

## **Keynote Address – Luis Alberto Moreno**

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*PREPARED FOR THE CONFERENCE*

### **“Reaching Across the Pacific: Latin America and Asia in the New Century”**

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This is a fascinating moment to consider the linked fortunes of Latin America and of Asia.

Last month, leaders of the world’s two most powerful nations, the United States and China, each visited Latin America and the Caribbean within days of each other.

Chinese President Xi Jinping’s visit to Mexico, Costa Rica and Trinidad and Tobago showed the strategic importance of the region to the resource-hungry Asian giant, which is eager to build strong trade, investment and diplomatic ties.

U.S. Vice President Joe Biden toured Brazil, Colombia and Trinidad and Tobago, following trip just one month earlier by Barack Obama to Mexico and Costa Rica.

This makes perfect sense:

- The economies of Latin America and the Caribbean are expected to grow 3.5% this year, almost three times the pace of growth in the developed world.
- We have the natural resources that China needs, and the avid consumers that U.S. exporters want to tap.
- U.S. exports to Latin America have more than doubled since 2000 to a record \$400 billion last year, thanks in part to free trade agreements signed with Peru, Panama and Colombia.

- The region last year bought 26 percent of U.S. exports, an increase from 22 percent in 2000. The United States exports nearly 4 times as much to Latin America as it does to China.
- Trade between Asia and Latin America and the Caribbean has been growing even faster, at an annual average rate of 20% since the year 2000, and it reached an estimated \$493 billion last year.
- Asia today accounts for an unprecedented 21% of Latin America's trade, and if current trends continue, in four years Asia will be the region's most important trade partner. China already is the top trade partner for Brazil, Chile and Peru, and the second-biggest partner for Colombia.
- We are two of the world's fastest-growing regions, with dynamic, outward-looking economies. As the rest of the world has slumped, Asia and Latin America have prospered, and increasingly have sought to do business with each other.

This is the story of Asia and Latin America that is familiar to all of us: that of fast-growing trade and investment. We are here today to discuss how countries throughout Latin America and the Caribbean are trying to make the most of this opportunity to tap new markets, in order to sustain the region's economic growth and promote equitable development.

Today I would like to explore **two additional facets** of the unfolding Asia-Latin America story:

First, I will address the convergence in labor costs and other factors that could have a positive impact on Latin America's ability to increase its exports of manufactured goods.

Second, I will discuss how the rising middle class poses significant challenges to policymakers in both regions, and how those challenges offer Asia and Latin America an unprecedented opportunity to cooperate in seeking solutions.

A decade ago, there was great concern over the future of manufacturing in Latin America. Hundreds of maquiladoras and factory assembly lines moved to Asia, especially to China, where wages were much lower. This was particularly true in Mexico, where hourly wages back then were around three times those of China.

But last year, according to many analysts, Mexico's average manufacturing wages began to converge with China's.

I think it's safe to say that a few years ago, few of us imagined that Chinese wages would rise so quickly. And this creates a tantalizing opportunity for manufacturers in Latin America.

Because when you add the high cost of transportation and long shipping times, that makes

## **Latin America more attractive as a manufacturing base**

The narrowing wage gap is not enough to tip the scales in our favor, of course. To compete effectively with Asian manufacturers, Latin America will need to become more competitive in other areas as well.

This means much larger investments in modernizing transport, logistics and energy infrastructure, for example. And Asia is far ahead of Latin America in this respect.

To put things in perspective, the average capital stock per worker in Latin America is around \$41,000. I'm referring to the accumulated investments in roads, power plants, and all other infrastructure. The equivalent figure for industrialized countries is around \$220,000 per worker, and in Singapore it is more than \$240,000.

Asia has become Latin America's new benchmark when it comes to infrastructure investment. And in order to compete, Latin America will also have to make radical improvements to human capital and education, reduce informality in the workforce, and improve productivity across the board.

We have a very long way to go on these fronts. But the picture is improving.

Mexico's automobile manufacturers, for example, are now considered among the world's most efficient and productive. In fact, Mexico jumped from being the world's ninth biggest car exporter to number four in the last six years.

And as a result, Asian firms are increasingly opening factories in this hemisphere to take advantage of trade agreements that provide duty-free access to the world's largest consumer market, the United States, *and* to the fast-growing middle class throughout Latin America.

Recent examples include the Chinese auto manufacturer, Chery, which is opening assembly plants in Uruguay and Brazil, and the Great Wall company, which is building an auto plant in Venezuela.

Japanese and Korean firms such as Honda and Samsung have long manufactured everything from automobiles to television sets and refrigerators in Mexico and Brazil. As more regional trade agreements are signed, such as the Pacific Alliance, that decision looks even smarter.

As Latin America becomes increasingly attractive as a consumer market and as a manufacturing hub for Asian firms, and as we realize that it makes sense to tap Asia's dynamism to boost our own exports, the two regions are engaging as never before:

Over the past decade we have seen an unprecedented number of Free Trade Agreements,

- 24 of them, approved between countries of the two regions.
- another 6 are under negotiation, including the ground-breaking Trans-Pacific Partnership,
- 11 more that are being contemplated.

