



REACHING ACROSS THE PACIFIC:

Latin America and Asia
in the New Century



EDITED BY
Cynthia J. Arnson
and Jorge Heine,
with Christine Zaino



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*Cynthia Arnson
Jorge Heine
August 2014*

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Commonly Used Abbreviations

| | |
|-----------------|--|
| ALBA | Alianza Bolivariana para los Pueblos de Nuestra América; Bolivarian Alliance for the Peoples of Our America |
| APEC | Asia-Pacific Economic Cooperation |
| ASEAN | Association of Southeast Asian Nations |
| BRICS | Brazil, Russia, India, China, and South Africa |
| CELAC | Comunidad de Estados Latinoamericanos y Caribeños; Community of Latin American and Caribbean States |
| CEPAL | Comisión Económica para América Latina y el Caribe (see ECLAC) |
| ECLAC | Economic Commission for Latin America and the Caribbean (see CEPAL) |
| FDI | Foreign Direct Investment |
| MERCOSUR | Mercado Común del Sur; South American Common Market |
| PA | Pacific Alliance |
| RTA | Regional Trade Agreement |
| SMEs | Small- and Medium-sized Enterprises |
| SOEs | State-Owned Enterprises |
| TPP | Trans-Pacific Partnership |
| TTIP | Transatlantic Trade and Investment Partnership |
| UNASUR | Unión de Naciones Suramericanas; Union of South American Nations |

Preface

Luis Alberto Moreno

This is a fascinating moment to consider the linked fortunes of Latin America and of Asia. In June 2013, 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 a 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 grew 2.75 percent in 2013,² down from 4.5 percent in 2011, but still well above 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 more than doubled since 2000 to a record \$400 billion in 2012, thanks in part to free trade agreements signed with Peru, Panama, and Colombia.

Moreno delivered the keynote address at the conference, "Reaching Across the Pacific: Latin America and Asia in the New Century," June 20, 2013, Woodrow Wilson International Center for Scholars, Washington, D.C.

- The region in 2012 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 percent since the year 2000, and it reached an estimated \$493 billion in 2012.
- In 2013 Asia accounted for an unprecedented 21 percent 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.

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 in 2012, according to many analysts, Mexico's average manufacturing wages began to converge with China's. Only 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 one adds the high cost of transportation and long shipping times, Latin America becomes 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. This refers 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. The region has 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 eighth largest car exporter in 2003 to the number four position in 2013. 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, and 11 more that are being contemplated. Trade costs between the two regions are still too high, but as these agreements take effect, tariff and non-tariff 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 *multilatinas* are also responsible for this shift toward higher value-added exports: an Inter-American Development Bank 2012 report, *Pathways to China: The Story of Latin American Firms in the Chinese Market*,³ profiles 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, South Korea, and India account for nearly 90 percent of Asia's trade with LAC. Brazil, Mexico, Chile, and Argentina account for nearly 80 percent 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.

A second main point is that, 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.

In June 2013, unprecedented street protests took place in Brazil. These protests should not be confused with those that have taken place in recent years throughout the Middle East. Brazil is a mature democracy. Instead, these protests were 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 health-care; 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. In June 2013, the *New York Times* described China's plans to move 250 million rural residents into new urban communities over the next 12 years—a massive, challenging, and risky undertaking.⁴ 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 (ADB) 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.⁵

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. In one example, in April 2013, 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 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 medium-size cities to set a new standard for sustainable growth in urban areas. We help evaluate land use, the quality of housing, public transportation, traffic congestion, public security and competitiveness. And, we help these cities 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 is not enough to simply pursue growth at any cost. It is 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.

NOTES

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- Recovery and Monetary Normalization: Escaping a Chronicle Foretold?* (Washington, D.C.: Inter-American Development Bank, 2014), 7.
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CHAPTER 1:

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

Cynthia J. Arnson and Jorge Heine

Some 300 years ago, before the Industrial Revolution, Asian economies accounted for some 60 percent of global Gross Domestic Product (GDP). In the first decade of the 2000s—prompted by the spectacular growth of the Chinese economy and, to a lesser extent, India’s—economists and pundits alike began to speak of the 21st century as the new “Asian century.” The Asian Development Bank predicted that Asia could regain its dominant position in the world economy by 2050 if countries adopted the correct mix of policies.¹ Latin American research centers and financial institutions largely concurred. A study by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) noted that “the swift expansion of developing Asia is probably the most significant change in the world economy” in our time.² ECLAC estimated that by 2025, four of the world’s ten largest economies would be in Asia: China, India, Indonesia, and Japan.³ And Luis Alberto Moreno, president of the Inter-American Development Bank (IDB), introduced the Bank’s 2010 report on India by referring to “a seismic change in the world’s economic geography led by Asia.”⁴

For Latin America and the Caribbean (LAC), the first decade of the 21st century was indeed deeply marked by the boom of Asian economies, particularly but not exclusively that of China. As noted in a seminal 2012 report by the Asian Development Bank, Inter-American Development Bank, and Asian Development Bank Institute, trade flows between the Asia-Pacific

region and LAC grew by 20.5 percent per year between 2000 and 2010, with two-way commerce reaching \$442 billion in 2011. In contrast to the 1990s, when Japan accounted for close to 80 percent of inter-regional trade, by the end of the first decade of the 2000s, China alone accounted for half of the total trade volume.⁵ By 2011 trade with Asia accounted for 21 percent of Latin America's international trade, trailing only the United States, with 34 percent. (Discounting U.S.-Mexico bilateral trade, this latter figure would have been far lower.) As noted by Luis Alberto Moreno in the preface to this volume, four countries—China, Japan, South Korea, and India—account for nearly 90 percent of LAC-Asia trade, while 80 percent of that trade is with only four Latin American countries—Argentina, Brazil, Chile, and Mexico.

Especially remarkable during this period of expanded LAC-Asia ties was the explosion of trade with China. It increased from \$10 billion in 2000 to \$257 billion in 2013, a surge of close to 2,500 percent.⁶ By 2011, China had become the largest export market for Brazil, Chile, and Peru, and the second largest for Argentina, Venezuela, Cuba, and Uruguay. It was also “the main origin of imports for Panama and Paraguay, and the second one for nine other Latin American countries.”⁷ Indeed, the World Bank observed in 2011 that “the robust growth in LAC in the past decade is an important measure of its connections to China.” The impact on economic growth was direct, through China's huge demand for primary commodities such as copper, iron ore, and crude oil and foodstuffs such as soy to fuel its rapidly-growing economy and feed its increasingly prosperous population of close to 1.4 billion people. China's impact was also indirect, in that the sheer scope of China's demand for commodities exerted upward pressure on their prices.⁸ While this trend has tapered, it may not have ended altogether.

During the 2000s less dramatic but still notable trade growth took place between LAC and other Asian partners. Trade between the world's third largest economy—*Japan*—and the LAC region doubled over a ten-year period, reaching \$59.6 billion in 2013. One-fifth of Japanese exports, mostly components for automobiles, went to Mexico alone, although Brazil was Japan's largest trading partner. Japan's trade with the region was only a fraction of LAC-China trade, but it distinguished itself in other ways: Japan was the largest Asian investor in the region, outstripping even China and South Korea.⁹ Indeed, Japan was the fourth largest investor in the region

overall, trailing the United States, the largest single investor, and the countries of Europe as a group.¹⁰

South Korea was third among LAC-Asia partners, with over \$50.2 billion in bilateral trade in 2013, a three-fold increase over the course of a decade.¹¹ After Japan, South Korea was the second-largest Asian investor in the LAC region, mostly in the automobile and electronics sectors. While Brazil and Mexico, the region's two largest economies, were South Korea's largest LAC trading partners, in 2013 Chile trailed only Brazil in terms of the value of its exports. And Peru, the fourth largest LAC exporter to South Korea, saw a 21 percent increase in its exports between 2012 and 2013, the largest jump of any country in the region.¹²

The expansion of *India*-LAC trade was similarly impressive in its pace, rising from \$2.1 billion in 2001 to \$42 billion in 2013.¹³ Like China, India mostly imports the region's commodities—crude oil, predominantly from Venezuela but also from Mexico, Colombia, and Brazil; copper, principally from Chile; and soy and sunflower oil, mostly from Argentina. Since 2000, over 100 Indian companies have invested more than \$12 billion, in information technology, pharmaceuticals, agrochemicals, mining, and energy, among others. India's investments in smaller economies such as those of Uruguay and Trinidad and Tobago have been significant,¹⁴ but of all India's relationships in the region, the one with Brazil is the most important. The two countries are members of the so-called BRICS, made up of Brazil, Russia, India, China, and South Africa, countries that are asserting their new clout in the international system and challenging the post-World War II architecture of global governance in the economic and political spheres. At a July 2014 meeting in Brazil, the presidents of the BRICS countries agreed to set up a \$100 billion reserve contingency fund which, although the Brazilian government took pains to characterize it as “complement[ing] existing international monetary and financial arrangements,”¹⁵ could provide an alternative to the International Monetary Fund. The BRICS also created a \$50 billion New Development Bank, which could eventually rival the World Bank in terms of development funding.¹⁶

THE IMPACT AND CHALLENGE OF CHINA

Because the LAC-Asia relationship overall is so dominated by China, it is important to assess China's diverse meanings for the countries of the region. Commodity exporting countries in South America benefited the most from the expansion of trade. Even though the bulk of LAC exports to China were concentrated in a small number of commodities—iron ore (Brazil), copper (Chile and Peru), crude oil (Venezuela, Brazil, and Colombia), and soy (Brazil and Argentina)¹⁷—commodity-driven economic expansion in South America between 2003 and 2008 was the highest in three decades, an average of about 5 percent per year. Export earnings from the commodities boom allowed many South American countries to pay down their debts and expand hard currency reserves that helped cushion the impact of the global financial meltdown of 2008–9. As the United States and European countries wallowed in the worst crisis since the Great Depression, South American leaders could boast that they were the “last-in, first-out” of the recession. Decades of macroeconomic reforms and fiscal discipline contributed to this resilience, which continued to be tested as the world economy overall contracted. Brazil, India, and South Africa, members of the heady BRICS coalition, came to be seen as part of the “Fragile Five” emerging markets, with overvalued currencies and current account deficits, among other problems.¹⁸ The slow-down of growth in China—from a soaring 14.2 percent in 2007 to the still-enviable clip of 7.7 percent in 2013—was an important (but not the only) contributor to slowing rates of growth in South America from 2011–13.¹⁹ Indeed, while the volume of commodity exports from LAC to China continued to grow in this period, falling commodity prices meant that the value of these exports stagnated or declined.²⁰

Chinese lending to and investments in the region have also increased significantly since 2007. Over the course of nine days, President Xi Jinping traveled to Brazil, Argentina, Venezuela, and Cuba in July 2014—his second trip to the region since taking office in 2013—offering tens of billions of dollars in new loans and foreign direct investment (FDI), primarily in infrastructure and energy projects.²¹ Even though precise figures about Chinese loans are lacking, it is clear that politics and

ideology inform China's decision making, as do long-term concerns about energy and food security. The two largest recipients of Chinese lending, Venezuela and Argentina, have been largely frozen out of international capital markets even as they remain important sources of China's imports of oil and soy products. Venezuela has received the most by far, some \$50 billion between 2005 and 2013, \$10 billion of it in 2013 alone.²² The loans, repaid in oil at below-market value, have been a critical life-line for a Venezuelan economy beset by inflation, shortages, crumbling infrastructure, and lack of investment. Soon after the trip by the Chinese president, Japanese Prime Minister Shinzo Abe visited Brazil, Chile, Colombia, Mexico, and Trinidad and Tobago, marking the first visit by a Japanese head of state in over a decade.²³

The current economic downturn notwithstanding, the narrative about China's positive impact on regional economic growth is subject to several important caveats. First, competition from cheap manufactured products hurt producers throughout the region, but nowhere more than in Mexico, Central America, and the Caribbean, both vis-à-vis their own domestic markets and with respect to exports. In contrast to the huge trade surpluses with China maintained by their South American neighbors, these countries for the most part sustained huge trade deficits. Mexico, for example, was China's second-largest trade partner in the region after Brazil, but had a trade deficit of over \$18 billion in 2013 alone. Second and perhaps most important, the patterns of LAC-China trade, with exports from the region dominated by minerals, oil, and food, and the region's imports from China consisting almost entirely of manufactured goods—from industrial machinery to ships to consumer electronics—critics raised new concerns about a return to 19th century colonial patterns of trade and the region's *de facto* deindustrialization.²⁴ Though some countries created rainy-day sovereign wealth funds to save the excess rents triggered by the commodities super-cycle, this has by no means been the rule.

As several chapters in this volume demonstrate, however, there is reason not to be overly pessimistic about the structural implications of China-LAC trade. In countries such as Brazil, Chile, and Peru, primary commodity exports have spurred technological innovation, linkages to other sectors of the economy, and increases in the value-added to raw materials and

agricultural products. Moreover, as economist Richard Feinberg points out in chapter 2, supply chains are such that many of the goods that Mexico imports from China (as well as Japan and South Korea) serve as inputs for automobiles and other products that Mexico subsequently exports to the United States and other destinations. That said, China's impact on improving the region's competitiveness and productivity growth—huge current and future challenges—have remained quite limited.²⁵

The concern about the “re-commoditization” of Latin American economies is related to other mistaken assumptions about the region's development potential. Dependency theory, for example, was an influential set of ideas developed in the late 1950s and '60s about the structural impediments to economic development in Latin America; it posited that after the industrialization of North America and Western Europe, the “development window” had closed, thus making it impossible for countries in what was earlier known as the “Third World” (today's term is the Global South) to achieve the sort of self-sustaining industrialization and levels of per capita income seen in the nations bordering the North Atlantic. In other words, countries from Africa, Asia, and Latin America had been shut out from the possibility of joining the developed world. One has only to visit South Korea or Singapore today to witness how wrong that hypothesis was. Indeed, identifying how to mimic the rapid growth and prosperity of what have been dubbed the “Asian tigers”—Hong Kong, Singapore, South Korea, and Taiwan—has been a subject of intense scrutiny in the LAC region.

Similarly, development studies in earlier decades held that it was impossible for developing economies to sustain high growth rates for long periods of time. Despite recent declines, it is still the case that China averaged 10 percent annual growth from 1980 to 2011, a period of over 30 years.²⁶ In more modest fashion, the same can be said for India's growth of slightly over 6 percent between 1980 and 2013, and of 7.6 percent from 2003 to 2013. Just taking into account these two countries, the largest and second largest in the world in terms of population, with a combined GDP in 2013 of \$11.1 trillion²⁷ and growing middle classes, it is safe to surmise that these two countries will have an outsized impact on the growth of the world economy in the foreseeable future. Indeed, IMF estimates for 2014 indicate

that, of countries with a GDP of \$100 billion or more, five out of ten of the world's fastest growing economies are in Asia.²⁸

If that is the case, the question that arises for policymakers and analysts of Latin American affairs is straightforward: how can the region “latch on” to the locomotive of Asian growth and thus partake of the same? And, if that is possible, what has been done so far and what trade-offs are involved in any such strategy?

GLOBALIZATION AS ASIANIZATION

Chile provides an early example of how ties to Asia prompted sustained economic growth; from 1990–2008 (that is, from the transition to democracy to the onset of the global financial crisis), Chile had the strongest economic performance of any country in the region, with an average annual growth rate of 5 percent. An important part of this success derived from a certain perspective on how to relate to the world political economy in general, and to Asia in particular. Coming out of 17 years of military dictatorship and the “lost decade” of the 1980s (marked by the regional debt crisis, high inflation, and stagnation), Chile faced some hard choices in terms of its international options. It ended up adopting what has been described as a “lateral” international trade policy. This represented a compromise among various alternatives (unilateral opening of the economy, joining one or several of the regional integration schemes, or simply multilateral trade liberalization), but added something else: gaining access to the world's major markets. Chile did so by embarking on a massive spree of free trade agreement (FTA)-signing, with 60 countries as of this writing.

If free trade agreements were the instrument of choice to open up foreign markets, Asia was Chile's geographic focus. As had been the case in the rest of the region, both Chilean diplomacy and the national business community had mostly looked to the United States and Western Europe as the country's main international partners. That is where the most prestigious diplomatic postings were located (Washington, Paris, and London, in that order), the place to which most of the resources for

trade and investment promotion were assigned, and where presidents and foreign ministers undertook their first official visits abroad.

In the early 1990s, a subtle but significant shift took place. The Asia-Pacific region emerged as Chile's new economic frontier.²⁹ The Asia-Pacific Foundation was established to promote links across the world's largest ocean. In 1994, Chile was the second Latin American country to join the Asia-Pacific Economic Cooperation (APEC) forum (Mexico had done so in 1993), which at the time was a rather low-profile entity. This was followed by systematic efforts to strengthen Chile's presence in Asia, especially in East Asia. China was the main target of this policy, but also Japan, South Korea and Taiwan (with which trade flows kept expanding, despite good relations with the PRC). The numbers alone tell a dramatic story. A country of 17.8 million people, Chile saw its exports grow from \$9 billion in 1990 to \$80 billion in 2012. Its attractiveness for FDI was reflected in an FDI-stock-to-GDP ratio of 65 percent, one of the highest in the world, and \$26.4 billion in FDI in 2012, in Latin America second only to Brazil, with a GDP more than eight times its size. This performance can be traced back to the notion best summarized as "globalization as Asianization."

What is most remarkable is the continuity and persistence of these policies, across five different governments, from center-left to right, and nine foreign ministers, each of them with their own priorities and objectives. It is one thing to promote larger trade and investment flows, and quite another to do so by formalizing these links through Chile's preferred tool, i.e., FTAs. This is particularly true in the case of large economies that are unfamiliar with the latter. For example, Chile signed an FTA with South Korea in 2003, the first between an Asian and a Latin American country; in 2005, one with China, the first between China and an individual country; in 2006, it signed a Preferential Trade Agreement (PTA) with India, and shortly after that one with Japan. It is currently negotiating a PTA with Indonesia. By 2007, four of Chile's top ten markets were in Asia: China (#2), Japan (#3), South Korea (#6) and India (#10). In 2013, China was Chile's top trading partner, with total trade valued at \$33 billion. The balance was largely favorable to Chile, with a trade surplus of \$3.3 billion.³⁰

In a context in which Asia (and particularly the two "Asian giants," China and India) has become a key driver of the world economy, to some

extent these numbers should not be surprising. Chile is mostly a producer and exporter of commodities and natural resources, and it is in Asia where most of the world's demand for copper, cellulose, fish meal, and other such products originate. Yet, the point is a different one. Even with a recent slowdown, one of the reasons Chile had such robust economic performance since 1990³¹ is because it realized very early that “Asia is the new Europe” and acted accordingly.

After East Asia, Chile shifted its attention to South Asia. In 2005, President Ricardo Lagos undertook the first presidential visit from Chile to India³² and in March 2006 a PTA was signed. Between 2003 and 2007, Chilean exports to India grew tenfold, to \$2.25 billion. Two additional presidential visits took place in April 2008 and March 2009, respectively, and negotiations to deepen the PTA were pursued during the tenure of President Sebastián Piñera (2010–14).

COLLECTIVE RESPONSES—THE PACIFIC ALLIANCE, TPP, AND THE UPSURGE OF TRADE FLOWS

If Chile was the regional leader in these growing links with Asia, it was by no means the only country in the region to seek deepening ties. As this volume demonstrates, Brazil, Mexico, Peru, Colombia, and Argentina were also major “players” in the growing density of interregional relations.

Beyond individual country strategies vis-à-vis Asia, the region is witnessing some collective responses as well. The Community of Latin American and Caribbean States (CELAC) held the first Indo-Latin American Dialogue and the first Sino-Latin American Dialogue in August 2012, in New Delhi and Beijing, respectively. During his July 2014 visit, Chinese President Xi Jinping met with the current and past leadership of CELAC, a gathering expected to lead to a CELAC-China summit in the near future. (Notably, CELAC is a regional organization that does not include the United States and Canada.)

Most significant of the collective responses thus far is the Pacific Alliance (*Alianza del Pacífico*, PA), which has brought together four of the region's most dynamic and open economies—Chile, Colombia, Peru, and Mexico.

Together the four countries represented 36 percent of regional GDP in 2013, equivalent to the world's ninth largest economy and eighth largest exporter.³³ As an integration scheme, the PA stands in stark contrast to the Bolivarian Alliance for the Americas (ALBA)—whose members have opted for heavy state intervention in the economy, with Venezuela the most extreme case of hostility to free markets. While the Chilean and Colombian governments in particular have resisted casting the Alliance as antagonistic to other integration schemes, let alone as something bifurcating the continent between its Pacific and Atlantic coasts, it is still the case that Alliance member policies differ markedly from the protectionism practiced by Brazil and Argentina, the two largest countries of the MERCOSUR bloc.

The PA was formally launched in June 2012; it represents not only an ambitious endeavor at sub-regional integration, but also the intent to use that integration as a platform for deepening the relationship with the Asia-Pacific region.³⁴ The PA countries have moved swiftly to eliminate visa requirements for their nationals, reduce tariffs on over 90 percent of goods, and integrate their stock markets. At a time when MERCOSUR is widely seen as stagnant, the PA has triggered considerable international interest, with some 20 countries (including China and the United States) joining as observers and Costa Rica in the process of becoming a formal member (Panama is not far behind). The physical distance between countries like Mexico and Chile is vast, and intraregional trade among the PA members remains low, causing some observers to caution against excessive hype regarding the PA's potential. As noted by the *Financial Times*, neither Mexico, Chile, nor Peru counted an alliance member among its top five trading partners as of 2012.³⁵ Moreover, Chile has less restrictive trade with Brazil than it does with other PA members.³⁶ Still, the PA has brought a welcome fresh breeze to a regional integration movement that some see as lethargic and stuck in the past.

As South-South integration has advanced, the degree to which even the United States has sometimes been reduced, at least initially, to the role of an agenda-taker (as opposed to that of an agenda-setter) became apparent with the Trans-Pacific Partnership (TPP) project.³⁷ It arose from an original agreement signed by Chile, Singapore, New Zealand, and Brunei (the Pacific Four or P4) in 2005, as a way of kick-starting and giving a further

impetus to trade liberalization within APEC. In 2008, U.S. President George W. Bush expressed interest in becoming part of the P4 partnership agreement, joining the negotiations along with Australia, Peru, and Vietnam. Malaysia joined in 2010, with Canada, Mexico, and Japan eventually coming on board as well. President Barack Obama has embraced what are now negotiations among twelve countries for the Trans-Pacific Partnership as part of an export-led growth strategy to overcome the U.S. recession and reaffirm the value of a rules-based, liberal trading order. As discussed by policy analyst and former State Department official Daniel Kurtz-Phelan in chapter 9, TPP became part of a wider U.S. “pivot” to Asia that had commercial as well as strategic goals. One of those was to bring the United States’ closest hemispheric partners into broader U.S. diplomacy in the Pacific. Although Latin American countries had no inclination to follow a U.S. lead, their interests, values, and views of regional and global order were largely convergent with those of the United States.

However, the future of the TPP negotiations, an instance of the new mega-regional agreements that have come to the fore after the failure of the World Trade Organization Doha Round in 2008, remains uncertain.³⁸ As Marcos Robledo indicates in chapter 4, Chile has bilateral FTAs with all the countries in the TPP, and is skeptical of further limitations concerning such issues as intellectual property and capital controls. In the United States, it is not at all clear that the U.S. Congress will renew Trade Promotion Authority (dubbed “fast track”) that allows trade deals negotiated by the executive branch to be considered through an up-or-down vote. Difficulties aside, the number of countries interested in TPP and the sheer potential of linking so many economies indicate that the Pacific Basin has emerged as the “way forward” in the early decades of the 21st century, triangulating South America, North America, and Asia.

A SPECIAL MOMENT IN ASIA-LAC LINKS

In a way, the flag has followed trade, rather than the other way around. Spurred by economic opportunity, Latin American foreign ministries are playing catch-up to their trade promotion and commercial counterparts.

The number of Latin American and Caribbean embassies resident in New Delhi, for example, increased from 12 in 2003 to 19 in 2014. Something similar can be said about a number of other Asian capitals. Presidential state visits to Beijing, like the one Brazilian President Dilma Rousseff undertook with a 300-strong business delegation shortly after her inauguration in January 2010, have become *de rigueur*.

The point is that relations between Latin America and Asia—by Asia in this case we refer to that broad swath of the Asian land mass that goes from East Asia through Southeast Asia all the way to South Asia—are undergoing a very special moment. It is precisely at moments like this that systematic reflection and analysis about the future course and direction of these links needs to happen. Much work has been done on Sino-LAC relations;³⁹ some (particularly in previous decades) on the long-standing ties between Japan and the region;⁴⁰ and Indo-LAC links are only now starting to trigger some interest.⁴¹ But broader reflections on the direction, pace, and quality of Asia-LAC links remain relatively few and far between.

The purpose of this volume, designed as the first part of a broader project, is to help fill this void and initiate a wide-ranging discussion about the current course of these ties: whether they should be nudged in one direction or another; what to make of present economic opportunities, and what the implications of the latter are for Latin America's long-term development goals. Starting from current economic trends, its goal is to explore the implications of existing trade and investment patterns in Asia-LAC links. We have selected some of the most important cases in the region, but by no means all of them. Missing from this volume are significant players such as Venezuela, Ecuador, Cuba, and Costa Rica, among others, including the small states of the Caribbean. We hope to include them in future stages.

Among the questions we consider are the following: What can be done to mitigate, if not totally avoid, the “de-industrializing” effects of the demand for Latin American natural resources coming from Asia? What is the significance, if any, of the fact that trade between the two regions is largely intersectoral, with Latin America exporting mostly commodities to Asia and Asia in turn selling mostly industrial and consumer products, including many high-tech ones, to Latin America? What can Latin American countries do to get into the Asian value-added chains of production? Given that

since 2003, an average of 2.3 regional trade agreements (RTAs) per year have been signed between countries of these two regions, are further FTAs and RTAs between Asia and LAC countries, like the ones between Chile and China, India and South Korea, or the one between MERCOSUR and India, the way forward? Is Taiwan still a relevant actor or have countries that have historically maintained diplomatic relations with it been seduced by the opportunities that China represents, thus leaving Taiwan behind? Are Argentina's measures to limit foreign ownership of agricultural land a harbinger of things to come, as Asian companies move into South America? And, without downplaying China's unmistakable role in South America's recent prosperity, what are the sources of conflict and friction and how can they best be addressed?

NO TURNING BACK

To the skeptics and critics of Asia-LAC links, Richard Feinberg of the University of California, San Diego, responds that such links have been highly beneficial to both sides. For Latin America, they have entailed not just the opening of new markets, the boosting of commodity prices, and the bolstering of its foreign exchange reserves, but also the access of Latin American consumers to cheap Asian products.

On the potentially negative "de-industrialization effect" of this trade, Feinberg is also more sanguine than many observers.⁴² He argues that commodities markets are more stable these days than they were in the past; that Latin American governments have largely put their fiscal house in order and are thus less susceptible to the "boom-and-bust" cycles of previous decades; and that manufactured exports to Asia from the region are rising, reaching as much as 10 percent of total exports in recent years.

In turn, although there is an overall pattern of "First World-Third World" trade between Asia and Latin America (*grosso modo*, an exchange of manufactured products for commodities), there are some interesting variations on this theme. A first distinction to be made concerns links between on the one hand, Asia and South America, which is rich in minerals and agricultural land, and those of Asia with Mexico and Central America and the Caribbean,

on the other. Thus, in some ways the main beneficiaries of this booming trade with Asia are to be found in South America, whereas much of the inter-regional trade imbalance is accounted for by Mexico, through its manufactured imports from China and elsewhere. Yet there is more than meets the eye in this huge deficit in Mexico's trade with China. As noted earlier, many of these imports are component parts that Mexican factories will re-export as final goods for U.S. consumers, creating a triangular trade, in which globalized supply chains integrate Asian-Mexican-U.S. design and production processes and consumption. Mexico has come to the fore as a leading player in the international automobile industry partly as a result of this dynamic.⁴³

Feinberg identifies three different cases of Latin American trade with Asia: the multi-commodity exporter (Brazil), the mono-commodity exporter (Chile), and the multi-product supply chain location (Mexico). Each of them entails different policy challenges and prescriptions.

Brazil is a fascinating case because the South American giant is among the most closed economies of the large emerging markets. Foreign trade remains a small component of GDP, at around 20 percent. As Adriana Erthal Abdenur of the BRICS Center at Rio de Janeiro's Pontifical Catholic University underlines in her chapter, this "means that policy-makers' attention is often focused on topics other than trade, but also because it represents a divergence from Asian growth models based on export-led strategies and insertion into global value chains." Even so, Asia was the region with which Brazilian trade increased the most between 2002 and 2011—by 770 percent. China took the lead, as Brazilian exports to China increased from \$1.1 billion in 2000 to \$44.3 billion in 2010, by far overtaking exports to Japan, which had traditionally been at the core of Brazil's relations with Asia, driven by the large community of Japanese descent existent there.

Trade with India has also risen dramatically, from \$828 million in 2000 in 2003 to \$10.6 billion 2012.⁴⁴ And even though Brazil's growth has lagged in recent years, when the 2008–9 financial crisis hit, trade between Brazil and Asia thrived. Brazilian exports to Asia rose from \$22.1 billion in 2007 to \$48.9 billion in 2010, with Asian imports going from \$26.3 billion to \$49.2 billion in the same period.

Quite apart from trade, perhaps the most remarkable feature of Indo-Brazilian relations has been the political aspect. During his years in office,

President Luiz Inácio Lula da Silva visited India three times. The India-Brazil-South Africa Initiative (IBSA), launched in 2003, has emerged with special force as a leading voice in the Global South, bringing together leading democracies from three continents.⁴⁵

Mexico, Latin America's second largest economy, has linked up very differently to Asia. According to Enrique Dussel, one of Mexico's leading China analysts, it did so in two stages. The first, in the late 1990s, centered on trade while the second began with the global financial crisis of 2008–9 and by then included investments. And while Mexico's imports from the United States have fallen from 75.4 percent of total imports in 1996 to below 50 percent from 2007 onward, Asia's share of Mexican trade almost tripled over the past decade, from below 7 percent to 17.6 percent in 2012. The Chinese share of that trade rose by almost ten times, making up 8.4 percent of Mexican trade in 2012 and almost half of Mexico's trade with Asia.

On the investment front, there has been a notable upsurge in Asian FDI into Mexico since the birth of the North American Free Trade Agreement (NAFTA) and the liberalizing of foreign investment laws. Japan and Korea have led the way, followed by China, Taiwan, and Singapore. Yet, Dussel argues, Mexico's institutional setting needs a major upgrade to cope with the Asian challenge and to enter negotiations with Asian partners with a measure of effectiveness.

Although, as befits the size of its economy, Argentina's volume of trade with Asia is smaller than that of Brazil or Mexico, the Argentine case is especially revealing of the impact Asian demand has had on the region. The story of Argentina over the past decade (i.e., from 2003 to 2013) was that of a sharp recovery from the abyss of the economic and political crisis of 2000–01, at which time the country defaulted on its debt and had three presidents in a single week. Argentina's recovery took a nosedive again in 2014 by a default resulting from a protracted legal battle between the Argentine government and a small percent of bond-holders who rejected the terms of a debt swap negotiated in 2005 and 2010. Argentina's initial decade of recovery overlapped with that of *kirchnerismo*, i.e., the rule of Néstor Kirchner (2003–07) and his widow, Cristina Fernández de Kirchner (2007–); this period saw the rise of the *complejo sojero* (soy complex). This

dramatically changed agriculture in country known for having some of the best and most productive land in the world—*la pampa húmeda* (the moisture-laden pampas). As Argentine scholar Gonzalo Paz points out in his chapter on Argentina and Asia, this is “a new, advanced, technologically sophisticated and dynamic economic sector that is at the core of Argentina’s relation with China, India, and Southeast Asia.”

Soy production in Argentina is also a revealing example of the need to dig deeper into the somewhat simplified view of commodities as nothing more than the export of primary products that contribute little to technological progress and economic development in the region. Unlike copper, iron ore, oil, or nickel, soy is not an endowed, non-renewable resource. In fact, in Argentina it did not exist as a sizeable economic activity as recently as fifteen years ago. It has arisen in response to the massive demand coming from China along with several other Asian countries. In that sense, Argentina did not just “luck out” by winning the “commodity lottery.” Argentina opted to *grow* soy, a highly advanced, substitutable biocommodity, almost from scratch, in response to the rise of East Asian demand for foodstuffs and animal feed. It is true that such production requires a certain type of soil as well as ample amounts of sun and water, with which Argentina is richly endowed. But it also needs the deployment of entrepreneurship and cutting-edge technology to produce soy in the volumes and quality required by East Asian markets. This is something that Argentina has done very effectively.

None of this means that relations between Argentina and China, its main Asian trading partner, have been without friction. There have been many ups and downs in a complex relationship, with a critical turning point occurring in 2004, when Presidents Kirchner and Hu Jin Tao exchanged visits. As Paz argues, the Kirchner government saw China as an ally in easing pressure on its external financial sector. Argentina’s experience indicates, however, that there are limits to the degree to which Latin American countries can leverage their links with Beijing against Washington or the international financial institutions. But Paz makes clear that Argentina’s history and particularly its chances of economic recovery in the first decade of this century would have been very different without the rise of China.

PERU AND COLOMBIA

The same holds true for Peru. In the 1980s and '90s Peru was known as “the sick man” of Latin America as it struggled with rampant inflation and Maoist insurgents.⁴⁶ In a dramatic turnaround, from 2003 to 2013 Peru registered 6 percent average annual GDP growth, turning into a favorite of foreign investors and credit-rating agencies. As Cynthia A. Sanborn and Alexis Yong underline in their chapter, this is not unrelated to the strong links Peru developed with China, Japan, and South Korea. Although Peru’s mining sector has led this upsurge of Peru’s export prowess—61 percent of Peru’s total world exports are minerals, led by copper, iron, and gold—Sanborn and Yong note that “de-industrialization” has not taken place, as non-traditional exports with considerable value-added have joined copper and other products in the voyage across the Pacific. As the authors note, Peru’s manufactured exports to China have grown faster than those to other destinations, and the country has pursued FTAs as well as foreign investment from Asia to diversify its economy.

Of all the countries surveyed in this volume, Colombia is the one that has thus far made the least of Asia’s boom. The subtitle of Mauricio Reina and Sandra Oviedo’s chapter on Colombia is precisely “trying to make up for lost time.” This is part and parcel of a broader pattern of relative isolationism that marked Colombia for much of the second half of the past century—leading even one former president to describe it as “the Tibet of South America.”⁴⁷ This inward-orientation held both for foreign policy and for economic linkages, with a European, followed by a U.S-centric approach that afforded little attention to the rest of the world; at the same time, Colombia implemented protectionist policies that kept foreign trade far below what it should have been for a country of its size. This was further hampered by the country’s underdeveloped infrastructure, which remains a significant challenge.

Even so, trade with Asia has made inroads. Colombian exports to Asia rose from 3.1 percent of the total in 2002 to 11.1 percent in 2012, while imports grew from 15.5 percent to nearly 27 percent in the same period. Still, Colombian exports to Asia are less than \$90 per capita annually, while Chile has 24 times that figure and Argentina and Brazil five times. Until

recently, Colombia's diplomatic presence in Asia lagged behind that of other countries in the region, but now it has close to the same number of embassies there as Chile and Mexico. As of mid-2014 Colombia had also signed only one FTA with an Asian nation, namely with South Korea, although the agreement had not yet taken effect.⁴⁸ Asia's irruption as a growth engine of the world economy has impacted Latin American countries across the board, though in different ways and to varying degrees. As Reina and Oviedo point out, there are indications that the Asian economy's share of global GDP will double from 25 percent in 2010 to 50 percent in 2050, meaning that Asia would account for 60 percent of the world's growth until then. This is something Latin American policymakers can only ignore at their peril.

Yet, we should keep in mind the cautionary notes that Marcos Robledo underlines in chapter 4. Acknowledging the positive effects that Chile's focus on the Asia-Pacific has had on boosting the country's exports and (to a lesser extent) its incoming FDI, he also warns that this has done little to change Chile's high levels of income inequality (with a Gini Index of 0.52 in 2011). The same goes for the weak backward linkages between Chilean exports to the Asia-Pacific and the rest of the economy, thus limiting their job-creation and redistributive effects. As he succinctly puts it, "Chile's network of FTAs does not replace policies of development."

In short, while opening up to and targeting Asian markets would seem to be a necessary condition for keeping up Latin American growth and development in years and decades to come, it is by no means a sufficient path towards these goals.

NOTES

1. Asian Development Bank, *Asia 2050: Realizing the Asian Century* (Washington, D.C.: 2011). The Bank predicted that "Asia's march to prosperity" would be led by China, India, Indonesia, Japan, South Korea, Thailand, and Malaysia.
2. Alicia Bárcena, "Foreword," in Germán King, José Carlos Mattos, Nanno Mulder and Osvaldo Rosales, *The Changing Nature of Asian-Latin American Economic Relations* (Santiago: ECLAC, 2012), 9.
3. Citing a Japanese study, ECLAC noted that by 2030 East Asia alone would account for 23 percent of global GDP, outstripping Europe as well as North America. See *Latin America and the Caribbean in the World Economy* (Santiago: ECLAC, 2013), 42.

4. Luis Alberto Moreno, "Prologue," in Mauricio Mesquita Moreira, ed., *India: Latin America's Next Big Thing?* (Washington, D.C.: Inter-American Development Bank, 2010), ix.
5. Masahiro Kawai, Antoni Esteveordal, et. al., *Shaping the Future of the Asia and the Pacific-Latin America and the Caribbean Relationship* (Washington, D.C.: Asian Development Bank, Inter-American Development Bank, and Asian Development Bank Institute, 2012), 1–6.
6. "China-Latin American Trade: An end to the good old days," *Latin Business Chronicle*, June 11, 2014.
7. Bárcena, 9–10.
8. The World Bank, *Latin America and the Caribbean's Long-Term Growth: Made in China?* (Washington, D.C.: The World Bank/LAC, September 2011), 22.
9. "Japan-LatAm Trade: On the up," *Latin Business Chronicle*, June 25, 2014.
10. ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2013* (Santiago: ECLAC, 2014), 31.
11. "Korea-LatAm Trade: Korea Eyes the Pacific Alliance," *Latin Business Chronicle*, June 26, 2014.
12. Ibid.
13. R. Viswanathan, "India and Latin America: a new perception and a new partnership," Real Instituto Elcano, Madrid, July 22, 2014.
14. Jorge Heine and R. Viswanathan, "The Other BRIC in Latin America: India," *Americas Quarterly*, Spring 2011.
15. China committed \$41 billion, Brazil, India, and Russia \$18 billion each, and South Africa \$5 billion. It was not immediately clear whether the contingency reserve funds would be made available to non-BRICS countries. Brazilian Ministry of External Relations, "Treaty for the Establishment of a BRICS Contingent Reserve Arrangement—Fortaleza, July 15," <http://brics6.itamaraty.gov.br/media2/press-releases/220-treaty-for-the-establishment-of-a-brics-contingent-reserve-arrangement-fortaleza-july-15>.
16. Gregory Chin and Jorge Heine, "Consultative Forums: State Power and Multilateral Institutions," in Bruce Carrie-Alder, Ravi Kanbur, David M. Malone, and Rohinton Medhora, eds., *International Development: Ideas, Experiences and Prospects* (Oxford: Oxford University Press, 2014), 866–80.
17. See Rebecca Ray and Kevin P. Gallagher, "2013 China-Latin America Economic Bulletin," Global Economic Governance Initiative, Boston University, 7–9.
18. Ernesto Talvi et. al., "Enter the Dragon: Risks from China to Latin America," The Brookings Institution, June 6, 2014, 3.
19. While the impact of trade with India was far smaller, India's GDP growth also fell, from its peak of 10.3 percent in 2010 to 5 percent in 2013, according to World Bank figures. In lowering its regional growth projections for 2014, ECLAC cited "the weakness in external demand, less dynamic domestic demand, insufficient investment, and limited room for implementing policies to spur an upturn." ECLAC, "ECLAC Lowers Growth Forecast for the Region in 2014 to 2.2 %," Press Release, Santiago, August 4, 2014.
20. Ray and Gallagher, 3–4.

21. This included \$4.7 billion to Argentina for two hydroelectric projects, \$2.1 billion for a railroad upgrade making it easier to move Argentina agricultural products to ports, and a currency swap of \$11 billion to allow for the purchase of Chinese goods using the yuan. Venezuela received an additional \$4 billion line of credit, to be repaid in oil. Cuba had \$6 billion in debt to China forgiven, among other agreements governing port development and tourism. See Eliana Raszewski, “China lends Argentina \$7.5 billion for power, rail projects,” Reuters, July 19, 2014; “China’s President Xi Jinping signs Venezuela oil deal,” BBC News, July 21, 2014; Pablo Gonzalez and Charlie Devereux, “Xi Flies to Argentina With \$7.5 Billion in Tow,” Bloomberg, July 18, 2014; and R. Evan Ellis, “China Fills the Vacuum Left by the United States in Latin America,” University of Miami Center for Hemispheric Policy, August 4, 2014.
22. The top four recipients of Chinese lending to LAC were Venezuela, Argentina, Brazil, and Ecuador. See China-Latin America Finance Database (a joint project of the Inter-American Dialogue and Boston University’s Global Economic Governance Initiative); Alicia García-Herrero and Carlos Casanova Allende, “China: LatAm’s lender of last resort?” BBVA Research, July 31, 2014; and Margaret Myers, “China’s Unlikely Partnership with Venezuela,” ISN-Swiss Federal Institute of Technology (Zurich), August 4, 2014.
23. Although a sizable business delegation accompanied Abe, Japan’s new aid and investment commitments in Africa and Southeast Asia are far greater than those in Latin America. Abe’s trip included several countries involved in current negotiations for the Trans-Pacific Partnership, which includes Japan. He also visited three countries—Chile, Colombia, and Mexico—that are members of the Pacific Alliance, in which Japan is an observer. Abe also appeared keen on advancing Japan’s foreign policy agenda, including its quest for a seat on the UN Security Council, which China opposes. The visit to Trinidad and Tobago seemed especially timed as a way to court the 14 member countries—and hence, 14 votes in the UN General Assembly—of the Caribbean Community (CARICOM). Abe also made several references during his tour of the region to the rule of law and threats to the status quo in East Asia. These appeared as thinly-veiled references to Sino-Japanese tensions over the South China Sea. See, among others, “Japan and China Compete for Latin American Clout,” *Asia Sentinel*, (Hong Kong), August 11, 2014; and “Los dos gigantes de Asia compiten por América Latina,” *Portafolio* (Colombia), August 3, 2014.
24. See for example, Osvaldo Rosales and Mikio Kuwayama, *China and Latin America and the Caribbean: Building a Strategic Economic and Trade Relationship* (Santiago: ECLAC, 2012); and Emily Sinnott, John Nash, and Augusto de la Torre, *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts?* (Washington, D.C.: The World Bank, 2010), <http://siteresources.worldbank.org/INTLAC/Resources/257803-1284336216058/FlagshipReport.pdf>.
25. The World Bank, “Latin America and the Caribbean’s Long-Term Growth,” 10–11.
26. Authors’ calculations based on World Bank figures.
27. Ibid. By contrast, U.S. GDP in 2013 was \$16.8 trillion, followed by China at \$9.24 trillion and Japan at 4.9 trillion.
28. The countries are China (first place at 7.5 percent), the Philippines (third place at 6.5 percent), Bangladesh (fourth place at 6.0 percent), Vietnam (eighth place at

- 5.6 percent), and India (tenth place at 5.4 percent. Peru was in ninth place, with 5.5 percent. See Andrew Bergman, “World’s Largest Economies,” CNN Money, http://money.cnn.com/news/economy/world_economies_gdp/. Two smaller Asian economies were project to be the fastest-growing in 2015: Papua New Guinea and Macau, with growth rates of 14.8 percent and 10.6 percent, respectively. See Economist Intelligence Unit, “The last shall be first: Asia’s growth prospects for 2015,” August 13, 2014.
29. See Manfred Wilhelmy, “La trayectoria de Chile frente a la región del Asia Pacífico,” *Estudios Internacionales* 167 (2010), 125–41.
 30. On the relationship between Chile and China, see Yun Tso Lee and Wu Hongying (eds.), *Chile y China: Cuarenta Años de Política Exterior* (Santiago: RIL, 2011).
 31. See Banco Nacional de Chile, *Cuentas Nacionales de Chile 2013*, http://www.bcentral.cl/estadisticas-economicas/publicaciones-estadisticas/trimestrales/pdf/CuentasNacionales_cuarto_trimestre2013.pdf.
 32. Other Latin American leaders paid attention as well. Colombia’s President Andrés Pastrana was the first Colombian president to visit India in 2001. Brazilian President Luiz Inácio Lula da Silva went to India three times during his two terms in office, 2003–10.
 33. Authors’ calculations based on World Bank data, which does not include a number of Caribbean economies, including that of Cuba. See also, Secretaría de Relaciones Exteriores (Mexico), “Mexico Participates in the 12th Meeting of the High-Level Group of the Pacific Alliance,” Press Release, February 4, 2013.
 34. The formation of the PA is rooted in an earlier scheme (the “Arc of the Pacific”) in which a diverse swath of countries on the Pacific rim of Latin America sought deeper integration with Asian economies. (For a discussion of the Arc of the Pacific, see chapter 4 in this volume.)
 35. Samuel George, “Partners set sights on more than marketing,” *Financial Times*, April 2, 2014.
 36. Ninety-eight percent of Chile-Brazil trade is liberalized, as opposed to 92 percent among the PA countries. Address of Chilean Foreign Minister Hernando Muñoz, Woodrow Wilson Center, Washington, D.C., June 17, 2014.
 37. On the TPP, see C.L. Lim, Deborah Kay Elms and Patrick Low, eds., *The Trans-Pacific Partnership: A Quest for a Twenty-first Century Trade Agreement* (Cambridge: Cambridge University Press, 2012). See also, William Krist, *Negotiations for a Trans-Pacific Partnership* (Washington, D.C.: Woodrow Wilson Center Program on America and the Global Economy, 2012).
 38. For a critical perspective on the TPP negotiations and the likely effect of such an agreement on Latin America, see Osvaldo Rosales, Sebastián Herreros, Alicia Frohmann and Tania García-Millán, *Las negociaciones megaregionales: Hacia una nueva gobernanza del comercio mundial* (Santiago: ECLAC, L.C./L 3710, International Trade and Integration Division, December 2013).
 39. See He Shungrong, ed., *China-Latin America Relations: Review and Analysis* (Beijing: Social Sciences Academic Press, 2012); Julia C. Strauss and Ariel C. Armony, eds., *From the Great Wall to the New World: China and Latin America in the 21st Century* (Cambridge: Cambridge University Press, 2012); Adrian H. Hearn and José Luis

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40. See Barbara Stallings and Gabriel Szekely (eds.), *Japan, the United States and Latin America: Towards a Trilateral Relationship in the Western Hemisphere* (Baltimore: Johns Hopkins University Press, 1993).
 41. On Indo-LAC, see Jorge Heine, *La Nueva India* (Santiago: El Mercurio/Aguilar, 2012); ECLAC, *La India y América Latina y el Caribe: Oportunidades y desafíos en sus relaciones comerciales y de inversión* (Santiago: ECLAC International Trade and Integration Division, February 2012); Mauricio Mesquita Moreira, *India: Latin America's Next Big Thing?*; Jorge Heine, "Playing the India Card," in Andrew F. Cooper and Jorge Heine (eds.), *Which Way Latin America: Hemispheric Politics Meets Globalization* (Tokyo: United Nations University Press, 2009), 122–39.
 42. But see Gallagher and Porzecanski.
 43. For an elaborate, albeit critical analysis of what this entails, see Nicola Phillips, "Coping with China," in Cooper and Heine (eds.), 100–21.
 44. The BRICS Post, "Indian FM to discuss BRICS during Brazil Visit," October 14, 2013, <http://thebricspost.com/indian-fm-to-discuss-brics-during-brazil-visit/#.U-42LmMdCiB>; see also, The Financial Express, "Trade with Brazil grew 10-fold in last decade," March 23, 2013, <http://www.financialexpress.com/story-print/1092181>.
 45. See Oliver Stuenkel, *India, Brazil, South Africa Dialogue Forum: The Rise of the Global South* (Routledge: New York and Oxford, forthcoming, 2014).
 46. See William R. Long, "Once-Sickly Peru Economy is Now Diagnosed as Robust," *Los Angeles Times*, November 14, 1993, <http://www.deseretnews.com/article/320610/ONCE-SICKLY-PERU-ECONOMY-IS-NOW-DIAGNOSED-AS-ROBUST.html?pg=all>.
 47. The president was Alfonso López Michelsen (1974–8); cited in John Paul Rathbone, "Colombia: A rediscovered country," *Financial Times*, June 3, 2013, <http://www.ft.com/cms/s/0/1a1fbc60-9dfd-11e2-9ccc-00144feabdc0.html#axzz375yKb0i8>.
 48. Colombia has embassies in China, India, Indonesia, Japan, Malaysia, the Philippines, South Korea, and Thailand; its export promotion agency, Proexport, has offices in China, India, Indonesia, Japan, Singapore, and South Korea. Chile and Mexico have embassies in China, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Vietnam. As for trade agreements, a Colombia-India PTA and a Colombia-China FTA have been proposed, and negotiations have been launched for a Colombia-Japan Economic Partnership.

CHAPTER 2:

Latin American–Asian Trade Flows: No Turning Back

Richard E. Feinberg

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 policy-makers 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

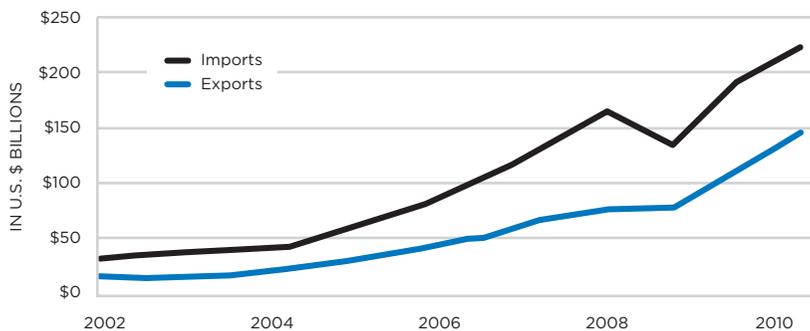
Asia was not unknown to Latin American merchants before 2000. During the colonial era, Spanish galleons navigated the Pacific, connecting the New World with the Philippines and other Asian ports of call. In the modern era,

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)

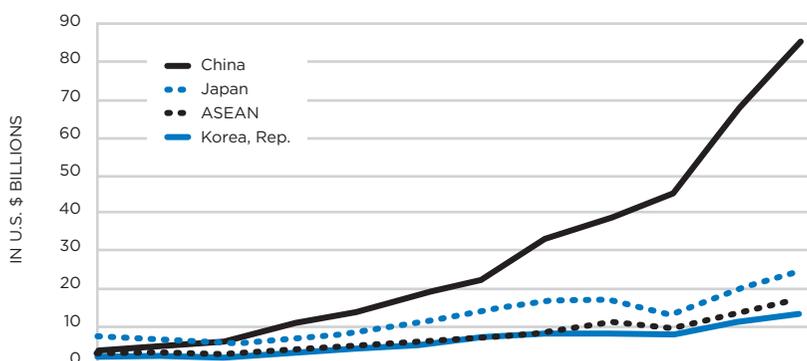


Source: UN COMTRADE

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: UN COMTRADE

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.

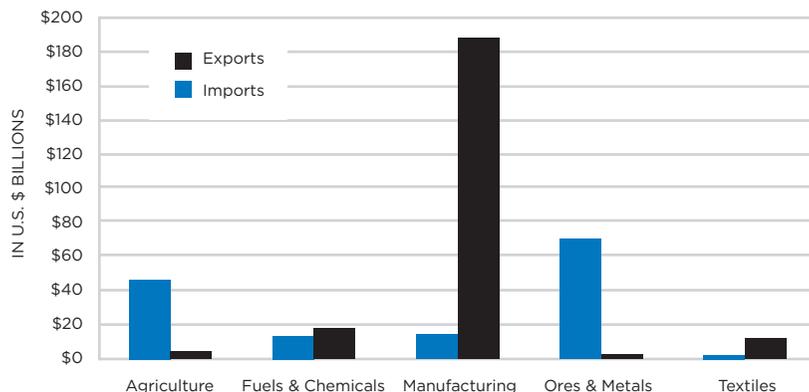
Breaking down these Latin American exports by product composition, raw materials (agriculture, and ores and metals) dominate overwhelmingly (figure 3). In 2000, Latin America sold just \$5 billion in ores and metals to Asia; as the result of higher prices as well as a dramatic

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 | 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 |

Source: UN COMTRADE

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



Source: UN COMTRADE

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 complementary 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 |

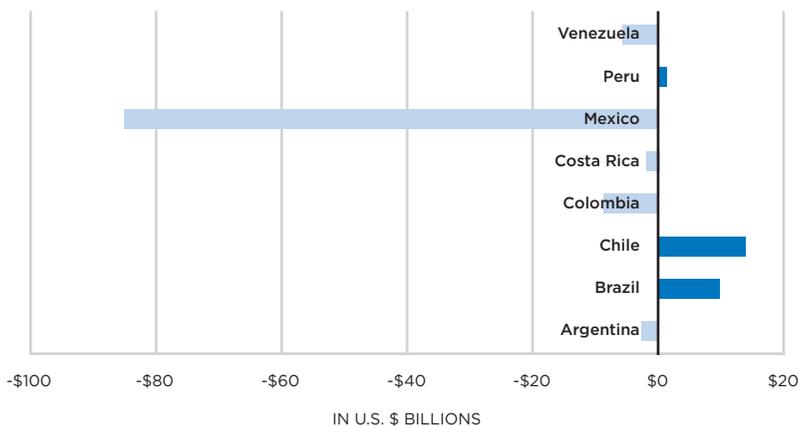
Source: UN COMTRADE

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 below 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: UN COMTRADE

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

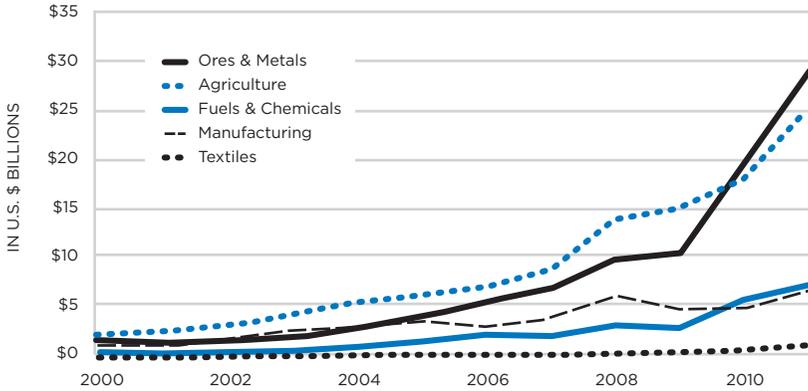
There is tremendous heterogeneity among Latin American nations in their trading patterns with Asia. To illustrate this complexity, let us examine three country cases: Brazil, a multicommodity exporter; Chile, a mono-commodity exporter; and Mexico, a multiproduct supply chain location.

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 monoprodukt. 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).

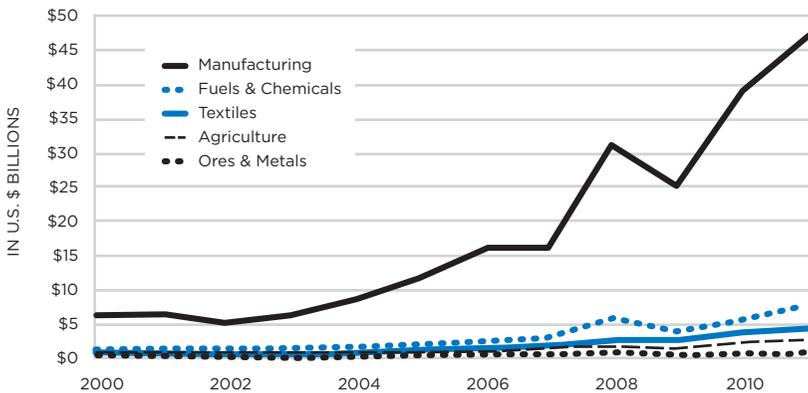
Notwithstanding the dominance of primary products in Brazilian sales to Asia, Brazilian manufactured exports have risen rapidly, from a mere

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



Source: UN COMTRADE

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



Source: UN COMTRADE

\$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 monoproducer 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.

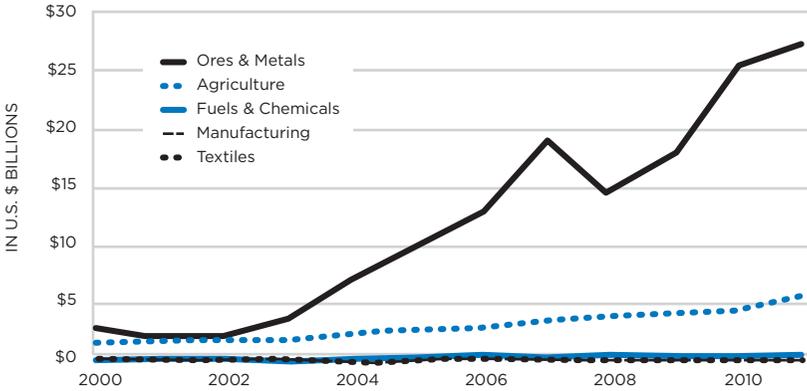
Chilean imports from Asia are overwhelmingly manufactures and textiles (figure 8), placing Chile squarely in the category of primary resources/manufactures exchange. Of \$17 billion in Asian manufactured imports, China dominates, with \$11 billion, distantly followed by Japan and South Korea, with \$2 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).

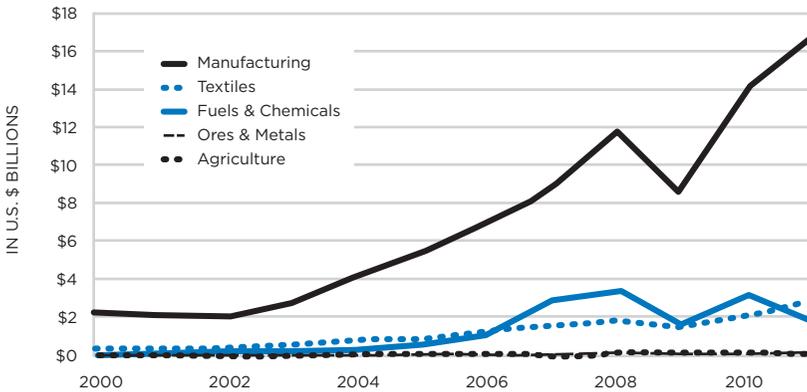
In its proactive trade strategies, Chile is strikingly different from Brazil, which in earlier years fostered the Southern Cone's regional trading arrangement, MERCOSUR, but in more recent negotiations with the European Union, the United States (in the context of the proposed Free Trade Agreement of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

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



Source: UN COMTRADE

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



Source: UN COMTRADE

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

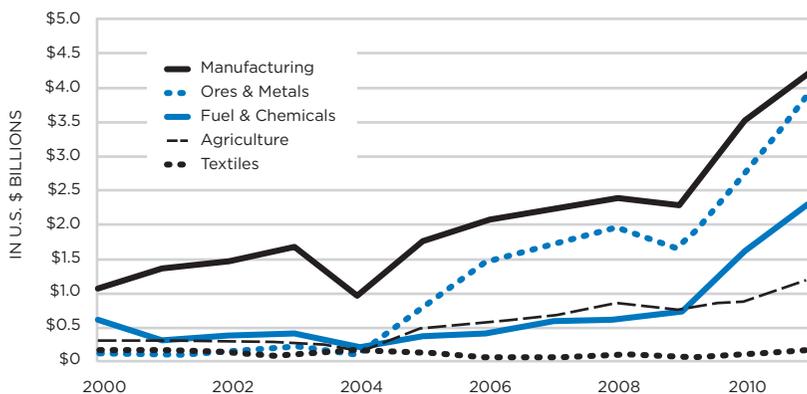
Mexico: A Multiproduct Supply Chain Location

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.

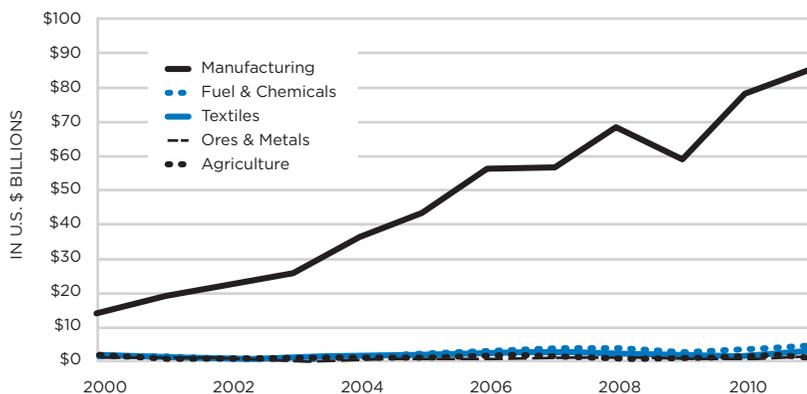
To provide some relief for domestic producers suffering from the onslaught of low-cost Chinese manufactured goods (figure 10), in 2001 Mexico imposed a large number of countervailing duties on Chinese products. When these duties were phased out with China’s entry into the World Trade Organization (WTO), 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: UN COMTRADE

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



Source: UN COMTRADE

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 from 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 exception¹⁷). 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: Not In Effect | 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 |
| Manufacturing | 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 |
| Manufacturing | 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: UN COMTRADE

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 | 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 | 2,135 | 1,077 | 145 | 145 | 19 | 52 | 564 | 139 |
| Ores & Metals | 1,828 | 129 | 120 | 4 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Textiles | 3,821 | 2,898 | 2,741 | 2 | 47 | 103 | 20 | 24 | 5 | 3 | 18 | 28 |

Source: UN COMTRADE

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: UN COMTRADE

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 Eduardo 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. (World Trade Organization, “Dispute Settlement: The Disputes—Chronological list of dispute cases,” n.d., 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)” (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 Esteveordal and Theodore Kahn, *Pathways to China: The Story of Latin American Firms in the Chinese Market* (Washington, D.C.: Inter-American Development Bank, 2012).

CHAPTER 3:

Peru's Economic Boom and the Asian Connection

Cynthia A. Sanborn and Alexis Yong

To tell the truth, I also light a candle every day and pray that China's economy does not fall down on us.

—Luis Miguel Castilla, Peruvian minister of economics and finance, 2011¹

In the last decade, Peru has been one of Latin America's most impressive success stories, achieving sustained economic growth under political democracy, cutting poverty in half, and producing an expanding new middle class. The country's recent boom has been driven in large part by global demand for the minerals and other primary commodities that Peru exports, as well as by sound macroeconomic policymaking and a strong commitment to international trade. Peru's expanding relations with Asia—especially with China, Japan, and South Korea—have been a key part of this story.

For resource-rich countries like Peru, the demands of a growing China in particular have offered exceptional opportunities to attract new investment and expand markets for traditional exports. In recent years, copper, iron, gold, and other minerals have accounted for about 60 percent of total Peruvian exports, 13 percent of total foreign direct investment (FDI),² and 14 percent of total tax revenues.³ Although Western multinationals have accounted for most mineral investment and development in Peru since the 1990s, China is the main destination for Peruvian minerals, and Chinese investment in this sector has increased significantly. Investors from Japan, South Korea, and other Asian countries are also present in Peru's expanding portfolio of mineral, gas, and oil concessions.

The global rush for natural resources has also revived long-standing concerns in Peru about the risks of excessive dependency on primary commodity exports, and the structural challenges to achieving a more diversified and productive economy. Indeed, the main motivation behind Peru's aggressive pursuit of free trade agreements (FTAs) with China (2009) and sixteen other countries and economic regions—and participation in multilateral trade agreements and alliances—has been to diversify the country's trade and investment opportunities. Dependency on mineral exports also raises concerns about the human rights and environmental implications of large-scale extractive activity, as rising conflicts between foreign companies and local communities have generated considerable political and economic costs.

Latin American policymakers are aware of the risks of primary commodity dependency and are anxious to overcome them. This anxiety has driven involvement in the Pacific Alliance and the Trans-Pacific Partnership, as well as initiatives within South America—some older than others, such as the Andean Community (1969)—to promote value-added exports between member countries, and more recently, the process of physical integration within the Initiative for Integration of Regional Infrastructure. The proliferation of bilateral trade agreements and domestic initiatives to diversify productive structure and bolster nontraditional exports are also reactions to a history of primary commodity dependency; as are the numerous academic initiatives aimed at understanding Latin America's new Asian partners, in order to take fuller advantage of these complex and evolving relationships.

This chapter aims to contribute to the regional discussion through a closer analysis of the Peruvian case. It poses the following general questions: What has been the nature of Peru's economic and political relations with the major Asian countries, especially in the last decade? Have trade relations with Peru's major Asian partners helped or hindered the diversification of Peru's economy? Have Asian investments in Peru encouraged linkages between the natural resource sector and the rest of the economy? How, or to what extent, has new Asian investment affected Peru's efforts to achieve global standards for transparency and corporate social responsibility in its mining industry? Finally, how have Peruvian policymakers and the country's private sector responded to these new opportunities for engagement with Asia? Have they been able to shape these relations in Peru's favor?

This chapter addresses these questions across four main sections, drawing on the combined experience of researchers at the Centro de Investigación de la Universidad del Pacífico (CIUP) and the APEC [Asia-Pacific Economic Cooperation] Study Center at the same university.⁴ The first section provides a brief summary of Peru's historical and political relations with the major Asian countries, which are important for understanding current relations. The second section presents a general overview of Peruvian trade with selected Asian partners, and the third section analyzes the recent state of Asian direct investment in Peru. In the latter section, special attention is given to the growing Chinese presence in Peru's extractive industries. The chapter ends with final remarks about the Peruvian case in a regional context.

PERU-ASIAN RELATIONS: A BRIEF HISTORY

Peru's relations with Asia date to the nineteenth century, when thousands of Chinese and Japanese workers were brought to the country in the wake of the abolition of slavery, to labor on the large coastal plantations and other venues. Asian immigrants and their descendants have experienced exploitation and discrimination throughout Peruvian history, yet over time they have also achieved considerable economic success and relatively high levels of educational and professional achievement. Today, Peruvians of Asian descent constitute an estimated three to five percent of the population, and their influence on the broader society and culture is widespread. Although Peru now has diplomatic and trade relations with more than thirty countries across broader Asia, its relations with Japan and China are especially strong due to these historical ties, which are frequently cited by each nation's leaders.

China and Peru

China has had a presence in Peru for over 160 years.⁵ Between 1849 and 1874, some 100,000 Chinese men were brought to Peru as *coolies*, or indentured agricultural workers, to labor on the sugar plantations and rich guano islands.⁶ Chinese workers also helped build railroads and extract rubber and gold from the Amazon River Basin. In 1874, Peru and China signed

the Treaty of Friendship, Trade, and Navigation, and in 1884 China sent its first diplomat to Peru. Free immigration continued until 1909, when it became officially regulated, and then it was prohibited in 1930.⁷

Throughout the twentieth century, however, Chinese immigrants continued to arrive, and the influence of Chinese people and culture on Peruvian society expanded. In the twenty-first century, a larger wave of immigrants came, bringing with them a huge influx of Chinese goods and enterprises. One of the most visible signs of this influence is Chinatown, or El Barrio Chino, in downtown Lima, which houses a large conglomeration of businesses and shops owned or managed by recent Chinese immigrants or by Peruvians of Chinese descent (also called Tusan).⁸ Today Peru has the largest ethnic Chinese population in Latin America, and many of its members have renewed ties with their ancestors' homeland.

Peru's diplomatic ties with the People's Republic of China can be traced back to 1971, when Peru became the third country in Latin America (after Cuba and Chile) to recognize the communist state. For years, however, relations were mainly focused on economic and technical cooperation. In 2004, Peru was among a group of Latin American countries that granted market economy status to China. In 2008, bilateral relations entered a new phase, when then-Chinese president Hu Jintao and his Peruvian counterpart, Alan García, exchanged visits and established a "strategic partnership," which in 2009 led to the Peru-China Free Trade Agreement. By 2011, as the countries celebrated the fortieth anniversary of the establishment of their diplomatic relations, the People's Republic of China overtook the United States as Peru's main trading partner. Moreover, in April 2013, the two nations' leaders celebrated their "comprehensive strategic partnership" by signing eleven new bilateral accords, aimed to optimize their trade infrastructure; strengthen cooperation in agriculture, infrastructure, and minerals; increase cooperation for social development; and deepen their ties beyond the current trade structure.

Today, about a hundred Chinese firms are legally registered to operate in Peru, and in 2011 the Association of Chinese Enterprises was formed, with forty-three members and support from the Chinese Embassy in Peru.⁹ This eleven-member council includes representatives of prominent state-owned oil and mining companies (Sapet; the China National Petroleum Company,

CNPC; Shougang; Chinalco; and Minmetals), banks, and technology companies. Peru is now the top location for Chinese mineral investment in Latin America, with at least fourteen Chinese firms holding important concessions, although to date the Chinese own only one operating mine.

Japan and Peru

Peru was the first Latin American country to establish diplomatic relations with Japan, in 1873, and the first country to admit Japanese immigrants, in 1899.¹⁰ The first group of Japanese families arrived in 1899, followed by several waves of immigrants from Okinawa, Gifu, Hiroshima, Kanagawa, and Osaka. Most immigrants initially came to work on plantations, though the majority moved to cities when their contracts expired; by 1936, Japanese immigrants represented 45 percent of Peru's total foreign population.¹¹ Today, Peru has the second-largest Japanese-descendent ethnic community (or Nikkei) in Latin America after Brazil. Although they make up less than 1 percent of the total population, the community is highly concentrated in Lima, where they have established strong cultural and educational institutions.

Geopolitical factors have shaped the lives of many Japanese Peruvians. During World War II, the Peruvian government collaborated with the United States by deporting hundreds of Japanese Peruvians to U.S. internment camps, confiscating their homes and businesses. Although eleven other Latin American countries did the same, 84 percent of the estimated 2,118 imprisoned Latin American Japanese came from Peru, and very few returned. While roughly 10,000 Japanese remained in Peru during the war, prominent leaders of the community were blacklisted, their businesses were boycotted, and their schools and newspapers were closed.¹²

In the 1960s, bilateral relations between Peru and Japan improved, as the latter turned to Latin America in search of the raw materials necessary for its postwar reindustrialization. In the following years, trade between the two countries expanded considerably; Japan became Peru's second-largest export market and third-largest import supplier. Many Japanese enterprises were willing to engage in joint ventures and work with government officials to develop new resources in exchange for long-term supply contracts.¹³

(About 80 percent of Peruvian exports to Japan were minerals.) Although by the 1980s Peru was also exporting fishmeal, oil, and coffee to Japan, international and domestic factors sent Peru into a severe crisis, and drove most new Japanese investments elsewhere.

Surprisingly, it was a politician of Japanese descent, Alberto Fujimori, who presided over Peru's emergence from the crisis of the 1980s. When he first ran for the presidency in 1990, there was a revival of anti-Japanese sentiment among the traditional elite, as Fujimori's successful electoral campaign stressed his humble immigrant story and promised to secure generous assistance from his parents' homeland. The incorporation of other prominent Japanese Peruvians to the Fujimori cabinet also brought new attention to this community. Elite fears subsided considerably, however, as Fujimori's administration reestablished order, enacted drastic economic reforms, and reopened the country to foreign trade. Peruvian relations with Japan reached a high point during his administration (1990–2000). Although some tensions arose between the two countries after Fujimori fled to Japan in 2000, taking refuge in his dual citizenship to escape extradition on human rights and corruption charges, subsequent bilateral relations have been positive.

In summary, Peru has deep historical ties to China and Japan, which facilitate current efforts to promote broader trade and investment. Recent Peruvian presidents have paid state visits to both countries and have taken care to celebrate these historical bonds. Has the cultivation of these historical ties paid off in economic terms? The next two subsections address this question.

South Korea and Peru

Official relations between Peru and South Korea began on April 1, 1963, with the signing of the Joint Communiqué on the Establishment of Diplomatic Relations between the Republic of Peru and the Republic of Korea. Since then, progress has been exponential and the bilateral relationship has been extended to the areas of economic, commercial, cultural, and political cooperation.

The signing of the FTA on March 21, 2011, marked a turning point in the bilateral relations between Peru and South Korea. Mutual visits

between the Peruvian and South Korean authorities, including a visit to Seoul in May 2012 by Peruvian president Ollanta Humala, reinforced these relations.¹⁴ South Korea foreign minister Kim Sung-Hwan visited Lima, promising to promote technology transfer projects and to elevate the relationship to a Comprehensive Strategic Partnership framework.¹⁵ A stated priority for both heads of state was the development of new investments, as well as the exchange of knowledge and technology. Fifty years after the initial establishment of diplomatic ties, relations between Peru and South Korea are in their prime.¹⁶

In this context, South Korea has made significant government-to-government arrangements with Peru over the last three years through the Korean Trade-Investment Promotion Agency and the Korean International Cooperation Agency. Among the most important deals is the sale of twenty KT-1 basic trainer aircrafts from Korea Aerospace Industries to the Peruvian Air Force, as part of a technology transfer initiative accompanied by scholarships, student facilities, export promotion, and industrial policy seminars carried out by the Korean Development Institute. As mentioned by Ambassador Park Hee-Kwon on November 2012, “Peru is therefore an important partner for South Korea, which sees it as a regional hub to increase its scientific research and investment in Latin America.”¹⁷

PERU’S TRADE WITH ASIA

In the last decade, trade with Asia enabled much of Latin America to withstand the global financial crisis of 2008–9 and to sustain positive growth rates. Between 2004 and 2008, trade between Asia and Latin America grew at an average annual rate of 25.7 percent, while exports from Latin American countries to the Latin American regional market, the European Union, and the United States grew at 24.8 percent, 20.8 percent, and 20.9 percent, respectively.

Although Asia has become the premier destination for Latin American exports, most of this trade is concentrated in a few countries. By 2011, six Asian countries accounted for 79.4 percent of Latin America’s exports to Asia, with the primary destinations being China (47.4 percent), Japan (14.3

percent), and South Korea (7.9 percent). The overall importance of these three countries in Asia–Latin America trade remained nearly the same during the period 1990–2011, with a slight increase in 2006–11. However, there has been a clear change in their *relative* importance as destinations for Latin American exports over the last twenty years. While in 1990 Japan was the recipient of 48.2 percent of Latin American exports to Asia, and China just 6.1 percent, two decades later the roles were reversed.

Obviously, this pattern reflects China's gravitational economic force, its hunger for natural resources, and the ability of Latin American countries to feed that appetite. Indeed, the increase in commodity prices in recent years has influenced trade value data. As a result, the relative importance of some export destinations is overvalued due to their trade pattern as commodities consumers.

Peru's trade with Asia follows the general Latin American pattern. In the last two decades, exports to the three top destination countries (China, Japan, and South Korea) have accounted for nearly 83 percent of Peru's total trade with Asia, a trend that became even more pronounced in 2006–11. By 2011, Peruvian exports to China, Japan, and South Korea accounted for nearly 92 percent of its exports to Asia.

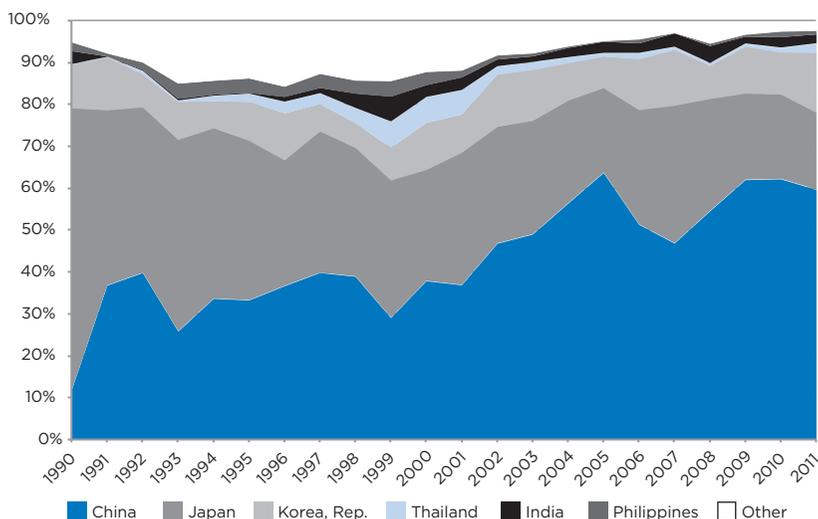
Although these three countries have remained the most significant export partners for Peru in the last twenty years, their relative importance has shifted. Figure 1 shows a relative decrease in the export share from Peru to Japan and a continuous increase in exports to China. In 1990, Peru's exports to Japan accounted for 67 percent of its total exports to Asia, while China accounted for 9 percent. By 2011, Japan accounted for 18 percent, while China purchased 59 percent of Peru's exports to Asia. South Korea, however, remained the most consistent, at 10 percent of Peru's Asia exports throughout this period, albeit with a strong increase in 2011, when it reached a historical record of 14 percent of total Asian exports. As seen below, South Korea plays a significant role not only in the expansion of Peruvian exports with a higher technological level, but also in bilateral cooperation at the government level.

Apart from the three countries mentioned above, Peru has strong commercial links with the other countries in the Asia-Pacific region. Peru has a history of trade with Thailand, the Philippines, Malaysia, and Indonesia,

and the subscription of Peru into APEC in 1997 saw a relatively important increase in the share of Peruvian trade with these countries. However, the effects of the Asian and Russian financial crises in 1997 and 1998 halted the emergent development of these commercial and investment relations.

As mentioned in the previous section, China has clearly been the most important and dynamic trading partner for Peru, representing its single largest export market and second-largest source of imports after the United States. According to ADEX, the guild of Peruvian exporters, in 2012 China bought \$7.7 billion worth of Peruvian goods, 17 percent of the total exports from Peru.¹⁸ Moreover, the total exports from Peru to China grew at an average annual rate of 20.6 percent between 1995 and 2011, for cumulative growth of 18.9 times the 1995 total, in contrast to Peruvian exports to the world as a whole, which grew 7.4 times during the same period.

Figure 1. Peru's Exports to Asia, by Destination Country, 1990-2011 (percentage of total exports to Asia)



Source: Authors' calculations based on UN COMTRADE, <http://comtrade.un.org>.

Table 1. Top 5 Peruvian Exports and Imports to or from China in 2011

| Level of Technological Sophistication | Sector | Commodity Code (HS) | Commodity Description | Trade Value (dollars) |
|---------------------------------------|-------------------------------------|---------------------|--|-----------------------|
| Exports | | | | |
| NRBM | Mining & oil | 260300 | Copper ores and concentrates | 2,417,569,333 |
| PG | Fishing | 230120 | Flour or meal, pellet, fish, etc., for animal feed | 1,042,228,645 |
| NRBM | Mining & oil | 260111 | Iron ore, concentrate, not iron pyrites, unagglomerate | 1,000,887,459 |
| NRBM | Mining & oil | 260700 | Lead ores and concentrates | 723,723,644 |
| PG | Mining & oil | 740311 | Copper cathodes and sections of cathodes unwrought | 623,283,133 |
| Imports | | | | |
| HTM | Metal,- mechanical & electronics | 847120 | Digital computers with CPU and input-output units | 405,270,468 |
| HTM | Metal,- mechanical & electronics | 852520 | Transmit-receive apparatus for radio, TV, etc. | 375,250,366 |
| MTM | Metal,- mechanical & electronics | 871120 | Motorcycles, spark ignition engine of 50-250 cc | 142,141,509 |
| HTM | Various (including jewelry, crafts) | 852810 | Color television receivers/monitors/projectors | 126,808,238 |
| LTM | Various (including jewelry, crafts) | 950390 | Other toys | 109,711,716 |

Note: PG = Primary goods; NRBM = natural-resources-based manufactures; LTM = low-technology manufactures; MTM = medium-technology manufactures; HTM = high-technology manufactures.

Source: Authors' calculations based on UN COMTRADE, <http://comtrade.un.org>.

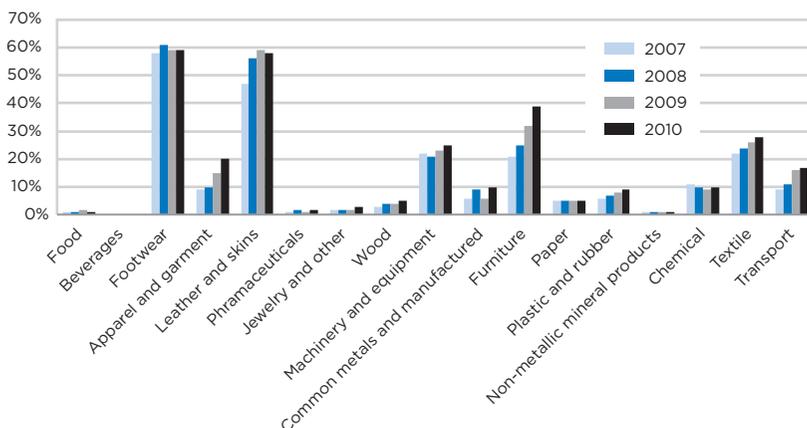
Peruvian exports to China remain largely primary goods, as seen in table 1, with just four products—copper, iron, lead, and fishmeal—making up 83 percent of the total, which explains the positive overall trade balance. The relative share of these goods has changed since the 1990s, however. As recently as 1997, nearly 79.9 percent of Peruvian exports to China came from the fishery sector, while about 16.2 percent consisted of minerals and oil. However, as seen in table 2, the shares were reversed in 2011; fisheries accounted for 17.5 percent, while mineral and oil products together were 78.5 percent. China’s enormous need for minerals in its process of industrialization and urbanization has driven this shift in the export pattern.

Meanwhile, Peru’s imports from China have increased more than those from any other country.¹⁹ In 1993, Peru bought \$90 million in Chinese goods, while in 2012 it bought nearly \$7.8 billion, eighty-seven times more, while total worldwide imports to Peru increased ten times. From 2001 to 2011, imports from China grew by 33 percent.

Not surprisingly, Chinese imports do compete with local producers in such sectors as footwear, textiles and garments, and metal products, where the trade balance remains negative. Although their trade relationship is highly asymmetric, this has not exactly led to “deindustrialization” in the Peruvian case. The overall effect of an expanded market and better access to competitive intermediate goods, for example, appears to outweigh the negative effects of Chinese imports on specific sectors. A recent study by Cárdenas and Gavilano,²⁰ for example, found that Chinese import penetration had a positive effect on real wages in companies in sectors not directly competing with China, and less impact on the wages of workers in those sectors that do compete directly.²¹ Firms that do not compete with Chinese products benefit from imports of intermediate goods at lower prices and increase their exports by extended market effect and better trade relationship. As seen in Figure 2, even in sectors such as apparel and textiles—where Chinese penetration since 2007 has reached 20 percent and 28 percent, respectively—many firms tend to manufacture products with a large share of imported components. Hence, the detrimental effect of Chinese competition should be weighed at each stage of the production process.

In this sense, the FTA that Peru has signed with China and other partners have been very important, motivating more Peruvians to look across

Figure 2. Penetration of Imports from China into the Peruvian Market, by Sector



Source: Carolina Cárdenas and Giuliano Gavilano, “El Efecto de las Importaciones Provenientes de China en los Salarios Reales: Una Aproximación Microeconómica para el Caso Peruano entre los Años 2007 y 2010,” in *Investigación Económica 2* (Lima: Universidad del Pacífico, 2013).

the Pacific for new business opportunities. Peru’s FTA with China—covering merchandise, services, and investment—allows 83.5 percent of Peruvian exports to enter China with zero tariffs.²² Of particular importance, this agreement also provides some protection for those Peruvian products that are most vulnerable to Chinese competition, such as textiles, 56 percent of which were excluded from the tariff elimination schedule.

While FTAs alone cannot turn the tide of history with regard to primary export dominance in Peru, they have generated new dynamism and modest but important diversification of trade. Within the first year of implementation of the FTA with China, for example, the number of Peruvian exporters to the Asian giant grew by 30 percent, to about five hundred companies, and total trade with China increased 25 percent. Although 95 percent of these were traditional exports, Peru exported 140 new nontraditional products to China in 2010, particularly in the chemical, agricultural, and fishing sectors, which were particularly dynamic. As

pointed out by the Peruvian minister of agriculture, Milton Von Hesse, at the First Meeting of Ministers of Agriculture of China, Latin America, and the Caribbean, Peru's agricultural exports to China grew 8.7 times after the FTA went into effect.²³

If we analyze the Peruvian export structure by the technological level of the traded goods, we can also see (in table 3) that during the last decade, Peru has increased the technological level of its exports. In 1997, 83.6 percent were pure primary goods (PG), while 14.4 percent were what are called "natural-resource-based manufactures" (NRBM). By 2011, this pattern had changed, with 28.9 percent PG, and 70.5 percent NRBM. Although the majority of the latter are also mineral-related, the highest growth rates in this category were in foods and agro-based manufactures. Between 2005 and 2010, NRBM and the medium-technology manufactures (MTM), grew at 28.9 percent and 25 percent a year, respectively.

The structure of exports to Japan follows the same pattern as that of China. Overall, Peruvian exports to Japan grew at an average annual growth rate of 10.3 percent from 1995 to 2011, mostly concentrated in fisheries, mining, and oil products. In 1997, fishery exports to Japan accounted for 24.6 percent of the total, while mining and oil were 57.5 percent. Since then, mining and oil exports have increased, to 76.2 percent as of 2011. However, there has also been an interesting increase in the participation of the chemicals sector, which in 1997 accounted for just 3.9 percent of exports to Japan, by 2008 was 8.0 percent, and in 2011 had grown to 11.5 percent of the total. Imports from Japan to Peru remain very concentrated in the chemical, metal-mechanics, and electronics sectors.

Exports to South Korea also followed this pattern until 2008, concentrated in fisheries, mining, and oil products. Since then, however, the Peruvian chemical industry has been increasing its total exports to South Korea. Furthermore, according to UN Comtrade data, South Korea was the destination with the highest average annual growth rate for both high-technology manufactures (HTM) and medium-technology manufactures (MTM). Between 2005 and 2010, exports of high-technology goods to South Korea grew at 40.9 percent, while exports of the same technology sector to Japan and China grew at -11.9 percent and 15.7 percent, respectively, over the same period of time (see table 4). It bodes well for the prospects of

Table 2. Peru Exports by Sector to Asia's Main Trading Partners and the World, 1997, 2008, and 2011 (percentage share of total exports and imports to main destinations)

| Sector | China | | | Japan | | | South Korea | | | World | | |
|---|-------|---------|---------|-------|---------|---------|-------------|-------|---------|---------|----------|----------|
| | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 |
| Agriculture and livestock | 1.8 | 0.7 | 0.7 | 9.7 | 1.7 | 2.7 | 23.0 | 4.1 | 3.2 | 12.0 | 8.3 | 9.9 |
| Chemical | 0.0 | 0.5 | 2.1 | 3.9 | 8.0 | 11.5 | 5.4 | 0.5 | 13.7 | 8.1 | 15.0 | 15.6 |
| Fishery | 79.9 | 22.5 | 17.5 | 24.6 | 9.7 | 8.7 | 10.1 | 7.3 | 4.3 | 20.8 | 7.7 | 6.9 |
| Metals, mechanical, and electronics | 0.0 | 0.1 | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.9 | 1.1 | 1.0 |
| Mining and oil | 16.2 | 74.2 | 78.5 | 57.5 | 79.7 | 76.2 | 58.8 | 86.9 | 78.2 | 45.2 | 59.2 | 60.9 |
| Textiles and leather | 2.0 | 0.3 | 0.3 | 3.3 | 0.7 | 0.9 | 2.6 | 1.1 | 0.5 | 8.2 | 6.6 | 4.4 |
| Wood and paper | 0.0 | 1.7 | 0.8 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 1.4 | 0.9 |
| Various (jewelry, crafts) | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.6 | 0.6 | 0.4 |
| Total Peru exports (millions of US dollars) | 490.6 | 3,735.0 | 6,961.4 | 473.6 | 1,860.0 | 2,174.6 | 91.5 | 552.0 | 1,694.9 | 6,759.4 | 31,288.2 | 45,636.1 |

Note: PG = Primary goods; NRBM = natural-resources-based manufactures; LTM = low-technology manufactures; MTM = medium-technology manufactures; HTM = high-technology manufactures.

Sources: Sectors are classified by levels of technological sophistication, as specified by Sanjaya Lall, "The Technological Structure and Performance of Developing Country Manufactured Exports, 1995–1998," *Oxford Development Studies* 28, no. 3 (2000): 337–69; authors' calculations based on UN Comtrade, <http://comtrade.un.org>.

further expanding nontraditional exports from Peru to South Korea that this shift began before the FTA was signed between the two countries in March 2011.

As we have seen, Peruvian exports to Asia have been historically concentrated in primary commodities, especially minerals and hydrocarbons. To the extent that Asian demand for these resources is higher than the world average (60.9 percent of total Peruvian world exports are minerals, versus 78 percent to Asia), one can say that this demand contributes to reinforcing Peru's primary commodity orientation. However, Peru has made notable efforts to offset this trend, through bilateral trade agreements, multilateral alliances, and the promotion of nontraditional exports. Although the trade pattern with China is heavily concentrated in mining and related products, China has also increasingly become a destination for Peruvian manufactures, with particularly dynamic growth in sectors such as chemicals and agro-industry. Moreover, Peruvian manufactured exports have grown at a faster pace with China than with other destination countries; in other words, there has been an overall positive evolution of China as a destination for value-added exports. The challenge for Peru is to nurture this trend, taking more energetic measures to assure that as Chinese demand evolves, it will become a market for higher-value-added Peruvian exports.

ASIAN INVESTMENT IN PERU

It is difficult to trace the total amount of FDI from Asian countries into Latin America because of the tendency to redirect such investments across the Americas through tax havens in Panama and the Caribbean. However, it appears that the region's appeal as an Asian FDI recipient today is less than it has been in the past.²⁴ Without considering tax havens, Brazil remains the top destination for Asian investment, which now largely comes from China and South Korea.²⁵ This is not surprising, given that Brazil has the largest domestic market in the region, as well as strong trade relations with its MERCOSUR partners and other South American countries for the supply of manufactured goods and raw materials. Mexico is also a major destination for Asian FDI, in large part because of its role as a gateway to

Table 3. Peru's Export Structure to Asia's Main Trading Partners and the World, 1997, 2008, and 2011 (percentage share of total exports and imports to main destinations)

| Sector | China | | | Japan | | | South Korea | | | World | | |
|--|-------|---------|---------|-------|---------|---------|-------------|-------|---------|---------|----------|----------|
| | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 | 1997 | 2008 | 2011 |
| PG | 83.6 | 25.2 | 28.9 | 60.0 | 24.9 | 25.6 | 73.7 | 9.8 | 18.9 | 61.5 | 47.1 | 49.9 |
| NRBM | 14.4 | 74.4 | 70.5 | 36.7 | 74.4 | 73.5 | 24.4 | 89.2 | 80.7 | 23.7 | 41.6 | 41.5 |
| LTM | 0.8 | 0.1 | 0.1 | 3.0 | 0.6 | 0.8 | 1.7 | 1.0 | 0.4 | 10.3 | 8.5 | 5.9 |
| MTM | 1.1 | 0.3 | 0.4 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 2.1 | 2.2 | 2.2 |
| HTM | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.3 | 0.3 |
| Total Peru exports (millions of dollars) | 490.6 | 3,735.0 | 6,961.4 | 473.6 | 1,860.0 | 2,174.6 | 91.5 | 552.0 | 1,694.9 | 6,759.4 | 31,288.2 | 45,636.1 |

Note: PG = Primary goods; NRBM = natural-resources-based manufactures; LTM = low-technology manufactures; MTM = medium-technology manufactures; HTM = high-technology manufactures.

Sources: Sectors are classified by levels of technological sophistication, as specified by Sanjaya Lall, "The Technological Structure and Performance of Developing Country Manufactured Exports, 1995–1998," *Oxford Development Studies* 28, no. 3 (2000): 337–69; authors' calculations based on UN Comtrade, <http://comtrade.un.org>.

the U.S. and Canadian markets through the North American Free Trade Agreement, but also because of its Economic Partnership Agreement with Japan signed in 2005.²⁶

Historically speaking, Peru has been an important destination for Asian FDI. In the 1960s, Peru was the number two receiver of Japanese FDI in Latin America. However, this position gradually declined over the years. By 2012, the primary foreign investors in Peru were Spain (24.3 percent), the United States (13.3 percent), and South Africa (7.7 percent); the main sector receiving this investment was mining, with 23.9 percent of the total. China now leads Asian investment in Peru; it is responsible for 3.5 percent of the \$22.7 billion total FDI in Peru in 2012.²⁷

Table 4. Average Annual Growth Rate of Peru's Export Structure to Asia's Main Trading Partners and the World, 1995, 2000, and 2010 (percentage share of total exports and imports to main destinations)

| Sector | China | | | Japan | | | South Korea | | | World | | |
|--------|-----------|-----------|---------|-----------|-----------|---------|-------------|-----------|---------|-----------|-----------|---------|
| | 1995–2000 | 2000–2005 | 2005–10 | 1995–2000 | 2000–2005 | 2005–10 | 1995–2000 | 2000–2005 | 2005–10 | 1995–2000 | 2000–2005 | 2005–10 |
| PG | 5.5 | 17.2 | 15.7 | -6.8 | 7.4 | 4.2 | 5.5 | -16.7 | 25.0 | 4.7 | 15.6 | 14.6 |
| NRBM | 3.9 | 66.9 | 28.9 | -5.9 | 21.1 | 35.1 | 4.5 | 31.9 | 32.9 | 2.6 | 31.4 | 18.9 |
| LTM | 14.0 | 4.2 | 18.2 | -9.1 | 0.4 | 1.4 | -19.7 | 14.5 | 12.6 | 8.3 | 15.3 | 5.2 |
| MTM | -41.0 | 78.9 | 25.0 | 37.5 | -17.6 | 23.4 | 49.3 | 82.8 | 35.8 | 8.8 | 19.0 | 16.8 |
| HTM | 878.1 | 61.2 | 15.7 | 1471.8 | -1.8 | -11.9 | 58.1 | -17.3 | 40.9 | 13.7 | 11.3 | 11.2 |

Note: PG = Primary goods; NRBM = natural-resources-based manufactures; LTM = low-technology manufactures; MTM = medium-technology manufactures; HTM = high-technology manufactures.

Sources: Sectors are classified by levels of technological sophistication, as specified by Sanjaya Lall, “The Technological Structure and Performance of Developing Country Manufactured Exports, 1995–1998,” *Oxford Development Studies* 28, no. 3 (2000): 337–69; authors’ calculations based on UN Comtrade, <http://comtrade.un.org>.

Japan's Investments in Peru: Learning from the Past

In the 1960s, Japanese companies went to Peru to ensure market share against possible protectionist measures established by the import-substitution industrialization model being implemented at the time. Their idea was that Peru might serve as a platform to expand vehicle assembly (for Toyota and Nissan) and to produce kitchen condiments (Ajinomoto) for the rest of the region.

During the same period, there were also significant Japanese investments in the exploitation of Peru's natural resources. In the period 1973–75, a consortium of Japanese companies (Mitsui Mining and Smelting and Nippon Mining) was positioned to purchase at least three major copper projects: Katanga, Santa Lucia, and Michiquillay.²⁸ However, the majority of these did not materialize due to differences between the consortium and the Peruvian government regarding the management of foreign capital and

labor policies. In the oil sector, Mitsui, Marubeni, and Mitsubishi established JAPECO (the Japan-Peru Oil Corporation) to work alongside the state entities Cofide and Petroperu to build the North-Peru oil pipeline.

Although considerable Japanese FDI flowed to Peru between 1965 and 1975, in subsequent years their investment and trade relations decreased abruptly. As mentioned above, these were crisis years both in Peru and on the international level. However, during the 1990s, political and economic cooperation between Peru and Japan was very active. Japan helped then-president Fujimori revive Peru's standing in the international community, facilitating meetings with international organizations and Peru's principal creditor nations. Japan supported Peru in its adhesion to APEC in 1997, after which Peru became the beneficiary of a series of technical assistance programs. However, the Japanese private sector remained largely absent from Peru.²⁹ Few Japanese manufacturing companies retained operations in Peru, and those that came in the 1990s opened primarily representative offices. Although there were small mining investments during those years, they were mainly in partnership with local or foreign companies.³⁰

González Vigil and Shimizu propose four main factors that explain the loss of Peru's investment and trade position with Japan between the 1970s and 1990s: (1) human insecurity and the presence of terrorism; (2) high economic instability, as a result of mishandled economic policies in the second half of the 1980s; (3) geopolitical insecurity and strategic distrust, which have marked Peru's relationship with the United States since the 1970s; and (4) erroneous trade policies followed by Peru during the period 1975–2000.³¹ Additionally, Kamiya details the recession in Japan since 1989 and the so-called lost-decade syndrome as external factors that prevented Japanese companies from getting involved in investments in Peru, both in the manufacturing sector and in the privatization of public enterprises.³²

Given the mistakes and limitations of Peruvian policies, as well as negative external factors, other countries in Latin America benefited more from Japanese investment. Examples include the relocation of automobile manufacturing to Colombia and the takeover of the maritime and air transportation sectors by Chilean companies. These phenomena, in turn, had longer-term detrimental effects on Peruvian production and resulted in a loss of competitiveness in global markets.³³

By 2013, the main Japanese investments in Peru were in the mining sector. Table 5 summarizes the major current and announced investments by Japanese companies. In almost all of these, Japanese companies are involved as minority shareholders alongside other foreign investors.

South Korea's Investments in Peru: Partnership for the Future

Closer Peruvian–South Korean diplomatic ties have helped to promote new investments and business ventures. An Invest in Peru road show held in Seoul in April 2013 attracted considerable interest among South Koreans, for example, for investing in Peru's transportation infrastructure (e.g., the Intelligent Transportation System and Line 2 of the Lima Public Transport Bus Network) and in its energy-related technical associations (the South Andean Gas Pipeline), and in sharing experiences in industrial development.³⁴

Despite efforts by both governments to foster technology transfer and industrial development, the majority of investment by South Korean firms in Peru to date has focused on the extractive industries (see table 6). Oil and gas operations have been led by SK Energy, which has undertaken projects in the Peruvian Amazon in partnership with the much larger CNPC. In the mining sector, South Korea's presence is still small when compared with current and projected Chinese and Japanese investment; notably, however, South Korean interests have participated in the Mina Justa project with one of the main economic groups in Peru.

For Peru, the long-term prospects for South Korean investment should be concentrated in areas of bilateral cooperation that would help improve domestic production chains and help expand Peru's industrial base, with higher value added and returns. In spite of the efforts made by the Peruvian government to expand trade with South Korea, the private sector is still looking for clearer incentives to follow this initiative.

China's Investments in Peru: Learning by Doing

Chinese investment in Peru was virtually nonexistent until 1992, when the Shougang Group bought the state-owned iron ore company Hierro Peru. At the time it was the largest Chinese investment in Latin America,

Table 5. Current and Announced Investments by Japanese Companies

| Sector | Project | Japanese Company | Investment ^a (millions of dollars) | Comments |
|--------|---------------------------------------|--|--|---|
| MINING | Bayovar ^b | Mitsui & Co. Ltd. | 275 (in 2010) | Holds 25 percent of Bayovar phosphate mine project. Bought from Vale (Brazil) |
| | Huanzala ^c | Mitsui Mining & Smelting Co. Ltd. | 50 (in 2011) 38 (in 2010) 21 (in 2009) | Through its subsidiary Compañía Minera Santa Luisa S.A. |
| | Antamina ^d | Mitsubishi | N.A. | BHP Billiton (33.75 percent) Xstrata (33.75 percent) Teck (22.5 percent) Mitsubishi Corporation (10 percent) |
| | Quellaveco ^e | Mitsubishi | 3300 | Anglo American Quellaveco S.A. (81.9 percent). Mitsubishi (18.1 percent) Environmental impact assessment approved. Probably starting operations in 2016 |
| | Quechua (Espinar, Cusco) ^f | Pan Pacific Copper Corp., JX Nippon Mining Holdings, Mitsui Mining & Smelting Co. Ltd. | 490 | Exploration |

^aInvestment publicly reported. The information may relate to the total amount projected to be invested in the project or the amounts to be disbursed by period, in which case the year of planned disbursements is indicated in parentheses.

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^bReuters, "Brazil Vale Sells Bayovar Stake to Mosaic, Mitsui," March 31, 2010; *Gestión*, "Japanese Investment in Peru Bordering the US\$6 billion," February 11, 2011.

^cINEI, "Investment in Mining by Company: 2009–2011."

^dAntamina www.antamina.com.

^eMinistry of Energy and Mines, "Expected Portfolio of Mining Projects," January 2013.

^fMinistry of Energy and Mines, "Expected Portfolio of Mining Projects," January 2013.

Table 6. Current and Announced Investments by South Korean Companies

| Sector | Project | South Korean Company | Investment ^a (millions of dollars) | Comments |
|-----------|--|--|--|---|
| OIL & GAS | Block Z46 (Trujillo basin, La Libertad) ^b | SK Energy | 482.62 | Exploration in progress |
| | Block 8 (Trompeteros y Yanayacu, Loreto) ^c | SK Energy, Daewoo, Korea National Oil Corporation (KNOC) | n.a. | Project in production phase. South Korean interest is divided in: SK Energy, 8.3%; Daewoo, 11.6%; Korea National Oil Corporation (KNOC), 20%. Pluspetrol Norte S.A. holds 60% of the project and is the property of Pluspetrol Resources Corporation (55%) and CNPC (45%) |
| | Block 115 (Date del Marañón, Loreto) ^d | Korea National Oil Corporation (KNOC) | n.a. | Project in exploration phase. Korea National Oil Corporation, KNOC, 30%; Pluspetrol, 70%. |
| | Savia Peru Block Z-2B (Talara, Piura) ^e | Korea National Oil Corporation (KNOC) | n.a. | Korea National Oil Corporation (KNOC), 50%; Ecopetrol, 50%. Project in production/exploration phase |
| MINING | Mina Justa ^f | KoreaResources, LS-Nikko Copper | 744 | Environmental impact assessment approved. Starting operation in 2015 Brescia Group (CumbresAndinas), 70%; Korea Resources, 15%; LS-Nikko Copper, 15%. |
| | San Juan de Marcona, Pachapaqui ^g | Korea Zinc | 200 | In progress |
| | Desalination Plant - Cerro Lindo ^h | Doosan | n.a. | Scheduled for completion in 2013 |
| FISHERY | Pesquera Diamante S.A. acquisition ⁱ | Dongwon Industries Co | n.a. | Not confirmed |

^aInvestment publicly reported. The information may relate to the total amount projected to be invested in the project or the amounts to be disbursed by period, in which case the year of planned disbursements is indicated in parentheses.

Sources:

^bCentral Reserve Bank of Peru, "Inflation Report, March 2013."

^{c,d,e}Korea National Oil Corporation, Operations.

^f"Korean Firms' Investment in Peru Would Sum US\$6.600 Billion," *Andina*, August 12, 2011.

^gPeru 21, "South Korea Wants to Invest in the Energy Sector in Peru," February 26, 2012; Ministry of Energy and Mines, "Expected Portfolio of Mining Projects," January 2013.

^hDoosan, "Doosan Water Plants."

ⁱ"Reportedly Eyes Dongwon Fisheries, but Does Not Disclose Target Name," *Bloomberg Businessweek*, May 8, 2013.

at \$118 million, and the first state enterprise sold off by the Fujimori administration.³⁵ In 1993, Sapet, a subsidiary of the CNPC, also purchased some state-owned assets in the Peruvian oil industry. Nevertheless, fifteen years would pass before more significant Chinese investments would flow into Peru.

By the mid-2000s, the Chinese government's "Go Out" policies were taking effect in this region. In 2007 and 2008, three of Peru's largest new copper concessions passed into Chinese hands.³⁶ These included Toromocho, one of the world's richest copper claims, which required the relocation of an entire city along with considerable investment in environmental remediation. To date, at least fourteen Chinese firms, primarily state-owned but also some with private or mixed capital, have invested in mineral projects in Peru's Northern and Central Highlands as well as in hydrocarbons in the Amazon. In 2012, China was still only the tenth-largest foreign investor in Peru, but it had become the largest single investor by country in the mining sector, representing about 20% of total FDI in that sector. By early 2014, with the announced purchase of the Las Bambas project by China Minmetals, that figure increased to roughly 33 percent.³⁷ In the hydrocarbons sector, Chinese FDI represents nearly 40 percent after CNPC announced acquisition of the oil and gas projects in Peru belonging to Petrobras.³⁸ In the fishery sector, Chinese firms also account for over a quarter of the commercial fishing quota.

As seen in table 7, the majority of Chinese investments are concentrated in copper and iron, and since 2007 they have involved new concessions purchased directly or through the takeover of junior firms. The majority

is still in the exploration stages, though Toromocho—one of the largest Chinese investments to date, at \$4.82 billion—began operations in December 2013. Until that point, the only operating mine in Chinese hands was Shougang Hierro Perú.

Although extractive industry investments have dominated, Chinese investors have also begun to show interest in other sectors of the Peruvian economy. One well-known case was the application of Hutchison Port Holdings to an operations bid for the Port of Callao North Pier. Although the tender was won by APM Terminals, a subsidiary of the A. P. Moller-Maersk Group, there is interest from Chinese investors in entering the logistics sector and other areas related to the overall development of the Peruvian economy.³⁹

Interviews with businesspeople and diplomats from both countries suggest that there are numerous obstacles for Chinese state-owned firms and individual entrepreneurs wishing to invest more in Peru. Some of these are related to Peru's basic regulatory requirements for all investors, which may nonetheless seem especially cumbersome for those Chinese investors who are unfamiliar with the region. This includes tasks such as obtaining work visas, translating and officiating documents, and obtaining permits for various stages of operations. Tender processes for infrastructure investments also tend to be very complicated for Chinese investors. There are also some personal challenges for investors, such as long delays in obtaining visas for family members.

More specific obstacles to attracting investment from China stem from problems of compatibility between the Chinese and Peruvian tax and legal frameworks and financial systems. This mismatch is made worse by the lack of professionals on both sides with the appropriate language and cultural skills.

At a higher level, a serious challenge lies in the fact that although Peruvian policymakers have been successful at negotiating FTAs and other state-to-state accords, Peru does not seem to have as clear a strategy for following up on these opportunities. Moreover, the Peruvian state does relatively little to accompany, finance, or otherwise support private entrepreneurs in this process. Indeed, although nontraditional export promotion is a stated objective of the Peruvian authorities, it has not been given the kind of sustained

Table 7. Current and Announced Investments from Chinese Companies

| Sector | Project | Chinese Company | Investment ^a (millions of dollars) | Comments |
|--------|--|---|--|---|
| MINING | Las Bambas ^b | China MinMetals Corporation | 5,850 | Approximate amount paid to Glencore Xstrata |
| | Toromocho ^c | Chinalco Peru (Chinalco) | 4,820 | Started up on December 2013 |
| | El Galeno | China MinMetals Corporation ^d Jiangxi Copper Company Ltd ^e | 2,500 | Possibly completed in 2014–15 China MinMetals Corporation (60 percent), |
| | Extension of Marcona mine ^f | ShougangHierro Peru (Shougang Corporation) | 1,200 | In progress |
| | Pampa de Pongo ^g | Nanjinzhao Group | 3,005 | Investment over 2010–14 Plans to invest US\$ 1.5 billion plant by 2016 |
| | Rio Blanco | Zijing Mining Group ^h Tongling Nonferrous ⁱ Xiamen C&D ^j (former Monterrico Metals y Majaz) | 1,500 | Investment over 2009–14 Zijing Mining Group(45 percent) Tongling Nonferrous (35 percent) Xiamen C&D (20 percent) |
| | Mina Justa ^k | CST MiningGroup Limited | N.A. | Until 2012; afterward, sold their participation (70 percent) to CumbresAndinas |
| | Cercana project (Yarabamba, Arequipa) ^l | JunefieldGroup | To be defined | Exploration |
| | Llama TY01 (Huancano, Ica) ^m | JintongMining | To be defined | Exploration |
| | Marcobre | China SciTech ⁿ | N.A. | Exploration |
| | | Shandong Exploration ^o | N.A. | Exploration |
| | | Anhui Exploration ^p | N.A. | Exploration |
| | Hebei Exploration ^q | N.A. | Exploration | |

^a Investment publicly reported. The information may relate to the total amount projected to be invested in the project or the amounts to be disbursed by period, in which case the year of planned disbursements is indicated in parentheses.

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^c “Toromocho copper mine to boost Peru’s mining industry,” *Andina*, December 11, 2013

^d “China Minmetals Will Run Project to Exploit Gold and Copper,” *Gestión*.

| Sector | Project | Chinese Company | Investment ^a (millions of dollars) | Comments |
|-----------|---|--|--|--|
| OIL & GAS | Block 10/57/58 | CNPC ^r | 2,600 | Acquisition from Petrobras. 100 percent of the rights to exploit Block 10 46.16 percent of the rights to exploit Block 57 100 percent of the rights to exploit Block 58 |
| | Block 6/7 (Talara, Piura) ^s | CNPC | N.A. | Since January 1994 and October 1995 |
| | Block 111/113 (Madre de Dios) ^t | CNPC | N.A. | Project in exploration phase |
| | Block 1AB (Olaya, Loreto) ^u | CNPC | N.A. | Already in production; holds 45 percent of the project; Pluspetrol Resources Corporation holds 55 percent. |
| | Block 8 (Trompeteros y Yanayacu, Loreto) ^v | CNPC | N.A. | Already in production. Holds 27 percent under its stake in Pluspetrol Norte S.A. Other partners are SK Energy (8.3 percent), Daewoo (11.6 percent), Korea National Oil Corporation, KNOC (20 percent), and Pluspetrol Resources Corporation (33 percent) |
| FINANCE | ICBC Peru Bank ^{wx} | Industrial and Commercial Bank of China Ltd (ICBC) | 50 | Initial required capital to operate. Plans to place US\$ 100 million on credit in the first year of operations. Up to US\$ 400–500 in 4 years |
| FISHERIES | Copeinca ^y | China Fishery Group | 806 | Approximate amount paid to Copeinca previous shareholders |

^e “Jiangxi Copper Estimated Galeno Project to Commence Production between 2014 and 2016,” *El Comercio*, March 28, 2012.

^{f,g} “Expansion in Marcona and New Players Will Quadruple Shougang Iron Ore in Peru to 2016,” BN Americas, January 17, 2013.

^{h,i,j} Cynthia Sanborn and Victor Torres, *La economía china y las industrias extractivas: Desafíos para el Perú* (Lima: Universidad del Pacífico, 2009); “Chinese Mining to Invest US\$7.400 Million in Peru,” *Gestión*; “Chinese Mining Giants to Invest US\$7.4 Billion in Peru over Next 5 Years,” *Andean*, May 11, 2009.

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^{l,m} Ministry of Energy and Mines, "Expected Portfolio of Mining Projects," January 2013.

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^w "ICBC is authorized to operate in Peru," *Gestión*, November 16, 2013.

^x "ICBC will place US\$ 100 million on credit in the first year of operations," *Gestión*, December 2, 2013

^y "China Fishery Group settles Copeinca share dispute," *Reuters*, July 26, 2013.

attention and investment that are required in the current competitive environment. The drastic neoliberal reforms of the 1990s, which were enshrined in the new Constitution, left a legacy of aversion to any state-guided industrial policies or state systematic investment or export-sector promotion efforts. As a result, most business with Asia today is driven by private companies and individuals with little assistance from the government, which results in missing opportunities for better negotiations and better deals.⁴⁰

Once a tender offer is won—and once the Chinese investors have complied with the initial central government rules and regulations—investors then find that they may need to communicate (and negotiate) with a large number of other parties. Depending on the type of investment, these may include popularly elected regional and municipal authorities, indigenous communities, nongovernmental organizations, and the media, along with local bankers and business competitors. Such a range of actors is normal in a volatile democracy like Peru, and successful Western investors have learned over time how to respond to them. Chinese businesspeople and diplomats, however, are less experienced at multistakeholder relations and are less accustomed to the demands for accountability from nonstate actors. Nonetheless, as recent studies of Chinese investment in the mining sector suggest, they are learning quickly.⁴¹

Latin America today accounts for nearly a third of total world mineral investment, and a growing share of this is expected to come from Chinese-owned firms, which own or participate in at least thirty-five major projects across South and Central America. As mentioned at the outset, policymakers in this region are concerned not only with avoiding the negative macro-

economic effects of excessive dependency on mineral exports but also with issues of revenue transparency, achieving adequate environmental and labor standards in the industry, and having companies practice good community relations and corporate social responsibility.

Have Chinese state-owned firms reacted any differently than their peers in the industry to social conflicts and changing regulatory demands? This is the subject of ongoing research on both sides of the Pacific, and there is not space here to respond in detail.⁴² However, one can say that in the initial cases in Peru, neither the Chinese investors nor their diplomats did due diligence on the conditions they would face, and the Peruvian authorities also may not have been forthcoming about these. This is especially the case in the northern Peru, where public resistance is high to mining per se.

Meanwhile, in the case of Shougang, mistakes were definitely made in engaging with the local union and municipal authorities, in handling conflicts over labor rights and water management, and in dealing with the reluctance to invest the time and money necessary to clean up the operation and engage various stakeholders adequately.⁴³ Although the Chinese government has a strong interest in making these investments work, it may have initially been too inexperienced, or too far away, to guide these efforts.

Nonetheless, what one observes today are learning processes on the part of Chinese investors and their political allies. This includes learning from other Chinese stakeholders and from other firms in the industry, and hiring the best managers and consultants in Peru to guide them through the process. Even Shougang, perhaps the most widely criticized Chinese mining case in South America, has made notable efforts to correct its errors, as well as to invest new resources in its operation.

At present, however, the most widely watched case is Toromocho, where Chinalco has committed to building a state-of-the art mining operation and a new water treatment plant, and to carrying out a process of voluntary and participatory relocation, moving an entire town to new quarters where living conditions are expected to improve for all. This has never been done before in Peru, and is apparently rare in China as well. For both China and Peru, this project should show the world that both sides are serious about global standards. Only time will tell if this is the case.

FINAL REMARKS

As stated at the outset, this chapter aims to contribute to regional discussions about the nature and impact of Latin America's relations with Asia, taking into account the diversity of countries that constitute this broad region as well as the commonalities that might emerge.

The underlying concern in the region is whether recent economic and trade relations with Asia help or hinder the Latin American countries' efforts to achieve sustained growth, diversify their economies, and raising living standards for their populations. For some, including most heads of state, trade and investment with Asia are seen as an enormous opportunity to advance all these goals. For others, however, the voracious Asian demand for raw materials brings the risk of greater Latin American dependency on primary commodity exports and the displacement or undermining of national industries.

In the Peruvian case, as we have seen, deep historical ties with China and Japan have facilitated the close relations being forged with both countries today. However, Peru has also opened new channels of interaction with South Korea and numerous other Asian partners. Trade with Asia in general, and with China in particular, has contributed to Peru's booming economy over the last decade and to its ability to weather the effects of the global financial crisis.

As one analyzes the data—and the dynamics—of these relationships, one finds that although Peru's trade with Asia tends to reinforce its overall position as a mineral exporter, the country has not experienced significant deindustrialization. To the contrary, through the pursuit of FTAs and new FDI, Peru's trade with Asia has increased in scope and diversity, with considerable increases in nontraditional exports to the region as well as traditional minerals, fisheries, and foodstuffs. In fact, manufactured exports have grown at a faster pace with China than with other destinations. Also, although the relations are highly asymmetrical and not all sectors of the Peruvian economy have benefited (those that face direct competition from Chinese imports have of course had a more difficult time), the net effect of expanded markets and access to lower-priced intermediate goods appears to be positive for Peruvian industry.

We should also note that nontraditional export values have not been subject to the dramatic price fluctuations that affect primary goods, and instead are part of a genuine trade expansion and diversification effort. The commodity boom would have taken place with or without the FTAs; what these have done is enable diversification of trade in other goods, even in the context of high world minerals prices. Meanwhile, new investment from Asia, backed by state banks in the Chinese case, has enabled Peru to develop large-scale mineral projects with important spin-offs in other sectors of the economy, even in the context of global uncertainty.

Although Peruvian leaders and trade negotiators have been successful in obtaining new trade agreements, and the private sector's reaction has led the economy forward, political leadership and strategy have been lacking in the follow-up to these accords. On the most basic level, one finds excessive bureaucratic obstacles to Asian investment in Peru, and a limited effort or ability to prepare the way for newcomers and their potential clients and stakeholders. Most public servants lack the necessary language and/or cultural skills to assist Asian companies and professionals wishing to do business in Peru, or vice versa; to date, the Peruvian government has invested virtually nothing in developing research or in training Peruvians in the knowledge and skills needed to engage with Asia over the longer term.

On a higher level, once the state visits have ended and the agreements have been signed, there has been little effort to coordinate trade, investment, and economic development policies to take better advantage of Asian opportunities. For example, more proactive public policies are needed to enhance the industrial capabilities of Peruvian firms in non-traditional sectors and to synchronize private actions. The government should work with firms and guilds to obtain better negotiation positions vis-à-vis Peru's Asian partners, and to expand cooperation in areas such as technology transfer and capacity building. In many parts of the country, there is a serious lag in the infrastructure—ports, airports, roads and other transportation systems, water, and energy—that is needed to accompany and expand new private investment. Within the mining sector itself, more needs to be done to encourage clusters, organize the many firms that supply goods and services to the industry, and generate opportunities for many more people.

Peru has made enormous strides across the Pacific, but they are still tentative steps. Without greater leadership, coordination, and strategy, and without more investment of time and resources by the government, Peru's trade agreements will remain superficial, and their longer-term benefits will not be fully realized.

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CHAPTER 4:

Chile and the Asia-Pacific Region: Toward a New Foreign Policy Cycle

Marcos Robledo

THE POLITICS OF CHILEAN FOREIGN POLICY: GLOBAL, REGIONAL, AND EVOLVING IDENTITIES, 1990–2010

Democratic Identity, Not Trade, as a New Foreign Policy Variable in Post-1990 Foreign Policy

Chile's approach to the Asia-Pacific region has been the outcome of a protracted process of policymaking with both domestic and external dimensions, which are closely intertwined. Chilean domestic policies have been characterized by the complex accommodation that was necessary for the Chilean process of democratic transition and consolidation. The democratic government that assumed power after the military regime imposed a cluster of political and economic institutions, which were enshrined in the

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Political Constitution of 1980. This Constitution included a high level of military prerogatives, but also rules aimed at consolidating the neoliberal economic and social policies and institutions that had been developed during the 1980s by the Pinochet regime.¹ The democratic government was thus confronted with the imperatives of avoiding an authoritarian regression, given the legacy of the prolonged authoritarian regime, but also with the need to reach a basic level of democratic governance after the profound breakdown of 1973, along with dealing with the failure of the import-substitution industrialization model. So the government decided to maintain some policies of economic liberalization and fiscal responsiveness but also to apply a growing set of social policies to address the very high social cost that had been incurred by several years of the International Monetary Fund's structural adjustment policies.²

One of the features of Chile's democratic experience has been the centrality of its foreign policy and international economic insertion for its economic performance. After 1990, Chile decided to maintain the basic features of the process of economic liberalization and internationalization that had been initiated by the military government because of its importance for the growth of its small-scale economy. However, the main rationale behind the new Chilean foreign policy after 1990 was not just economic, but political. It was the need to articulate public policies to sustain and consolidate the new democratic government, both politically and economically.³ These efforts were emphasized because this transformed national Chilean identity from authoritarian to democratic became convergent with the evolution of the mainstream global and regional identities. After 1990, Chilean foreign policy was, therefore, wider in its scope and was not only economic. Foreign policy became part of a quest for a changing national identity during a global moment of international systemic structural change from bipolarity to a phase of U.S. primacy. In this transformational moment, and after a long phase of authoritarian isolation and growing interstate rivalry, the country's process of democratization was understood by the Chilean democratic political elite as part of a global trend toward political democratization and economic globalization and liberalization, as well as a component of a regional trend of democratization, economic integration, and cooperative security cooperation.⁴ Chile became an active player in the entire

spectrum of multilateral negotiations, promoting more democratic, cooperative multilateral institutions—but it did this *from* Latin America.⁵

Since the mid-1980s, the region had been experiencing a similar process of democratization and economic liberalization, which became crucial for the Chilean democratic consolidation. This is why, in this context of regional like-mindedness, Chilean foreign policy opted early to make Latin American a priority. Democratic consolidation was the top priority, and the countries in the region were beginning to develop their first regional institutions to ensure democratic solidarity and defense, like the Rio Group and, later, the Santiago Declaration of the Organization of American States, which was adopted in 1991. As part of this new regional democratic community, Chile's Latin American policy supported and proposed a comprehensive set of initiatives aiming at regional democratic consolidation, human rights protection and promotion, economic integration, and cooperative security.

During this period, Chile also became an active international player. This was, in part, because like most of the Latin American countries, Chile was a member of an international community of developing countries for which the main international policy goals were the quest for international autonomy through the strengthening of traditional principles of international law, the amelioration of power politics, and the development of multilateral institutions.⁶ From the perspective of this tradition, the end of the Cold War was seen as a moment of opportunity to forge a more equitable and multilateral international system. The convergent liberal democratic zeitgeist between Latin America and the Western powers became, in this sense, functional. Also, Chile's convergence with the United States and Europe became possible because of these countries' support for the regional and Chilean democratic process.

Chilean foreign policy thus became not only regional but also global, leading to an intense period of global *cooperative autonomy*, a process of international cooperation at the multilateral level with the United States and Europe, despite the persistence or emergence of political disagreements in some important arenas. In relation to the United States, the limits had historical backgrounds because of past U.S. interventions in the region, including Chile.⁷ Like the other Latin American countries, Chile has

traditionally stressed the importance of the principles and practice of international law, as well of multilateralism. This tradition was rescued by the post-1990 democratic government, thus restricting the level of agreements between Chile and the United States at the multilateral level. The limits became clear in 2004, when Chile did not support the United States–sponsored UN resolution allowing the invasion of Iraq, but they have not been restricted to this conjuncture. Differences in relations with multilateral institutions have also arisen.⁸ In the end, both countries have chosen a pragmatic approach, stressing their areas of agreement, which have been real and significant, and they have also simply assumed that they have different approaches to several issues. Despite the important degrees of cooperation, in the end, in some defining multilateral moments Chile has been more in the Latin American tradition of supporting a more democratic international system, in a region that has historically seen international autonomy as a vital foreign policy goal.⁹

Economic Liberalization: A Critical Area for Post-1990 Democracy and Foreign Policy

Chile's achievement of like-mindedness vis-à-vis the rest of Latin America was also a complex process, leading to a more sophisticated, nuanced picture and identity making because of the country's decision to develop a policy of global economic involvement and what was called "open regionalism." The basic fact was the decision by the Chilean democratic government to maintain some dimensions of the former regime's economic policies but to shift from the previous unilateral opening toward a "negotiated" one.¹⁰ Chile became an open advocate of the development of a regional free trade area, but also of the global process of economic liberalization, which had important political effects. Chile's international political economy decisions had important political consequences. On one side, it began a process of intense political cooperation with the United States, Europe, and the Asia-Pacific region, but this led to a more complex, diverse relationship with its Latin American neighbors. Another important political consequence of Chile's open regionalism was the limits this option imposed regarding its relationship with Brazil and MERCOSUR.¹¹ Despite its natural regional priorities,

the Chilean administration assessed that the country was not in a condition to return to higher tariffs, so it could not enter MERCOSUR as a full member. Chile understood that Brazil and other South American countries had a legitimate interest in protecting their industries. As explained above, Chile was interested in participating in the (by then) “new regionalism” because of political, strategic, and even economic considerations. However, political will would be not enough, and Chile finally entered MERCOSUR as an associated state, signing the Treaty of Association in 1996, which included a bilateral free trade agreement (FTA).

The negotiated economic opening was a gradual process. The first two governments after the restoration of democracy prioritized agreements with other Latin American countries, without renouncing unilateral decisions. Tariffs were reduced from 16 percent to 11 percent during the tenure of President Patricio Aylwin (1990–94) and to 6 percent during the presidency of Eduardo Frei Ruiz-Tagle (1994–2000). During the 1990s, Chile signed trade agreements with all the other South American nations, and later with Mexico, Canada, and the Central American countries. Of particular importance, during this stage, it was confirmed that in contrast to developed markets, Latin America would become the best market for Chilean manufactures and, in general, for Chilean small and medium-sized enterprises (SMEs).

After this initial phase, the Chilean negotiations were focused on the FTAs with the United States, the European Union, and the European Free Trade Association. The FTA with the United States was an important issue in Latin American politics, and was part of a wider convergence between Chile and the United States toward the Free Trade Area of the Americas (FTAA). Negotiations were launched by President George H. W. Bush and were continued by President Bill Clinton at the first Summit of the Americas in 1994, with the open support of Chile. The FTAA was highly contested by Brazil and MERCOSUR and, later, by the countries that belong to the Alianza Bolivariana para los Pueblos de Nuestra América (ALBA), and the signing of the bilateral U.S.-Chile FTA in 2004 was openly criticized by Brazil.¹² Political relations between Chile, Brazil, and MERCOSUR then diminished, and they were restored only in 2008, when President Michelle Bachelet supported the creation of the Union of Southern American

Nations (UNASUR is its Spanish acronym, from Unión de Naciones Suramericanas) and performed as a very active chair of the new trade bloc. For Chile and the United States, this FTA marked an historical bilateral peak.¹³ Since then, the U.S.-Chile bilateral relationship has been positive and stable, even during the above-mentioned 2004 bilateral crisis at the United Nations. Although Chilean foreign policy maintained its formal autonomy from the United States, the bilateral convergence on the promotion of democracy and free trade, as well as military cooperation, led to a close informal partnership.

A third phase of this process has involved the Asia-Pacific region, which is analyzed in the next section. At the multilateral level, and beyond the Latin American region, Chile's activity has been intensely focused on the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation forum (APEC), and the Organization for Economic Cooperation and Development (OECD). Chile became the OECD's second Latin American member in 2010. What is original in Chile's international economic policy is its decision to follow a pragmatic strategy that combines unilateral, bilateral, subregional, regional, bilateral-country-region, and multilateral trade agreements. To date, Chile has signed twenty-two FTAs with sixty countries, which give it free or preferential market access to 62 percent of the world population and 85.7 percent of its gross domestic product (GDP).¹⁴ This process of policymaking for global market access has had important long-term structural consequences for the country. The Chilean economy has become highly globalized. About 60 percent of the country's GDP is currently related to the external sector. Its foreign trade has multiplied eleven fold, from about \$12 billion in 1990 to \$147 billion in 2012, and 90 percent of this trade is in markets with which it has trade agreements.

The Asia-Pacific Region: A Critical Player in Chile's Open Regionalist Strategy

As Jorge Heine has written of Chile, "If the FTAs became the strategic focal point to open international markets, the Asia-Pacific region became the geographic focus, introducing a significant change."¹⁵ There has been a debate about the reasons for Chile's shift from its traditional Western-

centered diplomacy to the new gravity center of its economic involvement in the Asia-Pacific region. The initial phase of this change began during the military regime, which found an international political space in the by-then authoritarian East Asian regimes which was being neglected by the international community.¹⁶ However, the definitive point of departure came after Chile's democratization in 1990. As Heine puts, it was the political decision of the government of President Patricio Aylwin that begun to institutionalize Chilean policy toward the Asia-Pacific region, which also followed several stages. The first was Chile's incorporation into APEC (1994), one year after Mexico's, and this was followed by Chile's extraordinarily active presidential and state diplomacy vis-à-vis Asia and its presence there, initially in East Asia, but later especially in China, Japan, South Korea, and Taiwan. This policy thrust has increased during Chile's five most recent governments. In 2003, Chile signed the first FTA between an Asian (South Korea) and Latin American country; in 2005, it signed an FTA with China, the first between China and a single country;¹⁷ and in 2006, it signed a partial trade agreement with India and an FTA with Japan,¹⁸ followed by negotiations with Vietnam and Malaysia. In 2007, four of the ten top markets for Chile were in Asia: China (second), Japan (third), South Korea (sixth), and India (tenth). In 2012, the number has risen to five; China was Chile's top trade partner (\$30 billion), followed by the United States (\$24 billion). Next were Japan, Brazil, South Korea, Argentina, Mexico, Germany, Peru, and India.

Chile's joining of APEC has been considered a defining moment for the country's involvement in the Asia-Pacific region. One basic reason is the economic importance of this bloc and its liberalization agenda. Because of Chile's previous process of economic opening, but also as a signal of its political compromise with the Asia-Pacific process of trade liberalization, the country has assumed ambitious compromises regarding the Bogor Goals.¹⁹ It set 2010 as the year for complete liberalization for developed economies and 2020 for developing economies. Despite being a developing economy, Chile assumed the compromise of 2010. As political economist Carlos Furche has stressed,²⁰ it created the space to display concrete Chilean political will and initiatives regarding economic integration in the most economically dynamic region of the world.²¹ It has allowed Chilean presidents and high-level authorities to have regular political dialogues with

the leaders of the main Asian economies, and also with the United States, Canada, Mexico, and Peru.

After its initial phase—and in the global context of the stalemate in the WTO’s Doha Round—the APEC process of liberalization experienced a similar trajectory. In this context, and aiming to develop a strategy for the Asia Pacific Free Trade Area that uses *building blocks*, in 2006 Chile created the Trans-Pacific Strategic Economic Partnership Agreement with New Zealand, Singapore, and Brunei (known as the P-4). This was a very symmetrical treaty of association that included labor and environmental standards, and cooperation on science and technology, patents, and services related to the digital economy. Because of its approach using open regionalist building blocks, the P-4 was explicitly aimed at becoming an instrument for increasing economic integration in the Asia-Pacific basin. In 2010, this effort led to the launch of negotiations to create the Trans-Pacific Partnership (TPP). In short, Chile was able to foresee the growing importance of the Asia-Pacific economy at the end of the twentieth century, and it realized that there was an opportunity to obtain timely access to those markets. Since then, the Chilean economy has been favored by its tight coupling with the evolution of the Asian economies and the “super cycle” of high commodity prices, which has sustained the growth of the country (and of South America) since the 2008–9 international financial and economic crisis.

From Chile’s foreign policy perspective, its Asia-Pacific policy has been one of the most significant contributors to its process of economic development. APEC has become the main geographical destination for Chilean exports, representing 63 percent of Chilean exports in 2011. That year, eight APEC economies were among the first fifteen main destinations for Chilean exports. In 2012, about 40 percent of the Chilean trade was with Asian markets, and Chile was the Latin American country with the strongest engagement with the Asia-Pacific region. As seen in table 1, it was the only one that has FTAs with its three main economies (China, Japan, and South Korea, but also with Singapore, Malaysia, and Brunei), while it had signed an FTA with Vietnam and Hong Kong and was negotiating one with Thailand.²²

Table 1. Chile's Trade Agreements with the Asian and Pacific Economies

| Economy | Year of Effect | Type of Trade Agreement |
|--|----------------|--|
| <i>In effect</i> | | |
| Canada | 1997 | FTA |
| Mexico | 1999 | FTA |
| United States | 2004 | FTA |
| South Korea | 2004 | FTA |
| China | 2006 | FTA |
| P-4 (New Zealand, Brunei, and Singapore) | 2006 | FTA |
| India | 2007 | Partial TA |
| Japan | 2007 | FTA |
| Peru | 2009 | FTA |
| Australia | 2009 | FTA |
| Malaysia | 2012 | FTA |
| <i>Negotiated but not in effect</i> | | |
| Signed | | |
| Vietnam | | FTA |
| China | | Supplementary agreement on investments |
| Hong Kong, China | | FTA |
| Not signed | | |
| Thailand | | |
| <i>Under negotiation</i> | | |
| Trans-Pacific Partnership | | FTA |
| India | | Deepening partial agreement |
| Pacific Alliance | | FTA |

Source: Author, from DIRECON, "Cuadro resumen de Acuerdos," 2013, <http://www.direcon.gob.cl/pagina/1897>.

Preliminary Assessment: What Worked and What Did Not Work Well

Twenty-three years after it began, the balance of Chile's experience of economic globalization has been positive, though a complete assessment would show more nuanced and mixed outcomes. The *positive side* of the process has been the undeniable impact of the internationalization of the economy on the country's sustained economic growth. Chile has multiplied its per capita income from \$2,500 to more than \$16,000, and the International Monetary Fund expects it to reach \$22,000 by 2018, the level of Spain in 2003 or Portugal in 2007.²³ Poverty has been reduced from almost 40 percent to 13 percent, and the country exhibits consistent regional leadership in most of the relevant international indicators. The Chilean economy became also more regionally diversified, and thus is also less dependent on changes in the international economy, as well as more resilient. Politically, it means a higher degree of political autonomy. In 1990, 52 percent of Chile's exports were sent to Europe, 21 percent to Asia, 15 percent to the countries under the North American Free Trade Agreement (NAFTA), 10 percent to Latin America, and 2 percent to the rest of the world. But in 2009, 45 percent of Chile's exports went to Asia, 20 percent to the EU, 18 percent to Latin America, 16 percent to NAFTA, and 1 percent to other countries. And Chile's trade agreements also regulate nontariff areas—such as services, investment, intellectual property, competitiveness, the environment, and labor standards for the private and public sectors—increasing the institutional dimension of its economic competitiveness. This has had a positive impact on Chile's foreign direct investment (FDI), which reached 62 percent of the country's GDP in 2012, when it received a record \$26 billion in FDI, the second-highest amount in the region after Brazil.²⁴

The process of the Chile's economic internationalization has also consolidated new export-oriented productive sectors (i.e., fruit, fresh and processed vegetables, wines, pork and poultry, dairy products, fish, seafood, and timber).²⁵ Though there is no agreement regarding causality between the FTAs and growth and productive diversification, trade agreements have been a powerful strategy for reaching increased scale in new, highly profitable markets. FTAs have also created incentives for the improvement of domestic norms and institutions in both the public and private sectors,

improving the competitiveness of the country in such areas as services, FDI, intellectual property, competence policies, the environment, and labor standards. FTAs have also strengthened the long-term rule of law, which has been basic for a sustained development policy as well as for the development of interstate and private associations. FTAs have also considered management and dispute settlement institutions. However, and probably most important, they have crafted a complex network of public and private relations of trust, globalizing the traditionally parochial Chilean culture. These positive outcomes are also part of a wider process, for which the overall balance of outcome is more nuanced. The absolute and relative advantages that Chile has obtained as a consequence of its FTAs are short-lived. Other actors have begun to develop similar policies; Peru, Colombia, and the Central American nations have concluded trade negotiations with the EU, the United States, and the Asia-Pacific region. Therefore, they are accessing these markets with conditions that are increasingly similar to Chile's.

Nevertheless, there is a growing debate in Chile about the shortcomings of the type of economic internationalization that the country has developed to date, one that is simultaneously related to the social and political economy dimensions of its development strategy, to the evolution and requirements of international competitiveness, and to the evolution of international politics. Despite the macroeconomic figures that reveal a significant level of success, the Chilean experience also exhibits important shortcomings. The most important is that the country has one of the world's highest levels of income inequality. The Chilean Gini coefficient indicator has remained stable over time—it was 0.526 in 2011.²⁶ Recent research reveals that 1 percent of the Chilean population gets more than 30 percent of the total of the country's income, the highest proportion in the world.²⁷ Chile's decision to follow a development strategy that has been based almost completely on exporting commodities has increased its dependence on copper, its main commodity, while productivity has continued to stagnate, in the transition from an efficiency-driven to an innovation-driven stage, together with twenty-one other economies are in a similar situation.²⁸ As a consequence, twenty years after a sustained process of 5 percent average economic growth, in 2011 the social shortcoming of the Chilean political and social development process sparked a new phase of increasing political and

social mobilization, along with a new degree of polarization that had been unseen since 1990.

Therefore, despite Chile's macroeconomic success, its social contract is today weaker than before, and this has led to new policy demands for more just and innovative policies, including foreign policy. Chile's identity, and the definition of its interests, is experiencing a new moment of transformation. The recent political evolution of Chile provides an important context in which to assess the country's international economic involvement because, despite the contribution of the FTAs to its economic growth, the available evidence indicates that public policies have not been able to successfully contribute to diminishing Chilean income inequality and competitiveness deficits. There is an elevated concentration of exports in commodities (and low-intensity products), while the research and development remains without significant variation; the number of exported products has stagnated; the exported value is concentrated in too few enterprises; and there is a low participation of SMEs in exports. In 2012, forty-five companies (0.6 percent) accounted for 70 percent of the country's exports. In 2010, SMEs were the majority among export companies (58 percent), but they accounted for little (7 percent) of the value of exports. Only 0.06 percent of the SMEs export, and actually only 0.8 percent of Chilean companies do export, while the ratio has been diminishing since 2008 due to the subprime mortgage crisis and its effects on the EU. Also, 42 percent of the exporting companies export only one product to only one market.²⁹ Additionally, Chilean exports to the Asia-Pacific region exhibit a weak productive linkage between the exports and the rest of the economy, which limits the job creation and redistributive impact of export-led policies. Despite the mainstream trends in global trade toward value chains,³⁰ the presence of Chilean companies in international value chains is limited, and there is only a very modest effort to promote exports and maximize the potential benefits of the network of FTAs that the country has built.³¹ Because of this, Chile has been unable to take advantage of all the opportunities that have been opened by the FTAs and its geographical proximity to the Asia-Pacific region.³²

The main reason that Chilean international economic involvement exhibits these features has been the persistence of a neoliberal approach

regarding industrial policy, despite the available evidence of the importance of active state policies to promote innovation, competitiveness, productive development, and infrastructure. In this sense, international trade can reduce inequality if it is developed along with policies supporting productive promotion, SMEs, innovation, and competitiveness.³³ In this case, Chile's international trade and economic globalization would strengthen the access of its vulnerable groups to the benefits of trade, and would enhance their defense regarding the cost of trade. In short, the Chilean network of FTAs does not replace development policies. If this network were to operate in a framework for a strategy for international involvement supported by productive development policies, it could be a decisive contribution to equitable development.

Another shortcoming of Chile's policy approach to the Asia-Pacific region that has received little attention is its weak involvement with the regional political dynamic. Most Chilean activity has been developed as an exclusive trade agenda. There has been a relative—but not complete—disconnection between the international political debates, and the outcome has been positive for Chile because there have been only a few trade-offs, though this may be only an apparent and, currently, short-lived situation. The most important trade-off has been Chilean behavior regarding human rights in China. Chile has kept the human rights issue open at the bilateral level during some episodes of its bilateral relations.³⁴

Chile has also been sensitive to the political evolution of the Asia-Pacific region. The region's governments have been vocal in condemning North Korea's proliferation policies, and some democratic regressions, such as that in Thailand. Also, Chile was an active participant in some important UN peace operations deployed in the region during the 1990s, such as those in Cambodia and East Timor. However, beyond bilateral and multilateral political issues, Chile has had political blind spots in its Asia-Pacific foreign policy. One of these has been its relationships with India and Russia. The former has entered a new phase since the 2000s. Although the goal has been to reach a bilateral FTA, in 2006 Santiago succeeded in reaching a partial trade agreement with New Delhi. Since then, two Chilean presidents have visited India, and both countries are negotiating an agreement to deepen their current partial one. Chile must also continue its efforts

to reach a trade agreement with Russia. Chile's trade with Russia is just 0.2 percent of its total trade, Russia is the only important international economy with which Chile does not have a FTA, and since Russia's accession to the WTO talks have been aimed at an FTA between Chile and the Euroasiatic Commission.³⁵

A third weakness for Chile in the Asia-Pacific region has been its absence from some important regional political forums, especially those that have developed in the context of the Association of Southeast Asian Nations (ASEAN). ASEAN has become a crucial actor in East Asian regionalism, and most of the institutional evolution of this part of Asia is being developed from ASEAN's initiatives, especially ASEAN + 3 (China, South Korea, and Japan) and ASEAN + 6 (the + 3, plus India, Australia, and New Zealand), which are aimed at integrating that part of the East Asia.

As trade specialist Alicia Frohmann has written, "The expectations of member countries with respect to APEC differ: whereas for North America and South America APEC is a bridge toward the economies that are growing most rapidly, for the economies of Asia APEC is an interesting strategic, commercial, and political reference, even if its principal objective is integration with its own neighbors."³⁶ This is a trend that has been strengthened in 2010 with ASEAN's launch of the Regional Comprehensive Economic Partnership (RCEP).³⁷ A closer and stronger Chilean link with ASEAN would be important for the future development both of Chile's involvement in the Asia-Pacific region and also for Chile's role as pivot between the East and West and South-South interactions vis-à-vis the regions' Asia-Pacific dialogue and economic cooperation. However, the 1990–2010 period of Chilean involvement in the Asia-Pacific region was a cycle that probably will not endure with the same conditions and features. As is analyzed below, in the years to come Chilean policy toward the Asia-Pacific region will entail not just trade but also to a much greater extent, politics.

POST-2008 AND POST-2010 DYNAMICS: INTERNATIONAL AND GLOBAL POLARIZATION AND POLITICIZATION—WHAT ARE THE OPTIONS FOR CHILE AND LATIN AMERICA AND THE ASIA-PACIFIC REGION?

As has been argued, it is possible to identify two very different phases in the development of Chile's international involvement—both political and economic. The first was the period 1990–2010, which has been discussed above. The second phase began with the simultaneous rise of social mobilization against the most neoliberal features of the Chilean model, and the international financial and economic crisis of 2008–9, which accelerated structural change in the international system.³⁸ This all was the outcome of the gradual erosion of post–Cold War international governance, led by the United States at the Group of Seven (G-7), and the rise of the emerging economies. The crisis of this governance effort became evident with the creation of the Group of Twenty (G-20) in 2009, which was successful in halting the worst moment of the crisis and launching a coordinated, Keynesian world stimulus package. However, since then, progress by the G-20 has been impeded by a prolonged stalemate between the G-7 and the BRICS (i.e., Brazil, Russia, India, China, and South Africa—the world's largest emerging market economies). Since 2009, no significant additional global or multilateral agreement has been reached by the G-20, by the United Nations, or by any other multilateral organization, including the WTO.³⁹ As in 1990, the international system has entered a re-foundational moment entailing the creation of new global and regional arrangements, whose more or less amicable or anarchical character is yet to be seen. After three years of this G-20 stalemate, the United States has begun to choose policy options that are changing the status quo and are shaping a new type of global identity in the wake of the post-2009 G-7–BRICS symmetrical moment. The most important of these choices has been the U.S. policy shift from the Atlantic to the Pacific,⁴⁰ a narrative built explicitly upon an ambiguous concept of rebalancing.⁴¹

Concrete global policy changes have been made in international trade policy, with the consecutive decisions to launch two new-generation regional trade agreements (RTAs). After years of stagnation at the WTO,

in 2009 the United States joined the P-4, initiating a process of transformation into the current TPP. In February 2013, the United States also announced the beginning of negotiations on the Transatlantic Trade and Investment Partnership (TTIP) with the European Union. Some visions of the new RTA understand the TPP as meaning the establishment of like-minded groups of critical political and economic importance, and its decision to become a “high-standard, twenty-first-century trade pact that would contrast sharply with the more limited commitments delivered by most trade pacts.”⁴² These new RTAs are not formally closed to new members, and thus they cannot be termed “protectionist” in the traditional sense. As high-level U.S. officials have explained, “The TPP is intended to be an open platform for additional countries to join—provided they are willing and able to meet the TPP’s high standards.”⁴³ Regarding the WTO, the TPP will deepen reforms in traditional areas covered by WTO provisions, “undertake new obligations in WTO-plus areas not yet subject to WTO disciplines, and address crosscutting issues such as regulatory coherence and supply chain management.”⁴⁴

What the TPP and the TTIP have in common is an international trade strategy aimed at institutionalizing and harmonizing the supply chain disciplines of the regional fabrics of North America, Europe, and Asia, and at securing the flows of goods but also introducing new disciplines to protect intellectual property rights across the chains, through “mega-regionals and mega-bilaterals that will, on current trajectory, exclude China and other large emerging economies.”⁴⁵ The outcome is a new phase in international trade negotiations, a process of “fragmentation of the international trading system resulting from the trend toward the proliferation of mega-inter-regional preferential trade agreements,” and the most serious crisis of the WTO.⁴⁶ The recent, new-generation RTAs have become deeper and more comprehensive, and thus have affected developing countries’ economies more significantly. The expansion of regional supply chains had made freer movement of goods and services on a regional basis particularly important, but it has also weakened the centrality of the multilateral trading system.⁴⁷ Given that the TPP represents 40 percent of the world’s GDP, and that the TTIP has a similar scale, the new U.S. policies will undermine the relevance of the WTO’s agenda.⁴⁸ Since then, Beijing has reacted cautiously, and the

most prevalent perception on the east side of the Asia-Pacific region about the TPP is that the United States has taken a “step forward in encircling China” and in accelerating its own regional trade strategy, which includes the trilateral China–Japan–South Korea FTA talks and the negotiations on the RCEP.⁴⁹ In this context, Brazil has also reacted, and has successfully campaigned to lead the WTO.

Political and geo-economic fault lines in Latin American regionalism. The debate between China and the United States (and Brazil) regarding the WTO and the TPP has been followed closely in Latin America. During the last decade, the region has been experiencing a structural change in its international political, economic, and trade relationships and involvement, which is leading to a complex, changing regional architecture.

Like China, Brazil has become an emerging global actor, and despite the shortcomings in institutional capacities that it may experience while addressing this challenge, it is becoming one of the most successfully developing emergent countries. Also, though Brazil does not have the economic size of China, its relative weight has consolidated its clear regional leadership in South America. Its 2012 GDP was \$2.25 trillion, making it the seventh largest economy in the world. Prior to a dramatic economic slowdown in 2013-14, projections estimated optimistically that its annual GDP would exceed \$10 trillion, the fourth largest in the world after China, the United States, and India.⁵⁰ During the decade of the 2000s, Latin American regionalism entered a new phase resulting from the crisis of the 1990s’ processes of liberalization. This deepened Latin American inequality to levels that led the regional turn to the different varieties of the political left, giving rise to the ALBA bloc, as well as a wave of center-left governments, especially in South America. Post-liberal regionalism differs from its previous version because rather than being a liberal integration process, it became a bottom-up construction, a gradual formation of regional governance (especially crisis management) for a more diversified and polarized region.⁵¹ In this process, there has been growing political convergence between the MERCOSUR and ALBA countries.⁵² As a consequence, and given the new centrality of Brazil, the outcome has been the emergence of a new (albeit disputed) Latin American hegemony. With the creation of UNASUR in 2008, and the Community of Latin American and Caribbean

States (CELAC), in 2010, post-liberal regionalism has become a process of the recreation of a new Latin American identity,⁵³ contributing to the new configuration of post-G-7 global governance.⁵⁴

The emergence of the post-liberal Latin American institutions has also weakened the legitimacy and efficacy of the Organization of American States, the inter-American structural arrangements, and even the idea of an inter-American identity. In turn, it has reinforced the regional perception of a relative decline in the U.S. presence, at least in the South American zone. Post-liberal regionalism has also been accompanied by the emergence of a double geo-economic fault line, between North and South America, and between Atlantic and Pacific South America. The main rationale for this north/south geo-economic divide has been the consolidation of the integration of Mexico and the Central American and Caribbean economies into the NAFTA zone. Conversely, it has also meant the reorientation of the international economic involvement of South America toward the Chinese economy. As shown by economist Germán King and his colleagues, “Between 2000 and 2005, China overtook Japan as the region’s leading Asia-Pacific trading partner,” and “is likely to overtake the European Union as the region’s second trading partner around 2014–2015.” There are significant variations in the distribution of Asian–Latin American trade, which have important economic and political consequences: “While on average Asia accounted for slightly over 16.5 percent of the region’s exports on average between 2007 and 2010, it receives almost 40 percent of Chilean and Peruvian exports and over 24 percent of Brazilian exports. At the other extreme, Asia receives 10 percent or less of total exports from Mexico, Central America (except for Costa Rica), and most Caribbean countries.”⁵⁵ As a consequence, during the last decade China has dramatically increased both its economic leverage and its political influence in South America, something that is being taken in consideration in wider policy designs. Asia is expected to account for nearly 60 percent of world economic growth between 2012 and 2022, and from the Asia-Pacific viewpoint, Latin America and the Caribbean has yet to become a major trading partner.⁵⁶ Given that in the foreseeable future South-South trade and cooperation will grow more than North-South economic relationships, they are being seen as entailing an increase

in the current shift of Latin American (and especially Southern American) foreign policies toward a less United States–centric and Eurocentric and a more balanced policy mix.

The current and expected increase in Asian–Pacific–South American economic and political cooperation has strategic, positive consequences for Chile. This cooperation has been seen since the 1990s as the wider framework within which Chile aims at consolidating its role as a southern bridge between the two shores of the Pacific Ocean. The Atlantic/Pacific divide is related to the emergence of the Pacific Alliance (PA) as a deep, liberal integration process, whereby the PA is aimed at becoming a joint platform for a politically articulated projection to the Asia-Pacific region. The PA was proposed by Peruvian president Alan Garcia and founded in 2011 as an integration institution. It was preceded by the Arc of the Pacific, and its members are Chile, Colombia, Mexico, and Peru.⁵⁷ Its goals are deep integration to advance toward the free movement of goods, services, capital, and people; to foster the growth, development, and competitiveness of the economies of the parties aiming at better welfare, the overcoming of socioeconomic inequality, and the social inclusion of its population; and to become a platform of political articulation, economic and trade integration, and projection to the world, with special emphasis on the Asia-Pacific region. Sixteen countries have been accepted as observers, including Uruguay, Paraguay, Ecuador, Panama, Costa Rica, El Salvador, the Dominican Republic, Honduras, Guatemala, Canada, Japan, Australia, and New Zealand.⁵⁸

The PA has been received with growing concern by the MERCOSUR countries, especially Brazil. Several dynamics of the PA feature an “Atlantic” perception. One is the relatively ideological discourse that the PA has assumed regarding the rest of the leftist or state-dominated capitalist-oriented countries. The PA was presented by some of its founders as in opposition both to post-liberal regionalism and to MERCOSUR’s protectionism. Despite how this may change in the future, the PA is behaving in an ideologically similar way to ALBA. It is being perceived by Brazil and Argentina as an open challenge to MERCOSUR and UNASUR. In contrast to previous waves of Latin American integration that have stressed long-term objectives of convergence, the PA and MERCOSUR have not yet

established any institutional dialogue. As one qualified observer explains, “It should be noted that the relations of countries of the Alliance of the Pacific with MERCOSUR countries and especially with Argentina and Brazil are very close and transcend trade.”⁵⁹ However, there are no plans to begin any kind of sub-regional economic integration and convergence.⁶⁰ The presence of Mexico in the PA, and the very favorable position that the PA countries are—at least publicly—exhibiting in the TPP negotiations, are being perceived as signifying the de facto political alignment of the PA with the U.S. global and regional posture regarding the G-20 and multilateral trade negotiations, but also regarding regional trade politics. Since the failure of the FTAA in 2005, the PA has constituted the strongest free trade initiative in South America.

*Chile and the TPP: The complexity of the new scenario.*⁶¹ Except for ASEAN, Chile is a member state of all the institutions—multilateral (WTO), regional (APEC, CELAC), and sub-regional (MERCOSUR, PA)—involved in the current global, Asia-Pacific region, and Latin American debate. As has been seen, Chile has exhibited and developed a long-standing commitment to free trade both in the Americas and to its pioneering Asia-Pacific vocation. It was the first South American country to recognize the People’s Republic of China and the first one to enter APEC in 1994, and it has operational FTAs with twelve of the twenty-two APEC economies, as seen in table 1. Chile is also a founding member of the P-4. Despite the formal beginning of the TPP negotiations in March 2010, there were also previous preliminary talks because the P-4’s members conceived of it as an open agreement for the Asia-Pacific economies. The outlook was consistent the APEC Bogor Goals of creating an APEC Free Trade Area (AFTA). In trying to increase the P-4’s critical mass and to articulate a common approach to the Asia-Pacific region, Chile devoted significant efforts to bringing Peru and Colombia into the group. In this context, which initially seemed to stagnate, an agreement emerged to negotiate an investments chapter, which had been pending since the initial P-4 agreement. In this moment, the United States requested its participation. In 2009, the P-4 was expanded and negotiations for the TPP began with Australia, the United States, Peru, and Vietnam. Malaysia entered the process in 2010, and Canada and Mexico in 2012—and thus it is now called the TPP-11. In 2013, Japan announced its decision to participate in the negotiations.

The TPP has become, however, a completely different trade arrangement from the P-4. First, the entrance of the United States was a qualitative change regarding the original group, because of the asymmetry and the political content that the United States has brought in the context of the WTO's paralysis, the United States' need to find new markets to expand its economy, and the U.S. shift to the Pacific. Second, the developed economies clearly predominate in the new group. The P-4 was absorbed by the main new TPP partners, among which the United States has set the standards. For Chile, this means that the expansion should be assessed on its own merits and regarding its trade interests, in the context of its global, regional (Latin American), and biregional (Chile's role in Latin America's relations with the Asia-Pacific region) long-term political and economic goals. A preliminary assessment raises two issues for Chile vis-à-vis the TPP.

The first issue is Chile's trade negotiating position at the TPP: High costs, not yet clear gains. During its seventeen rounds from March 2010 to May 2013 and in its twenty-nine chapters, the TPP has been negotiating the most ambitious trade standards to date; and in contrast to the WTO and APEC, there is a clear asymmetry between the member states, while the point of departure is the standard set by the United States.⁶² The TPP was being negotiated under the "single undertaking" rule. Advances have been significant, and the most complex issues have been identified and isolated. The TPP's resolution rested on the final ratification of the advances in other areas. As shown in table 2, Chile was the only negotiating country that had FTAs with every TPP member state, and this put its negotiating posture in a different perspective from the rest of the participants. As Furche has shown, under the original framework of the negotiation, Chile could obtain only marginal benefits and did not have—or should not have—incentives to yield in sensitive areas such as intellectual property rights, digital rights, and capital movements, where other countries should have powerful incentives to negotiate. Although some countries have been able to act on their own agenda, others have been open to yielding because they may obtain advantages in market access to goods and services in new countries. For example, New Zealand did not have agreements with the United States, Mexico, Canada, and Peru. With different degrees, all the other TPP countries were in similar situations. In other cases, countries had just signed

Table 2. Chilean Bilateral FTAs with the members of TPP, China, South Korea, and Japan, and Coverage

| Country | Type of Trade | | | | | | |
|----------------------|---------------|----------|-------------|------------------------------|-------------|-------------|-------------------------|
| | Goods | Services | Investments | Intellectual Property Rights | Environment | Labor | State-Owned Enterprises |
| TPP members | | | | | | | |
| Australia | Yes | Yes | Yes | Yes | No | No | Yes |
| Brunei | Yes | Yes | No | Yes | No | MOU | Yes |
| Canada | Yes | Yes | Yes | No | Yes | Yes | Yes |
| United States | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Malaysia | Yes | No | No | No | No | No | No |
| Mexico | Yes | Yes | Yes | Yes | No | No | Yes |
| New Zealand | Yes | Yes | No | Yes | No | MOU | Yes |
| Peru | Yes | Yes | Yes | Paragraph | No | No | No |
| Singapore | Yes | Yes | No | Yes | No | MOU | Yes |
| Vietnam | Yes | No | No | No | No | No | No |
| China | Yes | Yes | Yes | No | No | No | No |
| Japan* | Yes | Yes | Yes | Yes | Side letter | Side letter | No |
| South Korea** | Yes | Yes | Yes | Yes | No | No | No |

* Japan joined TPP negotiations on July 23, 2013.

** South Korea has announced interest in joining TPP negotiations.

Source: Carlos Furche, “Chile y las negociaciones del TPP: Análisis del impacto económico y político,” *Derechos Digitales*, May 2013. Available at <http://www.derechosdigitales.org/publicaciones/>.

Note: MOU = memorandum of understanding.

FTAs with the United States, so they had already incorporated the standards Washington was trying to include in the TPP.

This put Chile in a situation in which most of the parties would bring the negotiations to a level that Santiago would not be normally willing to accept in a context where there was no possibility of obtaining some type of balance in other areas that could justify the cost of new compromises. In contrast to the WTO's multilateral tradition and APEC's "ASEAN Way," during 2013 there were no signals within the TPP regarding the need to address the heterogeneity and to consider the necessary flexibility, given the high level of asymmetry.

In the case of Chile, it needed to maintain what had already been gained in past negotiations, especially in the bilateral U.S.-Chile FTA. The coverage of the TPP negotiations was the same as the scope of the treaty that entered into force in 2004. The FTAs reached with Australia and the P-4 did not have environmental and labor chapters. The Canada-Chile FTA did not include chapters on intellectual property.

In addition, the TPP introduced new disciplines and standards in several chapters and the most sensitive areas of negotiations for developing countries—such as intellectual property rights, regulatory coherence, digital rights, capital flows, labor, and the environment—which reflected the dominant priorities of the developed-country members in the negotiations, particularly the United States. In this case, Washington aims to reopen the already-negotiated chapters in past bilateral FTAs and to obtain additional concessions.

For Chile, the main issue is not the coverage of the negotiations but their scope, because the new standards actually do modify the agreed-on bases in other bilateral FTAs, especially with the United States, which to date has represented the highest level of concessions yielded by Chile to another commercial partner. During the negotiations, the main pressures from the United States have been focused on increasing Chile's concessions regarding the areas of intellectual property rights, capital movements, and the environment that have already been bilaterally negotiated. Pressures were also made on the new disciplines and standards of special sensitivity—like digital rights, regulatory coherence, and state-owned enterprises (SOEs)—without any informed compensation in any area of the agreement. Despite this situation, there has been

no evidence that the new standards and regulations would favor Chilean development; if the negotiations did not include significant trade-offs, the eventual new compromises would limit Chile's short- and long-term room for more balanced, sustainable, and inclusive public policies. Also, the eventual potential benefits that may have emerged from the new disciplines and standards seemed insufficient for a favorable balance from a Chilean perspective, given the magnitude and sensitivity of the eventual concessions that Chile would need to make. Additionally, Chile would have benefited from the TPP if economies other than the United States would have been able to grant access in areas and disciplines that had been previously neglected by Santiago. For Chile, the most important innovation in the TPP negotiations could be the entrance of Japan in July 2013, depending on the Japanese posture in relation to the pending areas in the bilateral FTA with Chile, which would eventually benefit the Chilean food agribusiness. Japan may have been the most important case, but it was not the only one.

The second issue is the global and regional political consequences of the TPP for the Chilean Foreign Policy. Beyond its legitimate economic and trade calculations, Chile should assess the negotiations at the TPP by balancing the partnership's global, interregional, and regional consequences against its foreign policy goals and agenda. The TPP has been transformed into the most important vehicle for the implementation of the new U.S. global policy regarding China, but also in relation to emerging and developing countries at the WTO. In this rationale, participation in the TPP, whether active or passive, is becoming functional to a global U.S. strategy of balancing Chinese influence at the global level and in the Asia-Pacific region.

This new policy is being executed in relation to one of the most sensitive international issues, trade, and through the introduction of trade standards that the United States has not been able to obtain at the multilateral trade institution, the WTO. Its effects may go even further because of the linkages among trade and many other policy areas. In this sense, and despite the fact that the politics of trade may not be similar to the other global issues currently under negotiation, a similar pattern could be applied while the multilateral and G-20 paralysis persists. Since a more cosmopolitan, *deliberative* style of global governance was inaugurated by the G-20 in 2009, the TPP may be heralding a new, *antagonistic*, polarized phase in international politics.

This emerging political picture constitutes a complex foreign policy scenario for the region, given that the United States and China are Chile's (and Latin America's) two main trading partners. The consequences for the politics of the entire Asia-Pacific region are still to be seen, and Chile's dilemma is beginning to be felt by several other countries. For instance, South Korea reacted cautiously and ambiguously regarding the TPP because of the entire range of legitimate political calculations.⁶³ The entrance of Japan into the TPP was a significant moment. Despite the initial short-term analysis, which may have considered this move by Japan to represent its mechanic alignment with the United States, and given its multilateral stance in global affairs, its deep economic interdependence with and strategic and geographic proximity to China, Japan may also play an influential, moderating role within the TPP. In the meantime, Japan negotiated a trilateral FTA with China and South Korea, and participated in the East Asian negotiations with China, India, and the ASEAN countries. The TPP was also put in the context of the emerging interregional Asia-Pacific-Latin American relationship, which was exhibited in significant recent events. Among others, in 2012, the Chinese prime minister visited South America and proposed the negotiation of an FTA with MERCOSUR as part of a wider vision for south-south development. If the East Asian countries consolidate their perception of the TPP as a U.S. initiative, this will diminish its interest as a strategy for the Asia-Pacific region for Latin American countries. From the other side, if Chile and Peru continue their participation in the TPP, it could decrease the interest of the East Asian and Chinese sides in the PA.

Additionally, an eventual alignment of Chile, Peru, and Mexico with the U.S. policy will have a significant impact on Latin American and Southern American regionalism and integration, as well as on these countries' relationships with Brazil, which coordinates its global and multilateral policies with the BRICS at the UN and the G-20, with MERCOSUR, and with ALBA. In turn, this could regionally isolate and weaken the PA and limit its important potential for regional integration and access to the Asia-Pacific region. Despite the high standards Peru had to pay for its FTA with the United States,⁶⁴ how the United States treats its negotiations with Vietnam and Chile will be also followed with special attention in each region. In the case of Vietnam, how the TPP-11 accommodates the country will set a precedent for future developing

countries.⁶⁵ In the case of the Chilean negotiations, their relevance is related to the symbolic importance that Washington has attributed to Chile as a democratic, free market “model” for Latin American countries.

PRELIMINARY CONCLUSIONS: A NEW PHASE AND EVOLVING CHALLENGES FOR CHILE'S FOREIGN AND ASIA-PACIFIC POLICIES

The future of Chile's presence in the Asia-Pacific region will continue to be a top priority for the country's foreign policy in the coming decades. Most (albeit not all) Chilean and Latin American growth in the current century will be based on the country's and region's economic integration with the Asian economies.⁶⁶ Chilean and Latin American involvement in the Asia-Pacific region is now becoming not just a matter of trade but also of an increasingly politicized foreign policy, as a consequence of the more politicized, polarized global environment since the 2009–12 stalemate at the most important global multilateral negotiations (the UN, WTO, United Nations Framework Convention on Climate Change, Disarmament and Non Proliferation and plurilateral negotiations [the G-20]).

Chile's policy toward the region has completed a cycle of market access and has entered a new phase, which features new challenges for its economic international involvement in the world and the PA, which are two-sided, domestic, and international. On the domestic side, Chile's mass mobilizations are demanding a redefinition of its strategy of development, addressing simultaneously its interrelated, high levels of inequality and its stagnant levels of productivity. Until now, Chile's policy toward FTAs has done little for this situation because of its high levels of concentration in products and companies, and low level of job creation. However, this can be corrected through a policy of economic involvement that is explicitly aimed at reducing Chile's inequality and increasing its competitiveness. The most direct way (although not the only way) to link foreign policy with efforts to reduce inequality is to develop a carefully calibrated strategy that combines massive domestic support for SMEs, detailed plans for identifying Chile's involvement in the Asia-Pacific region's (and global)

value chains, and a special effort to deepen its integration with the other Latin American countries because of the higher competitiveness of its manufactures.⁶⁷ Intra-regional trade is still low in comparative terms, but is more diversified, more intensive in manufactures, and friendlier toward SMEs, especially export-oriented SMEs.⁶⁸

In turn, the international side also has several dimensions. To address its weaknesses with respect to competitiveness in the international economy, Chile's economy must continue to open new markets, but this will be a secondary task. In the coming years, the focus of the country's international economic policy must advance from the current market access-oriented rationale toward a value chain-oriented one, in which FTAs should be the platforms and the instruments for establishing strategic alliances with the main partners in investment and technology. In turn, these alliances should be a central part of a national strategy for innovation. FTAs should increase the presence of Chilean companies in international networks of innovation. The goal should be to develop joint operations in technology, distribution, marketing, patents, and intellectual property rights with American, European, Asian, and, especially, other Latin American companies in order to reach third markets.⁶⁹ In this effort, maintaining an active presence in the Pacific Basin is a consensual understanding for Chile. Achieving a more symmetric TPP that is able to balance the interests of all of its member states will be the most important challenge. Also, increasing Chile's participation in multilateral institutions like APEC and the Forum for East Asia–Latin America Cooperation will be of critical importance, as well as its roles in the ASEAN and the PA, which should be understood as an open, nonideological, and non-politically aligned institution. Chile should avoid the current trend to deepen the regional divides in the Asia-Pacific region and in Latin America. On the contrary, at a more political level, it should promote a strong policy of convergence between the Latin American sub-regional integration processes to build an open, regionalist *South American fabric*, for both political and economic reasons. Also, the country should promote a strengthened South-South and North-South dialogue and cooperation to build less asymmetric and more democratic plural and multilateral institutions, as part of a collective effort to build more democratic global governance for the twenty-first century.

NOTES

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6. Arlene B. Tickner, “Hearing Latin American Voices in International Relations Studies,” *International Studies Perspectives* (2003) 4: 325–50; “Seeing IR Differently: Notes from the Third World,” *Millennium: Journal of International Studies* 32 (2003): 295.
7. Robert Burr, *By Reason or Force: Chile and the Balancing of Power in South America, 1830–1905* (Berkeley: University of California Press, 1967); Frederick B. Pike, *Chile and the United States 1880–1962* (Notre Dame, Ind.: University of Notre Dame Press, 1963); Tanya Harmer, *Allende’s Chile and the Inter-American Cold War* (Chapel Hill: University of North Carolina Press, 2011).
8. Some areas of Chilean-U.S. multilateral disagreements have been the reform of the UN Security Council, the UN and the Group of Twenty, the Bretton Woods institutions, disarmament and nonproliferation, trade, and global warming, along with inter-American and regional institutions. There have been fewer disagreements between Chile and the European Union at the multilateral level.
9. Tickner, “Hearing Latin American Voices.”
10. Dirección de Relaciones Económicas Internacionales (DIRECON), *Chile: 20 años de negociaciones comerciales*, Ministerio de Relaciones Exteriores de Chile (Santiago: B&B Impresores, 2009); Carlos Furche, *Balance de la política comercial: Impacto y lineamientos para una nueva agenda*, ICSO Working Paper (Santiago: Instituto de Investigación en Ciencias Sociales of Universidad Diego Portales, 2011), <http://www.icso.cl/wp-content/uploads/2011/09/Carlos-Furche-Working-Paper-ICSO-Taller-3.pdf>.
11. MERCOSUR (or MERCOSUL, in Portuguese) is, in Spanish, Mercado Común del Sur; in Portuguese, Mercado Comum do Sul; in Guarani, Ñemby Ñemuha; and in English, Southern Common Market.

12. ALBA includes Cuba, Venezuela, Ecuador, Bolivia, Nicaragua, and three Caribbean states, Dominique, Saint Vincent and the Grenadines, and Antigua and Barbuda.
13. During this period, Chile asked the United States to support its process of military modernization, which led Chile to acquire a sophisticated U.S. weapons system and transformed Chile into the main regional buyer of U.S. military equipment. Colombia has been Chile's main strategic partner, but it has been assisted by the United States–financed Plan Colombia.
14. DIRECON, “Cuadro resumen de Acuerdos,” 2013, <http://www.direcon.gob.cl/pagina/1897>.
15. Jorge Heine, “Nuevo Orden Internacional y Política Exterior de Chile,” unpublished paper, Instituto de Investigación en Ciencias Sociales of Universidad Diego Portales, 2013, 6.
16. Manfred Wilhelmy, “La trayectoria de Chile frente a la región del Asia Pacífico,” *Estudios Internacionales* 167 (2010): 125–41.
17. Chile was the first South American nation to recognize the People's Republic of China in 1971. Since then, both countries have nurtured their links without interruption, even during the Chilean military regime.
18. Heine quotes the Chilean newspaper *La Tercera*, August 14, 2012, announcing that “Chile e India negociarán tratado de libre comercio a fines de 2012.” Heine, “Nuevo Orden Internacional,” 8.
19. The Bogor Goals were set at the 1994 APEC Summit in Bogor, Indonesia. They aimed at creating a “free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies.” See the APEC Official Website at <http://www.apec.org/About-Us/About-APEC/History.aspx>, accessed February 5, 2014.
20. Furche, *Balance de la política comercial*.
21. Among others initiatives, Chile organized the 2004 APEC Summit in Santiago.
22. DIRECON, “Cuadro resumen de Acuerdos.”
23. International Monetary Fund, *World Economic Outlook Database*, <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx>.
24. Heine, “Nuevo Orden Internacional.”
25. Furche, *Balance de la política comercial*.
26. The figures indicate the Gini coefficient before taxes and transfers. The Gini at disposable income, after taxes and transfers, is reduced to 0.501. See OECD, “Income Distribution,” in *OECD Social and Welfare Statistics* database, doi: 10.1787/data-00654-en.
27. Ramón López, Eugenio Figueroa B, and Pablo Gutiérrez C., “La ‘parte del león’: Nuevas estimaciones de la participación de los súper ricos en el ingreso de Chile,” Serie Documentos de Trabajo 379, Facultad de Economía y Negocios, Universidad de Chile, 2013.
28. World Economic Forum, *Global Competitiveness Report 2012–2013* (Geneva: World Economic Forum, 2012), <http://reports.weforum.org/global-competitiveness-report-2012-2013/>.
29. Osvaldo Rosales V., “La inserción internacional de Chile en la segunda década del siglo 21 (economía y comercio),” unpublished paper, Instituto de Investigación en Ciencias Sociales of Universidad Diego Portales, May 2013, 5.

30. Richard Baldwin, *WTO 2.0: Global Governance of Supply Chain Trade*, Policy Insight 64 (Washington, D.C.: Center for Economic and Policy Research, 2012).
31. Rosales, "Inserción internacional de Chile," 3–14. For a regional overview, also see Comisión Económica para América Latina y el Caribe (CEPAL), "Comercio internacional y desarrollo inclusivo. Construyendo sinergias" (Santiago: CEPAL, 2013).
32. Alicia Frohmann, "Regionalismo en el Asia Pacífico: ¿Una oportunidad para Chile?" *Estudios Internacionales* 167 (2010): 113–24.
33. Rosales, "Inserción internacional de Chile."
34. Edmundo Vargas, "La política exterior de Chile en Derechos Humanos," in *La Política Exterior de Chile, 1990–2009*, edited by Mario Artaza and Cesar Ross (Santiago: RIL Editores, 2012).
35. DIRECON, "DIRECON participa en conformación del consejo empresarial Chileno-Ruso (CECHR)," 2013, <http://www.direcon.gob.cl/noticia/4046>.
36. Frohmann, "Regionalismo en el Asia Pacífico," 117. Author's translation.
37. The RCEP is an FTA negotiation that has been developed among sixteen countries: the ten members of ASEAN—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam—and the six countries with which ASEAN has existing FTAs—Australia, China, India, Japan, South Korea, and New Zealand. In relation to RCEP, these six non-ASEAN countries are known as the ASEAN Free Trade Partners (AFPs).
38. Garretón, *Neoliberalismo corregido*; Alberto Mayol, *El derrumbe del modelo: La crisis de la economía de mercado en el Chile contemporáneo* (Santiago: LOM, 2012).
39. One of the first caveats regarding the G-20 was launched by Ian Bremmer and Nouriel Roubini, "A G-Zero World: The New Economic Club Will Produce Conflict, Not Cooperation," *Foreign Affairs* 90, no. 2 (March–April 2011).
40. Hillary Clinton, "America's Pacific Century," *Foreign Policy*, October 11, 2011; Tom Donilon, "The United States and the Asia-Pacific in 2013," remarks by Tom Donilon, national security adviser to the president, as Prepared for Delivery, Asia Society, New York, Monday, March 11, 2013.
41. The concept of balance is defined as a shift of the gravity center of the U.S. foreign policy rather than in the traditional balance of power. However, in public opinion and communities of non-specialists, the term has been widely understood as a policy aimed at balancing China.
42. Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, *Understanding the Trans-Pacific Partnership*, Policy Analysis in International Economics 99 (Washington, D.C.: Peterson Institute for International Economics, 2013), 5.
43. Donilon, "United States and the Asia-Pacific," 15.
44. Schott, Kotschwar, and Muir, *Understanding the Trans-Pacific Partnership*, 11.
45. Baldwin, *WTO 2.0*, 20.
46. Felix Peña, "Helping to Affirm the Efficacy and Relevance of the WTO: One of the Main Challenges Confronting the New Director-General," *International Trade Relations Newsletter*, May 2013, <http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2013-05-helping-to-affirm-the-efficacy-and-relevance-of-the-wto>; "Mercosur and the Alliance of the Pacific: Their Role in Latin American Regional Integration: Are They Opposed or Can

- They Be Complementary?” *International Trade Relations Newsletter*, June 2013, <http://www.felixpena.com.ar/index.php?contenido=negotiations&neagno=report/2013-06-mercosur-and-alliance-of-the-pacific>.
47. United Nations Conference on Trade and Development, “Reflections on the International Trading System and Inclusive Development,” paper given at UNCTAD XIII Special Event, Qatar National Convention Centre, Doha, April 24, 2012, 3.
 48. Schott, Kotschwar and Muir, *Understanding the Trans-Pacific Partnership*, 2.
 49. Aurelia George, “Japan, the U.S., and the TPP: The View from China,” *EastAsiaForum*, May 5, 2013, <http://www.eastasiaforum.org/2013/05/05/japan-us-and-the-tpp-the-view-from-china/>.
 50. Goldman Sachs Global Economics Group, *The Long-Term Outlook for the BRICs and N-11 Post Crisis*, Global Economics Paper 192 (New York, Goldman Sachs, 2009), 22.
 51. José Antonio Sanahuja, *Postliberal Regionalism in South America: The Case of UNASUR*, RSCAS Working Paper (Florence: Robert Schuman Centre for Advanced Studies, 2012); Robledo, *Política exterior de Chile*.
 52. Venezuela entered MERCOSUR in 2012, and Bolivia will enter soon. Ecuador is also considering becoming a full or associate member.
 53. Cuba assumed the presidency of CELAC in January 2013, after the term led by Chile, which has obvious symbolic meanings and political implications. CELAC held its first CELAC-EU Summit in January 2013, in Santiago. The CELAC troika also met with the Chinese and the Indian governments that year.
 54. It is important to stress that Brazil, Argentina, and Mexico have not yet developed a formal or informal mechanism of coordination within the G-20, and that there is not coordination among the Latin American and Caribbean countries with the regional members of the G-20. However, the symbolic effects of CELAC should not be minimized.
 55. German King, José Carlos Mattos, Nanno Mulder, and Osvaldo Rosales, eds., *The Changing Nature of Asia-Latin American Relations* (Santiago: ECLAC, 2013), 15–16.
 56. ECLAC, *Strengthening Biregional Cooperation between Latin America and the Asia-Pacific: The Role of FEALAC* (Santiago: ECLAC, 2013).
 57. The Arc of the Pacific was a wider plan launched in 2006 to create a space for political coordination aiming at deepening and strengthening economic and technical cooperation at the regional level and developing a coordinated project for the Asia-Pacific region. It was joined by Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. See ECLAC, *El Arco del Pacífico Latinoamericano y su proyección a Asia-Pacífico* (Santiago: ECLAC, 2008).
 58. For information on the PA, see <http://alianzapacifico.net/>.
 59. Peña, “Helping to Affirm the Efficacy and Relevance of the WTO.”
 60. There is not yet any literature about the PA-MERCOSUR and Brazil relationships. This section is based in personal interviews by the author with Brazilian official and scholarly sources.
 61. This section about Chile and the TPP draws on. Carlos Furche, “Chile y las negociaciones del TPP: Análisis del impacto económico y político,” *Derechos Digitales*, May 2013. Available at <http://www.derechosdigitales.org/publicaciones/>.
 62. Schott, Kotschwar, and Muir, *Understanding the Trans-Pacific Partnership*.

63. "Korea May Seek to Join TPP Negotiations, Seoul Trade Ministry Says," *Daily News*, September 9, 2013, as quoted by World Trade Online, <http://insidetrade.com/201309092446199/WTO-Daily-News/Daily-News/korea-may-seek-to-join-tpp-negotiations-seoul-trade-ministry-says/menu-id-948.html>.
64. The United States and Peru signed the United States–Peru Trade Promotion Agreement (PTPA) on April 12, 2006, and it entered into force on February 1, 2009. As the Office of the U.S. Trade Representative has stressed, the PTPA "is the first agreement in force that incorporates groundbreaking provisions concerning the protection of the environment and labor rights that were included as part of the Bipartisan Agreement on Trade Policy developed by Congressional leaders on May 10, 2007." See Office of the U.S. Trade Representative, "Peru Trade Promotion Agreement," <http://www.ustr.gov/trade-agreements/free-trade-agreements/peru-tpa>.
65. Schott, Kotschwar, and Muir, *Understanding the Trans-Pacific Partnership*, 8.
66. Patricio Meller and Rodrigo Moser "Análisis de las Exportaciones de Latinoamérica: Diversificación/Concentración," documento preparado para la Conferencia Internacional CAF-CIEPLAN, *Análisis de las Relaciones Económicas Chileno-Asiáticas, Lecciones para América Latina*, 2013, 32, available at www.cieplan.cl.
67. Among other critical areas, foreign policy has developed new-generation cooperation policies aimed at strengthening cooperation with developed countries in advanced human capital education and clean energy. See Ministerio de Relaciones Exteriores de Chile, *Hitos de la política exterior durante el gobierno de la Presidenta Michelle Bachelet*. Santiago: Ministerio de Relaciones Exteriores/Maval Impresores, 2010. Available at http://www.minrel.gob.cl/minrel/site/artic/20091230/asocfile/20091230083503/hitos_final__en_pdf__21_dic.pdf; and Ministerio de Relaciones Exteriores de Chile, *Perspectivas, Proyecciones y Desafíos de la Política Exterior de Chile*. Santiago: Ministerio de Relaciones Exteriores/Gráfica Puerto Madero, 2010.
68. Rosales, "Inserción internacional de Chile," 34.
69. *Ibid.*, 21. See also Alejandro Foxley, ed., *Desafíos post crisis de América Latina: Vínculos con Asia y Rol de los recursos naturales* (Santiago: CIEPLAN, 2013).

CHAPTER 5:

Brazil-Asia Trade: Emerging Configurations

Adriana Erthal Abdenur

During the past decade, Brazil's cooperation with Asia has boomed. Although these expanding relations include areas of cooperation such as development, science and technology, and education, as well as investment, the trend is particularly clear in commercial and investment flows. Brazil's bilateral trade with most of its Asian partners more than doubled between 2002 and 2012. Commercial flows between Brazil and East Asia, Southeast Asia, and Central Asia now total some \$140 billion.¹ There was a significant surge in investments with certain bilateral partners, particularly China and Japan, as well as significant increases with India and the economies that belong to the Association of Southeast Asian Nations (ASEAN). This chapter examines these changing dynamics in Brazil's cooperation with Asia, focusing on trade and investment. What are the main drivers for this enhanced cooperation, and what are the key challenges? How has the Brazilian government been reshaping its trade strategy in response to the changing global context, and what role does Asia play within this changing approach? The chapter explores some of these questions through an analysis of trade patterns, policy initiatives, and the broader context of Brazil's global trade strategy. However, rather than explaining these trends merely in terms of economic interest, the chapter casts a wider net to consider some of the political and strategic considerations that help to propel (or, in some contexts, limit) Brazil-Asia trade and investment.

The recent policy and academic literature on Brazil-Asia trade tends to stress two points: The first is the dramatic increase in Brazil-China ties, primarily in commerce, over the past fifteen years; the second is the role of Asian

demand for Brazil's commodities, and the corresponding abundance of these resources, as driving Brazil-Asia relations. