Latin American – Asian Trade Flows: No Turning Back[1]

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in Asia, to improve the domestic business climate and enhance firm competitiveness, and to attract foreign investment as a way to integrate local production into global supply chains.

Beyond the scope of this article is an in-depth discussion of the geopolitical implications of international commercial trends, however fascinating.[3] Other papers in this project will tackle them.

Latin American Export Trends

Asia was not unknown to Latin American merchants before 2000. During the colonial era, Spanish galleons navigated the Pacific, connecting the New World with the Philippines and other Asian ports of call. In the modern era, Chile routinely supplied its abundant copper to feed Japanese industry. But the explosion of Asian – Latin American commerce during the past decade has been extraordinary: Latin American purchases of Asian merchandise shot from $35 billion at the beginning of the millennium to reach $223 billion by 2011 (Graph 1). Latin American exports also performed spectacularly, chalking up double-digit annual rates of growth and shooting from $17 billion to $144 billion, lagging Asia's export drive but impressive nonetheless.

[3] For a review of recent publications on trans-Pacific geopolitics, see Richard Feinberg, "China, Latin America, and the United States: Congruent Interests or Tectonic Turbulence," *Latin American Research Review*, Vol. 46, No. 2, pp.215-224, 2011.

Over the last decade, Latin American export earnings have grown dramatically on a worldwide basis, rising from $322 billion (2000) to $974 billion (2011), reflecting sharp price increases for commodities but also strong growth in volumes (Table 1). For its ten major commodity exports, export volumes more than doubled, as farmers planted more grains for export and cleared land for cattle grazing, and mining companies (state-owned and privately held) dug more deeply into the earth. Illustrative of commodity prices, soybean prices soared 100% (2000 – 2011), such that by 2011 soybeans (beans, oil, and cake) accounted for 9.4% of Brazil's exports with a value of $24 billion, and a fulsome 45% of Argentina's exports with a value of $21 billion.[4]

Hungry for the region's commodity production, the Asian share of total Latin American exports rose quickly, from 5% to 15%. Of this 15%, China accounted for 9%, Japan 3%, South Korea 1%, and the ASEAN region cumulatively another 1%. However,

expanded, Latin American exports increased in absolute terms to all major regions of the world (Table 1). Exports to the United States rose from $196 billion to $347 billion, even as its share declined markedly, from 61% to 36%. And while raw materials dominated export growth in many countries, and in some cases even increased their participation in total exports, non-commodity exports, including manufactures, also grew substantially in absolute terms.

Table 1. LAC Total Exports, by Region, 2000-2011 (In U.S. $ Billions)												
Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	322.4	311.2	312.8	342.6	427.6	515.7	610.5	623.8	785.8	618.6	785.4	974.4
USA	196.0	180.8	183.4	191.0	233.3	260.2	300.4	281.2	325.6	232.5	296.0	346.7
Latin America	47.9	46.2	39.8	46.8	57.2	76.0	93.3	104.3	146.8	95.4	122.0	151.9
Asia	16.5	17.5	19.1	26.2	32.8	43.3	52.9	70.1	78.7	79.7	114.2	144.4
Europe	39.3	38.8	39.8	47.6	58.7	67.7	87.6	100.4	121.8	88.4	107.4	136.9
Africa	2.8	3.6	4.0	4.5	6.7	9.1	11.3	13.6	16.6	12.8	14.5	20.3
Middle East	2.8	3.6	4.0	4.2	5.1	6.4	8.1	9.2	12.0	11.2	14.7	17.7
ASEAN	2.6	2.9	3.3	3.8	4.7	6.1	7.0	8.9	11.6	10.0	13.4	17.6

Breaking down these Latin American exports by product composition, raw materials (agriculture, ores and metals) dominate overwhelmingly (Graph 3). In 2000, Latin America sold just $5 billion in ores and metals to Asia; as the result of higher prices as well as a dramatic expansion in mineral extraction, sales surpassed $70 billion in 2011. Agricultural sales (especially soybeans) zoomed from $6 billion to over $45 billion. Fuels and chemicals (including petroleum) also rose, from $1 billion to $13 billion. As noted, manufactured exports to Asia also climbed, from $3 billion to nearly $14 billion.

