA's trade with Asia in the year 2000s, compared to 1990s.
- LA export growth to US was only 68% for the period 2000-08, while export growth to ASEAN+6 countries was more than 250%;
- Import growth from US was only 32% whereas import from ASEAN+6 reached 336%.

Overview of LA Trade (4)

- Data suggests the importance of ASEAN+3 as origin countries of LA's imported product:

Shares of total LA import, 2008

ASEAN	ASEAN+3	ASEAN+6	US	World
3%	22%	24%	32%	100%

Shares of ASEAN+3 and ASEAN+6 were almost approaching the US share (32%) and are higher than EU share of only 15%.

Overview of LA Trade (5)

- Data suggests the importance of US as LA's export destination:

Shares of total LA export, 2008

ASEAN	ASEAN+3	ASEAN+6	US	World
1%	8%	9%	44%	100%

Shares of ASEAN, ASEAN+3, and ASEAN+6 in LA total export were far below US.

Overview of LA Trade (6)

- The portion of LA import in manufactured goods rose from 66% in 1990 to 80% in 2000, but decreased to 76% in 2008.
- However, import of manufacture goods from ASEAN, ASEAN+3, and ASEAN+6 rose relatively substantial from 1990 to 2008.
- This may indicate the more competitive manufactured goods produced by Southeast and East Asia and the result of a more open LA market to Asian products. (Kuwayama, et al. (2000))

Overview of LA Trade (7)

- LA total export has also become more concentrated in manufacture goods from 1990 to 2000, but then its share also declined in 2008.
- Meanwhile, export share of manufacture goods to ASEAN, ASEAN+3, and ASEAN+6 persistently decline since 1990.

Overview of LA Trade (8)

- Since 1990, export share to ASEAN and ASEAN+ countries has steadily increased in the groups of agricultural products and, to some extent, fuels, ores and metals.
- Meanwhile, import of agricultural products from ASEAN and ASEAN+ countries has diminished since 1990.
- This could imply that relative to Southeast and East Asian economies, LA has a comparative advantage in agricultural products.

Overview of LA Trade (9)

- Although US products still dominated LA's import market in 2008, US manufacture goods seem to have been severely competed with imported manufacture goods from ASEAN+3 since 2000.

Overview of LA Trade (10)

- From the 11 LAIA countries, Mexico and Argentina were among the first to manage in engaging with the world's market as both performed the fastest export and import growth for the period 1990-2000.
- Trade growth between LA and ASEAN countries was incredible
Trade growth between LA and ASEAN countries was incredible as the growth figures were far above the average LA trade growths, for the period 2000-08.

LA's Partner	Import growth	Export growth
World	108%	129%
ASEAN	240%	322%

Overview of LA Trade (11)

- Among the LA countries, The largest importer of ASEAN products were Mexico which accounted for 62% of all imports from ASEAN during the period 2000-08.
- In addition, the largest exporter seemed to be Brazil which took around 49% of all LA export to ASEAN.

Overview of ASEAN Trade (1)

- Due to data availability, ASEAN here only refers to ASEAN-5.
- ASEAN import value in 2008 was USD 831 billion or 25% higher than LAIA total import in the same year.
- ASEAN export value in 2008 was USD 892 billion, or 21% larger than LAIA total export in the corresponding year.

Overview of ASEAN Trade (2)

- LA was an ASEAN minor trade partner since only 1.7% of ASEAN import originated in LA while 1.4% of ASEAN export went to LA.
- Despite this fact, ASEAN utilized LA trade liberalization in 1990s since ASEAN export to LA grew swiftly for the period 1990-2000 by almost 640%.
- Import from LA just started to pick up in 2000 when the import value in 2008 was USD14 billion and the growth rate for 2000-08 reached 343%.

Overview of ASEAN Trade (3)

- There seemed a reorientation of ASEAN trading partners: intra-regional trade increase recently.
 - Intra-regional import accounted for 14-15% in 1970-90s but 22% in 2000.
 - Share of intra-regional export was also expanding from 19% in 1990 to 23% in 2000 and 26% in 2008.
 - In the mean time, share of ASEAN trade with US shrank around 4% and 9% for import and export respectively, for the period between 2000 and 2008. This was the effect of 2008 global crisis.

Overview of ASEAN Trade (4)

- Among ASEAN countries, Singapore, Malaysia, and Thailand have the highest trade volumes, and therefore, their trades with LA were also high compared to Indonesia and the Philippines.

Overview of FDI in LA (1)

- Since 2000 the portion of FDI inflow to developing economies was getting larger as the percentage of FDI flowing to developed countries was going down. The recent 2008 crisis also contributed to the change of regional composition of world FDI inflows.
- The share of FDI to Latin America and the Caribbean was about half of the flows to the South, East and Southeast Asia.

Overview of FDI in LA (2)

- 2007 was the year with the highest growth of net FDI, recording 202% increase.
- ECLAC (2009) finds that in 2008 inward FDI in LA and the Caribbean rose to a new record high. In general ECLAC argues that investment in 2008 in this region was buoyant even in the midst of the current crisis.

Overview of FDI in LA (3)

- Data seems to suggest an indication of concentration of FDI flows in the region. Mexico and Brazil respectively accounted for a third and over a quarter of the LA's net FDI, exercising average net FDI data from 2000 to 2007.

Overview of FDI in LA (4)

- ECLAC (2009) and Kuwayama, et al. (2000) asserts that services is the promising sector for foreign investors.
- Kuwayama observes that vast privatization of state-owned assets, including public services, in 1990s has drawn foreign investors' attention to the services sector.
- Moreover, ECLAC points out that the increased attractiveness of this sector is partly stimulated by the United States real estate boom which then hit hard by crisis.

Overview Regional Integration in Southeast Asia

- Southeast Asia country first integrated via the market and then in the 1990s started integrating via agreement
- Various forms of regional integration in Southeast Asia
 - ASEAN & AFTA
 - ASEAN+3 (East Asia Summit)
 - Bilateral and Bi-regional FTA

Overview of Regional Integration in LA

- Since the 1960s, Latin America has mainly used trade agreements as the primary channel for integration
- Three phases of regional integration in LA:
 - In 1960s: Import substitution industrialization
 - In 1980s: “Neo-liberalism” reform
 - In the late 1990s: Inter-regional FTA

Future Prospect & Challenges Ahead

While opportunity is enormous, some challenges needed to resolve:

- Both regions have a similar structure of “comparative advantages”, and thus their trade is competing
- Both regions have a distinct difference in the way how to conduct business
- Physical distance and lack of direct travel routes between the two regions.
- Large dissimilarity and the huge gaps in economic conditions in both regions
- Various form of trade agreement in the two regions may create the “spaghetti bowl” problem

Some Policy Recommendations

- Regional integration should be emphasized on the development of integration via the market, including business-friendly environment, trade facilitation, and proper domestic policies, such as improvement of infrastructure, rather than formal trade agreement
- Both regions should strive for a high quality FTA by being comprehensive in scope, removing trade and investment barriers, strengthening capacity and fostering open regionalism
- The regional integration between ASEAN and Latin America should involve other developed countries in the region, such as Japan and US, in order to maximize the benefit of regional integration.
- Various kind of RTA in both regions should be consolidated and simplified.

Thank You