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“Latin American-Asian Trade Flows: No Turning Back”

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in

Reaching Across the Pacific: Latin America and Asia in the New Century

Edited by Cynthia J. Arnson and Jorge Heine, with Christine Zaino

Latin American–Asian Trade Flows: No Turning Back

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East Asia's economic juggernaut has had a dramatic impact on the economies of Latin America, opening up important new markets for Latin America's abundant natural resources while boosting their prices; providing the region with low-cost manufactures that have measurably improved the lives of consumers, including the poor; and offering exciting opportunities for integration into high-technology global supply chains.[1] Asia's historic strut onto the world economic stage has also enabled Latin America to further diversify its import and export markets, increasing opportunities and reducing some risks. Asia has also offered valuable new partners for Latin American policymakers interested in negotiating preferential trading arrangements.

This chapter explores the interregional trade dynamics during the fast-paced years 2000–2011.[2] It argues that although Latin America's exports to Asia have been heavily weighted toward primary commodities, we are not witnessing a repeat of history; commodity prices appear unlikely to collapse as they have so often in the past, the more mature Latin American governments are making better use of the financial windfall, and one can perceive the beginnings of a regional capacity to export a wider range of products—including value-added, processed commodities; a growing variety of agricultural products; and some manufactured goods. Especially promising is the demonstrated capacity of Latin American manufacturing firms to penetrate the markets of the countries that belong to the Association of Southeast Asian Nations (ASEAN).

The much-bemoaned interregional trade imbalance is largely accounted for by Mexico's imports of Asian manufactures; in contrast, some Latin American countries, including Brazil and Chile (when copper prices are

especially high), have accumulated trade surpluses against their Asian trading partners, while Argentina and Peru are roughly in balance. Furthermore, in this world of global production chains, the nation-state is too often a misleading unit of analysis. In the twenty-first century, trade patterns must be analyzed in terms that stretch beyond national boundaries to encompass the long, complex supply chains, and the international investment locations, organized by sophisticated firms with global reach. In the case of Mexico, many of the imports from Asia are component parts that factories will reexport as final goods for U.S. consumers.

Moreover, there is tremendous heterogeneity among Latin American nations in their trading patterns with Asia. Here, we examine three types: a multicommodity exporter, Brazil; a monocommodity exporter, Chile; and a multiproduct supply chain location, Mexico. Policy prescriptions must be tailored to the realities of each case.

In the face of the onslaught of low-cost Asian manufactured goods, an interesting puzzle is why Latin America, with its legacy of statist intervention, has generally not turned toward protectionism. I offer several explanations for this restraint, based upon observed trading patterns and also with reference to the power of ideas and the domestic political economies of international trade. Rather than retreat into a defensive posture, Latin America, with a few partial exceptions (notably Argentina), has chosen an offensive strategy—to seek to further open markets 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.

However fascinating, an in-depth discussion of the geopolitical implications of international commercial trends is beyond the scope of this chapter.[3] Other chapters in this volume tackle these issues.

LATIN AMERICAN EXPORT TRENDS

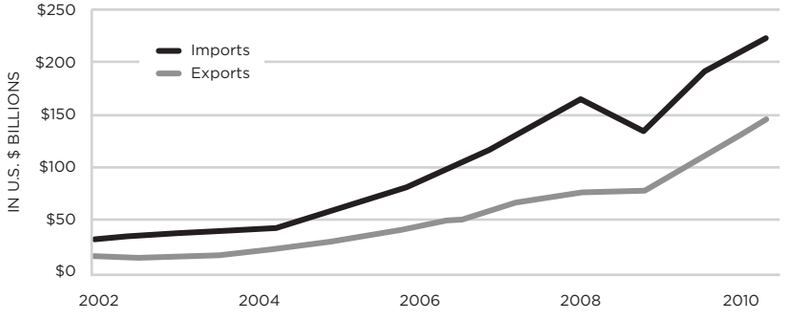
Asia was not unknown to Latin American merchants before 2000. During the colonial era, Spanish galleons navigated the Pacific, connecting the New World with the Philippines and other Asian ports of call. In the modern era, Chile routinely supplied its abundant copper to feed Japanese

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 (figure 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.

Latin American exports to Asia have been concentrated in relatively few products (basic grains, mineral ores, and petroleum) and in the region's two biggest markets (China and Japan). But as we shall see, this is not the whole story: Thousands of other Latin American producers, including processed raw materials and manufactures, have penetrated Asian markets, and Latin American exporters are increasingly able to access the markets of Southeast Asia—exports to the ASEAN region leapt from under $3 billion in 2000 to nearly $18 billion in 2011.

In a short period of ten years, China's booming economy overtook Japan and rapidly became the dominant market for Latin American exports, rising

Figure 1. The Total Trade of Latin America and the Caribbean with Asia, 2000–2011 (billions of dollars)

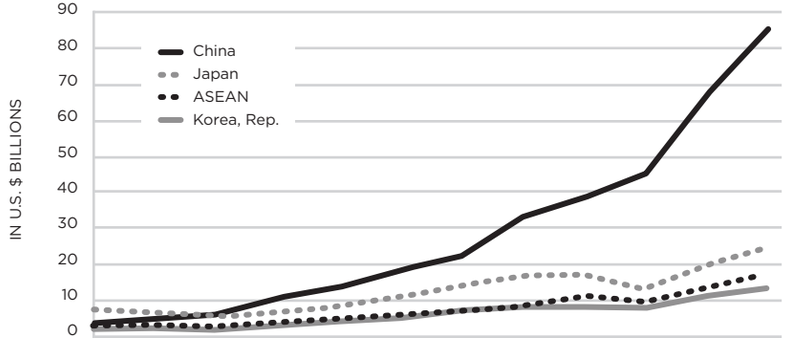


Source: UNCOMTRADE

from under $4 billion in 2000 to $85 billion in 2011 (figure 2). Regional exports to Japan also prominently rose, from $7 billion in 2000 to $24 billion in 2011, even as Japan's share of Latin American exports to Asia were increasingly overshadowed by Chinese purchasing power. As a group, the ASEAN nations composed the third-largest market in Asia for Latin American exports; South Korea, however, was not far behind, purchasing nearly $14 billion in Latin American merchandise in 2011. Within the ASEAN group, exports were spread among a number of countries, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Over the last decade, Latin American export earnings have grown dramatically on a worldwide basis, rising from $322 billion in 2000 to $974 billion in 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 (both state-owned and privately held) dug more deeply into the earth. Illustrative of commodity prices, soybean prices soared 100 percent (2000–2011), such that by 2011 soybeans (beans, oil, and cake) accounted for 9.4 percent of

Figure 2. The Total Exports of Latin America and the Caribbean to Asia, by Trade Partner, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

Brazil's exports, with a value of $24 billion, and a fulsome 45 percent 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 percent to 15 percent. Of this 15 percent, China accounted for 9 percent, Japan for 3 percent, South Korea for 1 percent, and the ASEAN region cumulatively another for 1 percent. However, while Asia's market share 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 percent to 36 percent. 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.