some prices may slacken from their 2011 highs, "Given the current international climate, commodity prices are likely to remain high in the years ahead," and predicts: "…the region's export value will continue to climb over the next four years although at rates that are somewhat lower than in previous years…." [5]

2) Latin American governments are behaving differently. The governance capacities of many states have grown, gradually but significantly: executive branch bureaucracies and central banks are stronger, staffed by well-educated technocrats, better able to manage fiscal and monetary policies; middle classes are expanding, more educated, more future-oriented; and important lessons have been learned from past policy errors. Some governments (notably Chile) have adopted counter-cyclical fiscal policies and are saving income generated from the commodity windfall in "rainy day" funds, and for use in infrastructure and other basic investment projects. A number of governments are spending the surge in fiscal revenues levied upon commodity exporting activities on expanding public social services and on direct income transfers to the poor. As a result of this attention to the region's long-standing social deficit, Latin America has raised millions out of poverty and extreme poverty; in many countries the distribution of income has improved measurably.[6] This visible sharing of the wealth contributes to political legitimacy and stability.

This "redistributive extractivism" has been criticized by both the political right and left: the right maintains that such social expenditures do not increase productivity and may not be fiscally sustainable; some on the left see the expenditures as a smokescreen to obscure the on-going plunder of non-renewable natural resources.[7] Nevertheless, the current resource-based populism, while not unprecedented, is more widespread and is having greater social impact than during

opportunities, rising four-fold, albeit from a small base, to nearly $14 billion (2011), to account for nearly 10% of total exports to Asia. As we shall see, some of this trade in manufactured goods results from Latin America's integration into global supply chains organized by large multi-national corporations. These positive trends are overlooked by the "de-industrialization" pessimists, who paint the Asian connection in overwhelmingly dire colors.[8]

Looking forward, the challenge for Latin America is to transform its earnings from commodities into productive investments that will build on these successes, continuing to raise productivity and competitiveness and generating a more varied composition of value-added exports (more on these development challenges below).

Latin American Imports from Asia

In sharp contrast to the concentration of Latin American exports to Asia in primary materials, Latin American imports of Asian origin are heavily concentrated in manufactures (Graph 3, Table 2). The region's manufacturing imports from Asia skyrocketed from $28 billion (20000) to $188 billion (2011, [illegible]

The matrix of Table 2 breaks out the product composition of Latin American exports to individual Asian countries (2011). Interestingly, China's imports of manufactures accounts for only 6% of its total imports from the region, compared to the overall Asian ratio of nearly 10%. Japan's ratio of manufactured to total imports from Latin America, at 7%, also falls under the

Drilling down into the Mexican trade data, we can see that many of the manufacturing imports from Asia are actually components for assembly plants (maquilas) located for the most part in Northern Mexico, whose output is destined for export markets, principally the proximate United States. We are witnessing a triangular trade, in which globalized supply chains integrate Asian-Mexican-U.S. design and production processes and consumption markets. Many of the exports from China ($52 billion, 2011), Japan ($16 billion) and South Korea ($14 billion), but also from the ASEAN region ($14 billion) are destined for factories located in Mexican free trade zones (FTZs)where they will be processed and re-exported. The manufacturing facilities are sometimes owned by Asian firms – Sony, Kyocera, Samsung, LG, Huawei, Lenovo - and sometimes by U.S. or European firms. Nor are Asian-fed FTZs unique to Mexico; Asian-sourced electronic parts and import components supply the booming free trade zones in Manaus, Brazil.

In this world of global production, the nation state is often a misleading unit of analysis. Treated in isolation, Mexico is running massive trade imbalances with Asia, just as Mexico's trade balance with the United States is most solidly in the black. But these Asian-Mexico-U.S. flows

should be viewed together, the result of transnationally integrated production chains. Mexico's imports from Asia are part-and-parcel of its export performance.

Similarly, Costa Rican trade with Asia cannot be understood without reference to the global supply chain of the nation's largest foreign investor, the Silicon Valley giant Intel Corporation. The intra-industry trades of Intel's "fab" (chip manufacturing facility) in San José are at the center of Costa Rica's recorded exports to Asia, clustered with two other major international electronics firms, Samtec Interconnect Assembly, headquartered in Indiana, and Oregon-based TriQuint Semiconductor: 75% of Costa Rica's exports to Asia (2011) are accounted for by integrated circuits and microprocessors.[9]

Notwithstanding the dominance of primary products in Brazilian sales to Asia, Brazilian manufactured exports have risen rapidly, from a mere $1.5 billion (2000) to $7.2 billion (2011). These value-added products were spread among China ($2.4 billion), South Korea ($1 billion), and ASEAN ($2.8 billion) including $1.6 billion to Singapore, the world's most efficient entrepôt, some of which would be distributed onwards to other regional destinations (Annex A).[10]

Brazilian exports to China would be growing even more rapidly were it not for a series of tariff and non-tariff trade barriers. To protect domestic industry, China makes use of tariff escalation, with higher rates levied on more processed products. For example, the tariff on bovine leather averages approximately 6 %, whereas leather products such as suitcases, handbags and wallets are subject to tariffs of between 10-20%. Wood pulp is imported duty-free, whereas paper and paperboard are subject to tariffs of 5-7.5%.[11]

Despite these trade barriers and a strong national currency (which diminishes Brazilian competitiveness), Brazil chalked up a trade surplus with Asia of nearly $10 billion in 2011. Brazil's nearly $12 billion trade surplus with China – driven by $41 billion in primary commodities - was only partially offset by a $5 billion trade deficit with South Korea, driven by $8 billion in manufacturing imports from South Korea (Annex A).

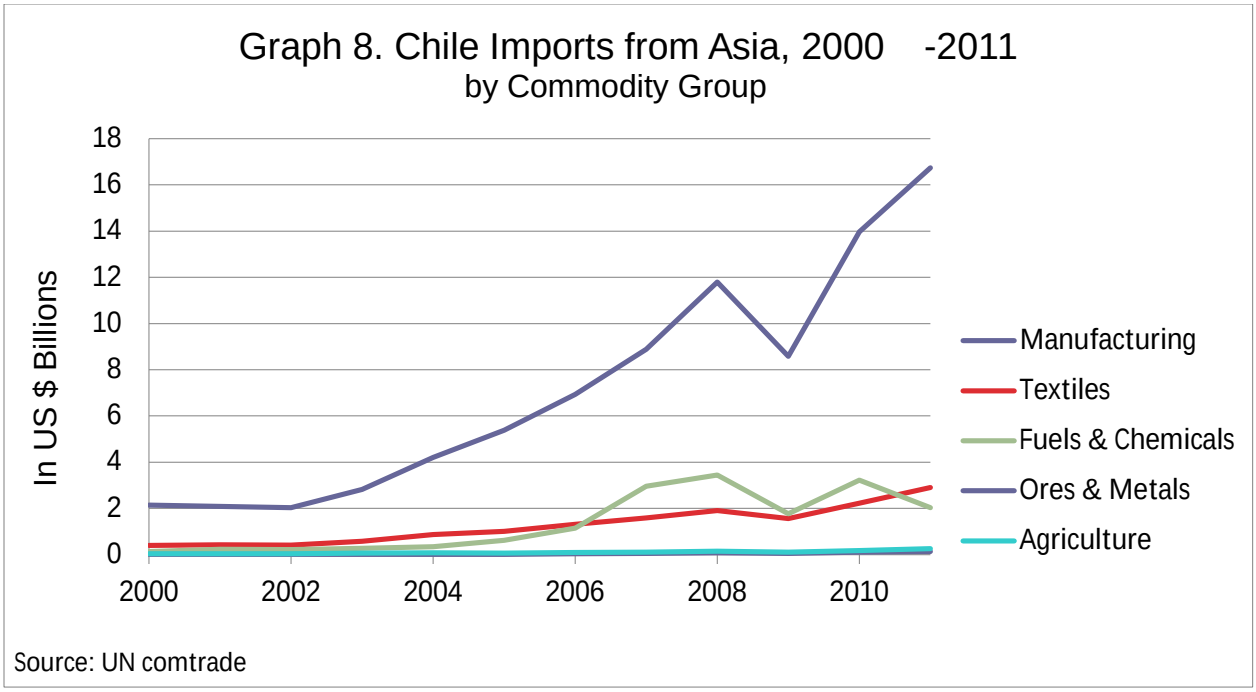
Chile: mono-commodity exporter

Chile is a striking example of a mono-product exporter: of $81 billion in total exports (2011), copper (ores, unrefined and refined copper and alloys) accounted for $44 billion. Of Chile's nearly $50 billion in worldwide exports of ores and metals (also including $1.5 billion each of gold and molybdenum), $27 billion found Asian destinations. Happily for Chile (and Peru),

[10] For case studies of successful Brazilian exporters in the soybean, pork, and aircraft industries, see Charles Sabel et al., Export Pioneers in Latin America. Washington, D.C.: Inter-American Development Bank, 2012.

[11] Rhys Jenkins, "China and Brazil: Economic Impacts of a Growing Relationship," *Journal of Current Chinese Affairs*, Vol. 1, 2012, pp.21-47.

copper is an essential component in the automotive and electronics industries, and is also used in the construction of infrastructure, energy projects, transportation, home building – in many of the basic drivers of economic development. In comparison, Brazilian performance is diversified



It is also worth noting that Chilean copper has two major national markets (China and Japan), modestly diversifying market risk, whereas Brazilian commodity exports are heavily concentrated in just one big market (China).

Chilean imports from Asia are overwhelmingly manufactures and textiles (Graph 8), placing Chile squarely in the category of primary resources – manufactures exchange. Of $17 billion in Asian manufactured imports, China dominates with $11 billion, distantly followed by Japan and South Korea with $2 billion each and ASEAN with $1 billion (Annex B). Chilean traders have just begun to exploit ASEAN, exports and imports alike barely surpassing $1 billion (2011); despite sharing membership in the T-4, the original core of the Trans-Pacific Partnership (TPP), total trade (imports and exports) with Singapore was a mere $150 million (2011).

Overall, the spectacular performance of Chile's efficient copper industry, growing strongly in volume and benefiting from high global prices, resulted in bilateral trade surpluses with each of China, Japan, and to a lesser degree South Korea, while exchange with ASEAN was essentially in balance.

International Trade Commission, concluded: “While China’s share of total U.S. imports climbed from 8% to 18% during the 12-year period of 2000-11, Mexico was able to maintain its position relative to all suppliers of imports to the U.S. market, increasing its share form 11% to 12%.”[16] And it must keep in mind that Asian and Mexican production are tightly linked in global supply chains, with Mexican exports often containing significant Asian components.

growth, with rising real wages and falling unemployment. Protectionist pressures are less likely in a period of general prosperity.

Despite the surge in Asian imports, the trade account of Latin America – excluding Mexico - with Asia was, as we have shown, in balance, so the pain of higher imports was balanced by an equally powerful surge in exports. Of course, these inflows and outflows generated winners and losers, but from a balance of payments perspective, the gains equaled the pain. The winners, including powerful mining and agricultural interests, predictably lobbied on behalf of open markets and friendly relations with highly profitable trading partners. In Brazil, for example, major players in Asi

of trade negotiations which held the promise of further market openings, and Brazil and Argentina were active in pressing, alongside the Chinese negotiators, for the liberalization of agricultural markets. While the Doha Round ultimately stalled, the various negotiating sessions did regularly issue "stand-still" resolutions committing members not to resort to new protectionism. Just as significant, during these years China joined the WTO, agreeing to dismantle many tariff and non-tariff trade barriers, to the potential benefit of Latin American exporters.

Offensive Responses

Instead of turning to defensive protectionist responses, many Latin American governments sought offensive solutions. Most prominently, governments have been negotiating preferential, market-opening trade agreements, among themselves and with Asian nations. Governments have sought to promote foreign investment, as a means of stimulating investment-related trade flows via integration into corporate supply chains, and more generally, to deepen structural reforms intended to increase productivity and international competitiveness.

on commodity exports, Latin American governments have been strengthening their export

C. Mexican Trade with Asia, 2011