Trade costs between the two regions are still too high, but as these agreements take effect, tariff and nontariff barriers are coming down.

And, while it is true that trade between Asia and Latin America continues to reflect the traditional exchange of commodities for manufactured goods, we are starting to see changes there as well, as the region's companies become integrated into multinationals' global supply chains.

Latin America's home-grown multinationals are also responsible for this shift toward higher value-added exports:

- Last year the IDB published a report entitled, *Pathways to China: The Story of Latin American Firms in the Chinese Market*. The report profiled more than 80 Latin American firms, such as Brazil's Embraer and Mexico's Softtek, which are selling goods and services as diverse as aircraft and Information Technology in China.

Still, the same study showed that companies from our region have invested less than \$900 million in China since 2006, which is less than 1 percent of total LAC investment abroad.

Trade between Asia and Latin America also remains too concentrated in a small number of countries:

- China, Japan, Korea and India account for nearly 90% of Asia's trade with LAC.
- And Brazil, Mexico, Chile and Argentina account for nearly 80% of LAC's trade with Asia.

With time, however, that too will change, especially as smaller countries bet on Asia to boost their exports, as Costa Rica did when it signed a free trade agreement with China in 2011.

And that brings me to the second main point I want to make this morning: Despite their political and cultural differences, Asia and for Latin America will face strikingly similar challenges in the years ahead..

Over the past decade, Asia and Latin America have dramatically reduced the number of people living in poverty, propelling hundreds of millions into the middle class. With rising incomes come rising expectations.

This is a very positive and significant development.

**Consider again what we are seeing in the news:**

In recent days, we have watched videos of the unprecedented street protests in Brazil. These protests should not be confused with those taking place in recent years throughout the Middle East. After all, Brazil is a mature democracy with a president who enjoys historic approval ratings.

Instead, I think these protests are about the changing expectations of Brazil's rapidly growing

middle class, which has increased by more than 40 million people over the past decade.

As many observers have already pointed out, these citizens—like their counterparts in Asia and other emerging economies—today expect more from their government:

- They want quality education and better healthcare
- They want better jobs and greater access to credit
- They want cleaner, safer cities with less congestion and better public transportation.

In Asia, the same kinds of expectations are leading citizens to engage in environmental activism or in protests against forced migration from rural areas to cities.

I'm sure many of you saw last week's New York Times article describing China's plans to move 250 million rural residents into new urban communities over the next 12 years – a massive, challenging and risky undertaking.

It is part of China's efforts to boost growth through domestic consumption, to reduce its dependence on export-related growth. But as Latin America learned during its own rapid urbanization over the past 30 years, the result often can be crowded slums and creation of a permanent underclass.

This is a new reality that Asia and Latin America have in common.

As we all know, engagement between Asia and Latin America today goes far beyond trade and investment. The two regions have become strategically important to each other—and not just because they supply each other with needed commodities, manufactured goods, markets and investment.

Now, more than ever, we need to tap each other's expertise in handling the complex development challenges that both regions face.

The Inter-American Development Bank's close collaboration with the Asian Development Bank is just one example of how we can extend a helping hand across the Pacific to share lessons we have learned.

We have established a South-South cooperation agreement to help our member countries in both regions deal with complex issues such as regional integration, infrastructure, renewable energy, climate change, institutional development and social policy.

Our jointly-authored book, *Shaping the Future*, is an ambitious effort to spell out the dimensions of the deepening partnership between the two regions and outline ways that we can learn from each other's experiences.

Latin America has much to learn from Asia's world-class education systems, high level of science and technology sophistication, and creation of regional supply chains.

Asia could benefit from studying Latin America's experiences in poverty reduction and social

safety net policies, agricultural productivity practices and the promotion of sustainable cities.

This knowledge sharing is at the very top of the IDB's agenda. Just one example: In April, several IDB specialists traveled to Manila to share with their ADB counterparts insights on Conditional Cash Transfers, which were pioneered in Mexico and Brazil and that now have spread to 18 countries in our region.

Another program that we are certain will be of great interest to Asian policymakers is the IDB's Emerging and Sustainable Cities initiative. We are working with mayors in more than two dozen of these medium-size cities to set a new standard for sustainable growth in urban areas. We help them evaluate land use, the quality of housing, public transportation, traffic congestion, public security and competitiveness. And, we help them come up with solutions for pollution, water supplies, climate change and natural disasters as well as fiscal sustainability.

Governments in Latin America and the Caribbean count on us to help them come up with solutions like this to the challenges they face as our region grows. And increasingly, we will be sharing these solutions with our partners in Asia.

Long ago, we learned that it's not enough to simply pursue growth at any cost. It's critical to find ways to promote economic growth that is inclusive, that is environmentally friendly, and that is sustainable.

The rising middle classes of Asia and Latin America will accept nothing less than that.

Thank you.