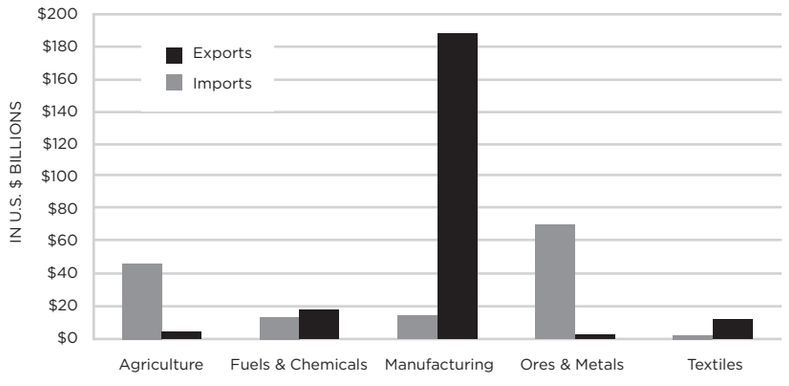
Breaking down these Latin American exports by product composition, raw materials (agriculture, and ores and metals) dominate overwhelmingly (figure 3). In 2000, Latin America sold just $5 billion in ores and metals to Asia; as the result of higher prices as well as a dramatic

Table 1. The Total Exports of Latin America and the Caribbean, by Region, 2000–2011 (billions of dollars)

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	126.9
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	12.4	17.6

Source: UNCOMTRADE

Figure 3. The Total Trade of Latin America and the Caribbean with Asia, by Commodity Group, 2011 (billions of dollars)



Source: UNCOMTRADE

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.

BACK TO THE FUTURE?

Given the above trends, the picture frequently painted—that the Latin American export boom to Asia is "back to the future," a reversion to concentration in primary commodity production ("re-primarization")—has a basis in fact. Overall, exports of primary products as a share of total exports rose for Brazil from 19 percent in 2002 to nearly 40 percent in 2011; for Chile, from 23 percent to 30 percent; for Colombia, from 47 percent to 64 percent; and for Peru, from 23 percent to 41 percent. Yet there are three important reasons why today's trends are *not* a mere repetition of history:

First, in the past, international commodity price cycles were frequent and violent, bringing in their wakes severe disruptions to the Latin American economies and societies (more than one military coup was precipitated by a commodity bust). Today, the demand for basic commodities appears to be on firmer footing, rooted in strong demand from diverse regions including the emerging market economies, and while some price volatility can be expected, conventional wisdom is that high commodity prices are here to stay, and hence will provide for healthy markets and export earnings for Latin America for the foreseeable future. The UN Economic Commission for Latin America and the Caribbean (ECLAC) has concluded that even though 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]

Second, 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, who are better able to manage fiscal and monetary policies; the middle classes are expanding, are more educated and more future-oriented; and important lessons have been learned from past policy errors. Some governments (notably Chile's) have adopted countercyclical 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 of people out of poverty and extreme poverty; in many countries, the distribution of income has improved measurably.[6] This visible sharing of the wealth has contributed 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 ongoing plunder of

nonrenewable natural resources.[7] Nevertheless, the current resource-based populism, though not unprecedented, is more widespread and is having a greater social impact than during earlier commodity booms.

Third, though raw materials have dominated the surge in exports to Asia, there is another trend that is too often overlooked: Latin American manufacturing exports have also responded to market opportunities, rising fourfold, albeit from a small base, to nearly $14 billion in 2011, to account for nearly 10 percent 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 multinational corporations. These positive trends are overlooked by the deindustrialization 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, continue to raise productivity and competitiveness, and generate a more varied composition of value-added exports (more on these development challenges below).

LATIN AMERICA'S 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 (figure 3 and table 2). The region's manufacturing imports from Asia skyrocketed from $28 billion in 2000 to $188 billion in 2011, or to $200 billion if we include textile imports. Raw material imports (ores and metals, agriculture, fuels and chemicals) accounted for only $24 billion in 2011. This composition of interregional exchange would seem to confirm a "comparative advantage" explanation, driven by complimentary natural endowments, whereby resource-abundant Latin America exports raw materials to resource-scarce Asia; and Latin America, not lacking for raw materials, prefers to import manufactures, while Asia demonstrates a competitive advantage in many product categories, at least today.

Table 2 breaks out the product composition of Latin American exports to individual Asian countries in 2011. Interestingly, China's imports of

Table 2. The Total Exports of Latin America and the Caribbean, Commodity Group by Trade Partner, 2011 (billions of dollars)

Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	189,748	45,381	24,085	7,565	2,658	8,618	2,339	1,922	588	499	1,837	1,404
Fuels & Chemicals	264,293	13,124	9,448	1,081	736	1,764	120	61	56	1,192	277	52
Manufacturing	340,037	13,692	4,812	1,741	1,607	4,172	545	390	138	2,114	778	187
Ores & Metals	136,924	70,380	45,591	13,892	8,394	2,437	517	682	709	35	235	256
Textiles	15,228	1,716	798	110	223	546	264	90	12	10	68	102

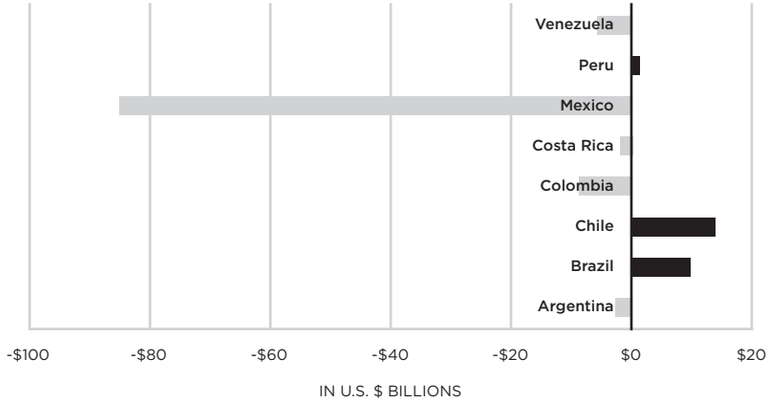
Source: UNCOMTRADE

manufactures accounts for only 6 percent of its total imports from the region, compared with the overall Asian ratio of nearly 10 percent. Japan's ratio of manufactured to total imports from Latin America, at 7 percent, also falls under the regional average. In contrast, manufactures weigh more heavily in ASEAN imports, reaching nearly 24 percent. Within ASEAN, Latin American manufacturing exports were concentrated in Singapore (a hub for transshipments and petroleum refining), but regional manufactures also found significant markets in Indonesia, Malaysia, and Thailand.

INTERREGIONAL TRADE BALANCES

However fast the Latin American export surge to Asia, Asian exports to Latin America have risen even faster, increasing the interregional trade gap over time, rising from $18 billion in 2000 to $79 billion in 2011 (figure 1). Mexico alone, with its negative $85 billion net flows in 2011, more than accounts for this trade gap, however. Subtract Mexico, and the transpacific trade flows are roughly in balance. Compensating for the Mexican red ink, Brazil and Chile (when copper prices are especially high) have racked up

Figure 4. Latin America and the Caribbean's Trade Balances with Asia, by Country, 2011 (billions of dollars)



Source: UNCOMTRADE

substantial trade surpluses with Asia. Peru and Argentina are roughly in balance (figure 4).

Drilling down into the Mexican trade data, we can see that many of the manufacturing imports from Asia are actually components for the assembly plants (*maquilas*) that are located for the most part in Northern Mexico, whose output is destined for export markets, principally the proximate United States. We are witnessing 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 in 2011), Japan ($16 billion), and South Korea ($14 billion), as well as from the ASEAN region ($14 billion), are destined for factories located in Mexican free trade zones (FTZs) where they will be processed and reexported. The manufacturing facilities are sometimes owned by Asian firms (Sony, Kyocera, Samsung, LG, Huawei, Lenovo) and sometimes by U.S. or European firms. Asian-fed FTZs are not unique to Mexico; Asian-sourced electronic parts and import components supply the booming FTZs 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-Mexican-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 Rica's 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 intraindustry 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; integrated circuits and microprocessors accounted for 75 percent of Costa Rica's exports to Asia in 2011.[9]

National Trade Patterns

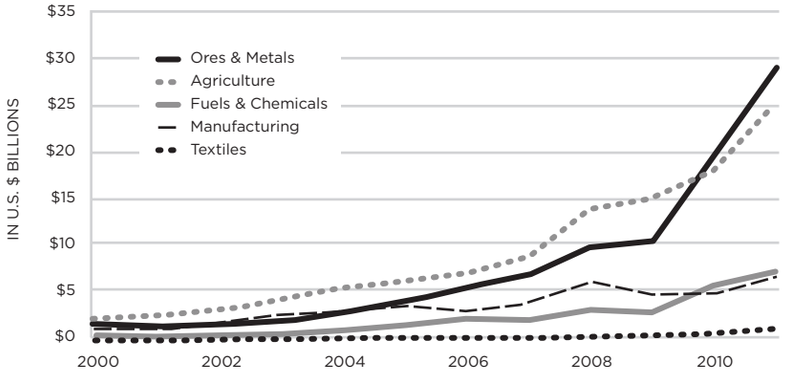
There is tremendous heterogeneity among Latin American nations in their trading patterns with Asia. To illustrate this complexity, let us examine three country cases: Brazil, a multicommodity exporter; Chile, a monocommodity exporter; and Mexico, a multiproduct supply chain location.

Brazil: A Multicommodity Exporter

Brazil presents the clearest example of the resource/manufactures exchange, the exporting of primary commodities for industrial products. But Brazil is not dependent upon a single monoproduct. Brazilian exports to Asia are concentrated in the commodity sector, as is often noted, but are spread among a number of primary products—iron ore and soybeans, but also crude petroleum, leather, and wood pulp (figure 5). Within the manufacturing sector, Brazilian imports from Asia are spread among a wide range of products, including capital goods and component parts, transportation equipment, and a large number of consumption items, such as apparel, shoes, and electronics (figure 6).

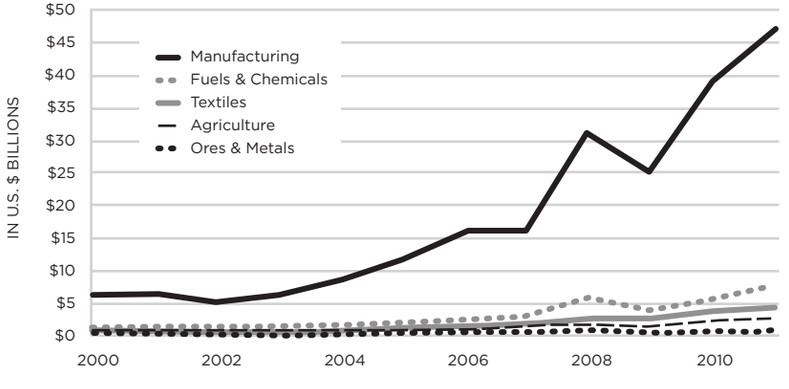
Notwithstanding the dominance of primary products in Brazilian sales to Asia, Brazilian manufactured exports have risen rapidly, from a mere

Figure 5. Brazil's Exports to Asia, by Commodity Group, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

Figure 6. Brazil's Imports from Asia, by Commodity Group, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

$1.5 billion in 2000 to $7.2 billion in 2011. These value-added products were spread among China ($2.4 billion), South Korea ($1 billion), and the ASEAN members ($2.8 billion), including $1.6 billion to Singapore, the world's most efficient entrepôt, some of which would be distributed onward to other regional destinations (see appendix A).[10]

Brazilian exports to China would be growing even more rapidly were it not for a series of tariff and nontariff 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 percent, whereas leather products such as suitcases, handbags, and wallets are subject to tariffs of between 10 and 20 percent. Wood pulp is imported duty free, whereas paper and paperboard are subject to tariffs of 5 to 7.5 percent.[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 (appendix A).

Chile: A Monocommodity Exporter

Chile is a striking example of a monoproduct exporter; of $81 billion in total exports in 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 went to Asian destinations. Happily for Chile (and Peru), copper is an essential component in the automotive and electronics industries, and is also used in the construction of infrastructure, energy projects, transportation, and home building—many of the basic drivers of economic development. In comparison, Brazilian performance is diversified among several commodities in agriculture, ores and metals, and fuels and chemicals (petroleum), spreading risk ("dependency") over several markets. However, Chilean agricultural products—including fish and shellfish ($1.8 billion), fruits and vegetables ($700 million), and meats ($400 million)—are gaining acceptance in Asian

markets (figure 7). Chilean wines and grapes, as well as farmed salmon, are increasingly finding their way into Asian food and beverage choices.[12] A rapidly growing market, the Chinese alone purchased nearly $100 million in Chilean wines in 2011.

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.

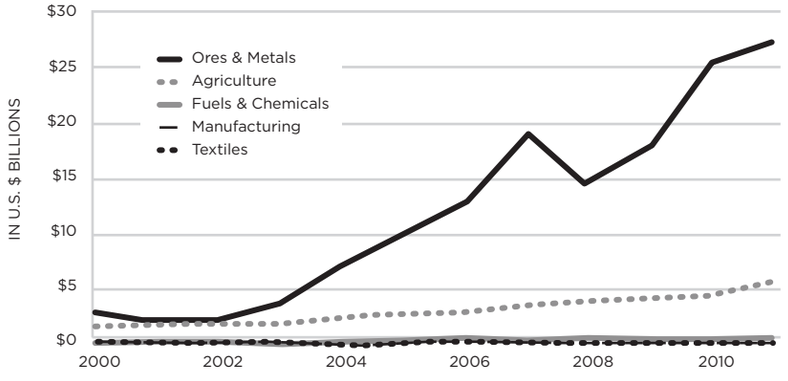
Chilean imports from Asia are overwhelmingly manufactures and textiles (figure 8), placing Chile squarely in the category of primary resources/manufactures exchange. Of $17 billion in Asian manufactured imports, China dominates, with $11 billion, distantly followed by Japan and South Korea, with $2 billion each, and the ASEAN members, with $1 billion (appendix B). Chilean traders have just begun to exploit ASEAN (exports and imports alike barely surpassed $1 billion in 2011), and despite sharing membership with Singapore in the T-4—the original core of the Trans-Pacific Partnership (TPP)—total trade (imports and exports) between the two countries 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 China, Japan, and to a lesser degree South Korea, while exchange with ASEAN was essentially in balance.

Looking forward, Chile hopes to open markets through preferential trading arrangements. Chile's active participation in the Asia-Pacific Economic Cooperation forum (APEC) had provided a venue for mutual recognition of trade and investment opportunities. In 2005, Chile became the very first nation to negotiate a free trade agreement (FTA) with China. Chile was a major driver behind the TPP—one of its four founding members—and remains an active negotiator in the trade pact's proposed expansion (more on this below).

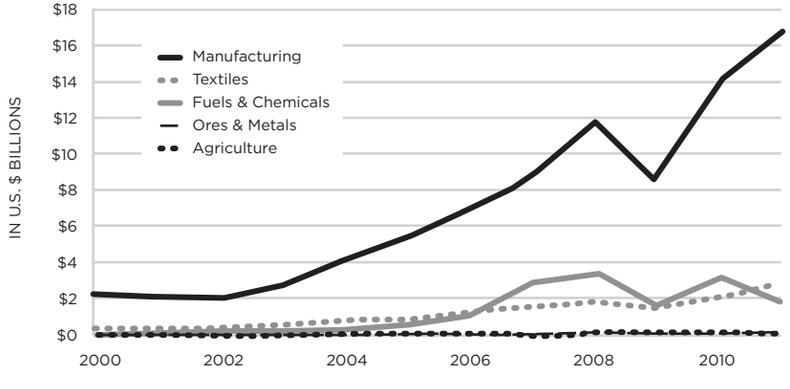
In its proactive trade strategies, Chile is strikingly different from Brazil, which in earlier years fostered the Southern Cone's regional trading arrangement, MERCOSUR, but in more recent negotiations with the European Union, the United States (in the context of the proposed Free Trade Agreement of the Americas), and various Latin American nations

Figure 7. Chile's Exports to Asia, by Commodity Group, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

Figure 8. Chile's Imports from Asia, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

has failed to reach successful conclusions. Brazil has no FTAs with Asian nations; nor is it pursuing any at this time (mid-2013).

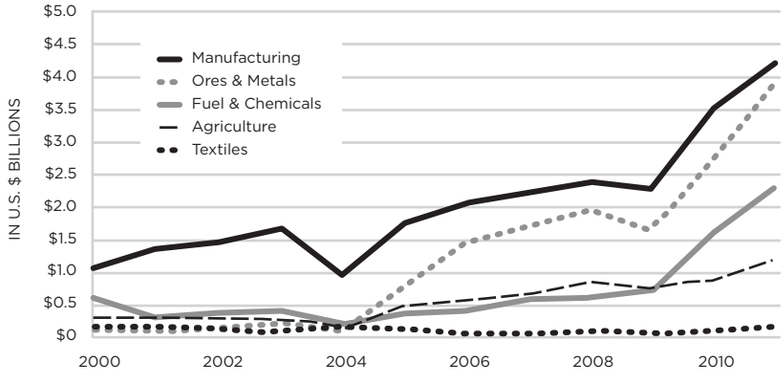
Mexico: A Multiproduct Supply Chain Location

The Mexican export sector has performed marvelously over the last decade, as worldwide exports soared from $166 billion in 2000 to nearly $350 billion in 2011. But some 80 percent of these exports are destined for the U.S. market, while only 3 percent ($11 billion) are marketed in Asia (figure 9). China ($6 billion), Japan ($2 billion), and South Korea ($1.5 billion) are the principal buyers, while the ASEAN nations, notably Singapore and Thailand, absorb $1.3 billion. Of course, not all these export sales labeled as "Mexican" have domestic value added (sometimes referred to as "domestic content") but rather are reexports of components that originate elsewhere.[13]

Global Mexican manufacturing exports totaled $231 billion in 2011, but of these only $4 billion find their way to Asia (appendix C). China, which exports $46 billion in manufactures to Mexico, purchases only $1.6 billion. Similarly, bilateral textile trade, at $100 million versus $1.2 billion, is unbalanced. As noted above, a large portion of these flows reflect supply chain efficiencies and locations; but many of the Chinese sales are final products, including consumer items such as apparel, shoes, household goods, toys, bicycles, plastic products, and electronic devices, and contribute to Mexico's large negative overall balance with its Asian trade partners. These deficits do not capture the whole picture, however; Mexico, like the other Latin American markets, is flooded with unrecorded, often counterfeit goods of Asian origin, which are readily visible in discount retail outlets in working-class barrios.

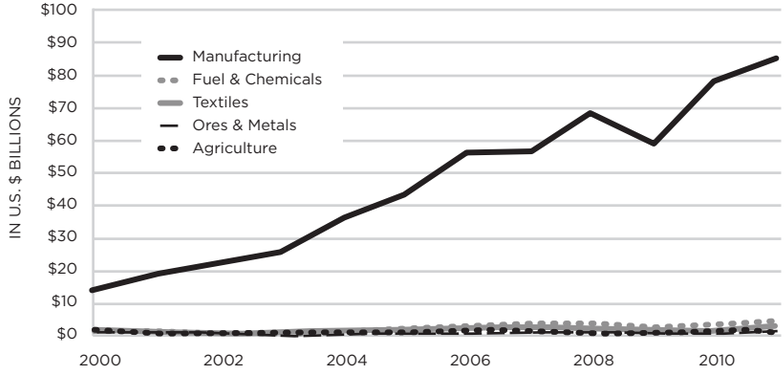
To provide some relief for domestic producers suffering from the onslaught of low-cost Chinese manufactured goods (figure 10), in 2001 Mexico imposed a large number of countervailing duties on Chinese products. When these duties were phased out with China's entry into the World Trade Organization (WTO), Mexico slapped many Chinese products with tariffs of up to 30 percent under its General Importation and Exportation Tax Program.[14] In 2012, Mexico filed a complaint in the WTO against Chinese apparel practices. Nevertheless, Mexico remained generally open to Asian imports, as the data make clear.

Figure 9. Mexico's Exports to Asia, by Commodity Group, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

Figure 10. Mexico's Imports from Asia, by Commodity Group, 2000–2011 (billions of dollars)



Source: UNCOMTRADE

Have Asian exports in third markets, notably the United States, driven out Mexican products? Among the Latin American countries, the overlap of export products (the Export Similarity Index) with Asia is the greatest for Mexico. But this is a hotly debated topic, and the answers vary by product and over time.[15] A recent study by Ralph Watkins, a longtime trade analyst with the U.S. International Trade Commission, concluded: "While China's share of total U.S. imports climbed from 8 percent to 18 percent 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 percent to 12 percent."[16] And it must be kept in mind that Asian production and Mexican production are tightly linked in global supply chains, with Mexican exports often containing significant Asian components.

TRADE POLICY RESPONSES TO THE ASIAN CHALLENGE

Remarkably, Latin America, with its long history of statist intervention, has largely refrained from protectionist responses in confronting the sudden onslaught of Asian imports (Peronist Argentina being a partial exception[17]). Some countries have invoked national antidumping measures against Chinese exports, but these are legitimate actions if in response to unfair trade practices.[18] There are several explanations for this remarkable restraint across the region—some hidden in the numbers just discussed, others derived from nations' political economies and from the power of ideas.

To begin, the favorable international economic environment during most of these years, especially the improved terms of trade occasioned by high commodity prices, and substantial capital inflows, helped to lift Latin America into a period of unusually solid and sustained 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, Latin America's trade account with Asia—excluding Mexico—was 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 pains. 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 Asian markets included the energy giant Petrobras, Vale do Rio Doce (CVRD), the huge iron ore producer engaged in feeding China's steel industry, and Embraer, proud of its joint venture investment in China to manufacture regional commercial jets. Those contemplating protectionism would have immediately confronted these pillars of Brazilian industry—as well as the powerful agricultural interests avidly shipping their grains and meats (including beef, pork, and chicken parts) to Asian ports—which would warn that the Asians might retaliate, leaving Brazil no better off and operating at a lower efficiency frontier. In the case of Mexico, trade specialists would have recognized that the Asian deficit was, in large measure, the flip side of the national export success story of the globalized supply chains of the North American Free Trade Agreement. Furthermore, many manufacturers in Latin America, including some with domestic ownership, were surviving only by outsourcing component production to low-cost Asian suppliers; they would not be made better off by closing off Asian markets.

Other big winners from the export surge were the Latin American governments whose treasuries were fattened by the resulting fiscal revenues. In particular, governments such as those of Brazil and Argentina, which might have been more prone toward protectionist measures, were among those benefiting most from these revenue windfalls. They preferred to engage in "redistributive extractivism," using some of these welcome revenues to fund the social programs upon which their political fortunes depended.

In the formulation of trade policies, ideas also matter. In the countries arguably hardest hit by Asian imports—Mexico and Central America, where there were fewer offsetting primary commodity exports—public policy was safely in the hands of free market advocates who were engaged in strategic exercises of opening rather than closing their economies to international trade and investment. During the 2000s, Mexican trade officials were busy negotiating one FTA after another, while Central America was engaged in negotiating FTAs with the United States (CAFTA-DR) and later with the European Union. The response to the Asian challenge would be consistent

with their overall ideology; the smart answer was not to abandon principles and revert to protectionism but rather to deepen reforms and work even harder to augment offsetting exports by perfecting markets, improving the local business climate, and enhancing national competitiveness.

Throughout the region, those pragmatically and ideologically committed to open markets were joined by those gaining from the import surges: the importers, retailers, and not least, the consumers and their political representatives. Cheaper Asian imports of apparel, shoes, toys, electronics, household goods, and other popular items inflated the purchasing power of consumers, including the poor. This favorable impact on real income also held true for the smuggled, pirated goods from Asian factories that were flooding shopping malls around the region, creating constituencies for illegal or gray market imports that governments hesitated to offend.

Any thoughts of confronting China on trade policy would have been further clouded by South-South allegiances, in the case of regional leader Brazil, by its BRIC (Brazil, Russia, India, China) diplomacy. The Latin American region did not possess the institutions or the political unity that might have facilitated a confrontational response to the Asian challenge. On the contrary, Latin America was sharply fractured by contesting ideologies, personalities, and national interests. There was also the suddenness of the onslaught; by the time the magnitude of the Asian export surge was apparent, much of the damage to domestic industries had already been sustained, and the injured industries were gone.

International institutions were further barriers to a protectionist response. Those Latin American countries that engaged with the International Monetary Fund and World Bank were constantly reminded of the virtues of an open global economy, and their programs and loans might have been endangered if they had turned toward market-closing solutions. Furthermore, during the 2000s many Latin American governments were actively engaged in the WTO's Doha Round of trade negotiations, which held the promise of further market openings, and Brazil and Argentina were active in pressing for the liberalization of agricultural markets alongside the Chinese negotiators. Though the Doha Round ultimately stalled, its various negotiating sessions did regularly issue "stand-still" resolutions committing members not to resort to new instances of protectionism. Just as significant, this coincided with

Table 3. Latin American–Asian Free Trade Agreements, as of the End of June 2012

LAC Country	In Effect	Signed	Under Negotiation
Chile	South Korea—2004 China—2006 Japan—2007 India—2007 Australia—2009 Malaysia—2012 Brunei/ Singapore—2005	Vietnam—2011	Thailand—2011
Colombia	—		South Korea—2009
Costa Rica	China—2011	Singapore—2010	
Dominican Republic	—		Taipei, China—2004
El Salvador	Tapei, China—2008		
Guatemala	Tapei, China—2006		
Honduras	Tapei, China—2008		
Nicaragua	Tapei, China—2008		
Panama	Tapei, China—2004 Singapore—2006		
Mexico	Japan—2005		Singapore—2000 South Korea—2006
Paraguay	—		Taipei, China—2004
Peru	Singapore—2009 China—2010 South Korea—2011 Thailand—2011 Japan—2012		

China joining the WTO, and thus agreeing to dismantle many tariff and nontariff trade barriers to the potential benefit of Latin American exporters.

Offensive Responses

Instead of turning to defensive protectionist responses, many Latin American governments have 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.

Latin American initiatives to open markets in Asia have functioned at the bilateral, regional, and global levels. Many Latin American trade negotiators would prefer working within the WTO, with its global reach and most efficient solutions and where developing countries have increased their clout, but with the collapse of the Doha Round, Latin American trade negotiators have had to concentrate on other forums, both bilateral and regional. (Now that a Brazilian, Roberto Azevedo, is at the helm of the WTO, Latin Americans may revive their interests in the Geneva-based multilateral institution.)

Chile and Peru have been the most active in negotiating bilateral FTAs with Asian trading partners (table 3). Chile, which is easily the most successful Latin American nation in negotiating FTAs in Asia, has accords with its three major trading partners (China, Japan, and South Korea), has penetrated the ASEAN members (Malaysia, Singapore, and Brunei), and has reached out to Australia and India.[19] But more recently, attention has shifted from bilateral accords to regional options, as negotiations to dramatically expand the TPP from its original mini-membership are under way, joined by the United States, Canada, Mexico, Peru, Australia, Malaysia, Vietnam, and most recently Japan. As trade experts at the Peterson Institute for International Economics have written, the expanded TPP "is a big deal in both economic and political terms."[20] As an ambitious, "high-quality" endeavor, the TPP aims to reduce a wide range of trade and investment barriers, including those "behind-the-border" barriers found in national regulatory regimes and in subsidies provided to state-owned enterprises. In the Western Hemisphere, the TPP negotiations so far are limited to members of APEC (the United States, Canada, Mexico, Peru, and Chile), although several other governments have expressed interest. The TPP is also generating excitement among trade specialists because some see it as a stepping stone (or building block) toward the earlier APEC vision, as announced in the 1994 Bogor Declaration: a full-fledged free trade and investment area in the Asia-Pacific region. In recent years, the APEC Bogor vision has

been restated under the concept of a Free Trade Area of the Asia Pacific (FTAAP), repeatedly enunciated as a "long-term" goal for the twenty-one APEC member economies.[21] One major issue overhanging the TPP negotiations is that China is a member of APEC but is noticeably absent from the TPP talks. Another complex issue is how an expanded TPP will interact with the intra-ASEAN trade accords and other intra-Asian trade liberalization negotiations currently under way. But the overall direction is clear: more open markets and more opportunities for Latin American businesses.

In a parallel regional initiative, four Latin American countries—Chile, Peru, Mexico, and Colombia (three of which are also engaged in the TPP and in APEC)—launched the Pacific Alliance (Alianza del Pacífico, AP) in 2011 (it was formally launched in Paranal, Chile, in June 2012). The AP has an ambitious agenda, encompassing not only freer trade and investment flows and constructing facilitating infrastructures but also the freer movement of peoples. Additional goals include regulatory harmonization and the strengthening of the rule of law. Already, its members have taken steps to integrate their capital markets and educational systems. Emblematic of the AP's free-market, democratic orientation, in mid-2013 Costa Rica was admitted to a process expected to lead to full membership in the near future.

The AP is particularly interesting in light of the dramatic expansion of Asian–Latin American commerce. By integrating markets, the members of the AP will offer opportunities for their firms to become more efficient and competitive, while their own markets become more attractive for Asian investors. But just as China is absent from the TPP, so too are Brazil and Argentina absent from the AP. Does this herald a widening divide between, on one hand, those Latin America nations facing the Pacific Ocean, which are also more market oriented and are aligned with the United States in free trade accords, and, on the other hand, the MERCOSUR/ALBA nations, which have largely eschewed extraregional trade accords?[22] Such a judgment would seem overwrought in light of the intensifying economic relations between the countries in the AP and Brazil, but the pressures are mounting on Brazil to reconsider its international trade strategies.

The liberalization of markets opens opportunities, but businesses must be competitive to make the final sales. Recognizing this truism, and well

aware of the remaining risks of their concentration on commodity exports, Latin American governments have been strengthening their export promotion capacities, including the marketing agencies of their trade and foreign affairs ministries. To varying degrees, governments are also undertaking structural reforms, as urged by the international development institutions, to enhance their international competitiveness by raising savings and investment rates and strengthening their fiscal positions, improving the functioning of markets and of regulatory agencies, upgrading educational systems and transportation infrastructure, and generally improving the business climate.[23] The appreciation of some Latin American currencies makes progress on productivity particularly urgent, to keep exports competitive and to continue to deflect protectionist pressures.

Encouraging more foreign investment, both inward and outward, is another strategy to promote trade flows, as local vendors are incorporated into international supply chains.[24] In the next phase of transpacific economic integration, capital-rich Asian investors will be placing big bets in Latin America, while Latin American–based multinationals will increasingly extend their global reach to Asia. The Latin American–Asian engagement, of world historic importance, is still in its early stages, but there is little doubt that it will both widen and deepen in the years and decades ahead.

Appendix A: Brazil's Trade with Asia, 2011

Exports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	84,689	25,381	15,371	3,204	1,061	3,996	814	932	116	337	1,209	561
Fuels & Chemicals	41,846	7,247	5,409	509	291	1,024	33	24	34	842	66	22
Manu-facturing	68,214	7,182	2,358	657	977	2,761	426	100	58	1,568	483	122
Ores & Metals	51,006	28,916	20,557	5,043	2,157	1,140	239	488	365	30	11	8
Textiles	3,071	1,297	592	66	208	423	206	74	3	9	50	82
Imports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	12,972	2,514	636	45	34	1,799	899	344	14	20	426	96
Fuels & Chemicals	83,800	7,460	3,867	771	1,924	815	132	282	4	229	163	4
Manu-facturing	116,113	47,078	26,026	7,004	7,938	5,225	562	1,608	277	564	1,707	486
Ores & Metals	7,704	464	366	34	21	27	3	3	0	12	3	5
Textiles	6,971	4,132	3,026	21	184	810	357	179	7	2	155	91

Source: UNCOMTRADE

Appendix B: Chile's Trade with Asia, 2011

Exports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	19,035	5,793	1,793	2,501	741	444	53	25	23	76	173	93
Fuels & Chemicals	4,355	459	208	119	94	34	19	3	1	2	5	3
Manu-facturing	6,849	164	50	60	12	26	6	4	5	1	6	2
Ores & Metals	49,477	27,394	16,538	6,329	3,601	921	238	178	122	2	145	237
Textiles	685	13	12	0	0	0		0		0		0

Imports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	5,882	262	127	2	14	118	26	8	4	3	60	17
Fuels & Chemicals	25,440	2,032	655	677	532	167	93	12	27	13	19	2
Manu-facturing	40,454	16,738	11,145	2,273	2,125	1,077	145	145	19	52	564	139
Ores & Metals	1,828	129	120	4	6	0	0	0	0	0	0	
Textiles	3,821	2,898	2,741	2	47	103	20	24	5	3	18	28

Source: UNCOMTRADE

Appendix C: Mexico's Trade with Asia, 2011

Exports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	22,600	1,179	166	694	88	96	17	15	6	19	20	19
Fuels & Chemicals	69,871	2,162	1,753	123	59	162	24	14	8	93	9	11
Manu-facturing	230,810	4,053	1,612	886	531	815	43	79	20	474	177	22
Ores & Metals	13,595	3,784	2,346	535	816	56	27	13	5	3	3	6
Textiles	7,121	160	89	14	4	42	16	3	9	0	6	7

Imports by Commodity Group and Trade Partner (in US $ Millions)												
Commodity Group	World	Asia	China	Japan	Korea, Rep.	ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Agriculture	27,963	1,039	433	33	37	535	198	102	34	9	59	133
Fuels & Chemicals	74,558	4,249	2,056	806	941	442	152	78	15	132	51	14
Manu-facturing	223,141	85,767	46,330	15,084	11,688	12,327	798	5,221	1,578	1,001	2,885	771
Ores & Metals	10,521	1,602	1,377	64	60	100	8	72	0	5	15	0
Textiles	9,875	2,234	1,209	31	164	680	145	139	35	2	129	163

Source: UNCOMTRADE

NOTES

1. This chapter was originally prepared for the conference "Reaching Across the Pacific: Latin America and Asia in the New Century," sponsored by the Latin American Program of the Woodrow Wilson International Center for Scholars, June 20, 2013. I am most grateful to Brian Camblin for his able research assistance and to Krislert Samphantharak and Antoni Estevadeordal for valuable comments on drafts of this chapter.
2. Throughout the chapter, the most recent year for trade data, which track merchandise but not services, is 2011 and the source for statistics is the United Nations Comtrade database, available on line at uncomtrade.com, unless otherwise noted. Country groupings in this analysis are as follows: LAC: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, and Venezuela; and the members of the Association of Southeast Asian Nations (ASEAN)—Brunei, Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand, and Vietnam; Asia: China, Hong Kong–China, Macao-China, South Korea, Japan, and the ASEAN member nations.
3. For a review of recent publications on transpacific geopolitics, see Richard Feinberg, "China, Latin America, and the United States: Congruent Interests or Tectonic Turbulence," *Latin American Research Review* 46, no. 2 (2011): 215–24.
4. United Nations Economic Commission for Latin America and the Caribbean (UNECLAC), *Latin America and the Caribbean in the World Economy 2011-2012*, 67-68.
5. Ibid., 69.
6. See, e.g., Francisco H. G. Ferreira et al., *Economic Mobility and the Rise of the Latin American Middle Class* (Washington, D.C.: World Bank, 2013).
7. On "redistributive extractivism," see Euardo Gudynas, "Development Alternatives in Bolivia: The Impulse, the Resistance, and the Restoration," *NACLA Report on the Americas* 46, no. 1 (2013): 22–26.
8. See, e.g., Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room* (Stanford, Calif.: Stanford University Press, 2008). For a good review of the literature on the dangers of dependency on monocommodity exports—e.g., the "Dutch disease"—see Jacob Frankel, *The Natural Resource Curse: A Survey*, NBER Working Paper 15836 (Cambridge, Mass.: National Bureau of Economic Research, 2010).
9. Procomer, *Estadísticas de Comercio Exterior de Costa Rica 2011* (San José: Procomer, 2012).
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* 1 (2012): 21–47.
12. For a good case study, see Claudio Maggi Campos, "The Salmon Farming and Processing Cluster in Southern Chile," in *Upgrading to Compete: Global Value Chains, Clusters, and SMEs in Latin America*, edited by Carlos Pietrobelli and Roberta Rabellotti (Washington, D.C., and Cambridge, Mass.: Inter-American Development Bank and David Rockefeller Center for Latin American Studies, Harvard University, 2007), 109–40.
13. On the difficult task of estimated the domestic value added in various sectors, see Robert Koopman, Zhi Wang, and Shang-jin Wei, *How Much of Chinese Exports Is Really Made in China? Assessing Domestic Value Added When Processing Trade Is Pervasive*, NBER Working Paper 14109 (Cambridge, Mass.: National Bureau of Economic Research, 2008).
14. Roberto Hernández Hernández, "Economic Liberalization and Trade Relations Between Mexico and China," *Journal of Current Chinese Studies* 1 (2012): 49–96.
15. For the recent views of the director of international trade and integration for UNECLAC, see Osvaldo Rosales, "Trade Competition from China," *Americas Quarterly*, Winter 2012, 97–103. Also see Kevin P. Gallagher, Juan Carlos Moreno Brid, and Roberto Porzecanski, "The Dynamism of Mexican Exports: Lost in (Chinese) Translation?" *World Development* 36, no. 8 (2008): 1365–80; Yunxia Yue, "Chile and Mexico: Comparison of Trade Competitiveness,"2009, http://ilas.cass.cn/manager/jeditor/UploadFile/2009169347673.pdf; and Beatriz Carrillo García, Minglu Chen, and David Goodman, "Beyond Asymmetry: Cooperation, Conflict and Globalization in Mexico-China Relations, *Pacific Reivew*, 24, no. 4 (2011): 421–38. For earlier studies, see Daniel Lederman, Marcelo Olarreaga, and Guillermo Perry, *Latin America and the Caribbean's Response to the Growth of China and India: Overview of Research Findings and Policy Implications* (Washington, D.C.: World Bank, 2009); and Jorge Blazquez-Lidoy, Javier Rodriguez, and Javier Santiso, *Angel or Devil? China's Trade Impact on Latin American Emerging Markets* (Paris: OECD Development Center, 2006).
16. Ralph Watkins, "Meeting the China Challenge to Manufacturing in Mexico," in *China and the New Triangular Relationships in the Americas*, edited by Enrique Dussel Peters et al. (Coral Gables: Center for Latin American Studies, University of Miami, 2013), 45.
17. From 2010 to April 2013, complaints against its trade practices were submitted against Argentina to the WTO by a range of countries, including Panama, Mexico, Japan, the United States, the members of the European Union, and Peru. The August 2012 complaint brought by Japan concerning the imposition of wide-ranging import restrictions was joined as third parties by Australia, Canada, China, Ecuador, European Union, Guatemala, India, Israel, Japan, South Korea, Norway, Saudi Arabia, Switzerland, Taiwan, Thailand, Turkey, and the United States. The source for these data is https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm.
18. Robert M. Feinberg, *Antidumping and the Global Financial Crisis: The Impact on Latin America and the Caribbean*, Studies and Perspectives 9 (Washington, D.C.: UNECLAC, 2010). The study concluded: "Despite concerns expressed over the potential for increasing protectionism in response to the current global downturn, to date this has not been reflected generally in the antidumping enforcement actions by countries of Latin America and the Caribbean (with the notable exception of Argentina)" (p. 23).
19. For an evaluation of the varying quality and coverage of Latin American–Asian FTAs, see Ganeshan Wignaraja et al., *Asia-Latin America Free Trade Agreements: An Instrument for Inter-Regional Liberalization and Integration?* Working Paper 382 (Manila: Asian Development Bank Institute, 2012.
20. Jeffery Schott, Barbara Kotschwar, and Julia Muir, *Understanding the Trans-Pacific Partnership* (Washington, D.C.: Peterson Institute for International Economics, 2012), 1.

21. For a South Korean view of the FTAAP as a worthwhile, if long-term, goal, see Sangkyom Kim et al., "A Free Trade Area of the Asia Pacific (FTAAP): Is It Desirable?" *Journal of East Asian Economic Integration* 17, no. 1 (2013).
22. For a stimulating discussion on this point, see R. Evan Ellis, "Beyond 'Win-Win and the Menacing Dragon: How China Is Transforming Latin America," paper presented to Impact of Globalization on Latin America Task Force, Center for Hemispheric Policy, University of Miami, January 31, 2013.
23. E.g., see Lederman, Olarreaga, and Perry, *Latin America and the Caribbean's Response to the Growth of China and India*.
24. This is as spelled out in *Shaping the Future of the Asia and the Pacific-Latin America and the Caribbean Relationship* , edited by Asian Development Bank, Asian Development Bank Institute, and Inter-American Development Bank (Manila: Asian Development Bank, 2012), esp. chap. 3. For a survey of Latin American firms that have already invested in China and what accounts for their successes, see Antoni Estevadeordal and Theodore Kahn, *Pathways to China: The Story of Latin American Firms in the Chinese Market* (Washington, D.C.: Inter-American Development Bank, 2012).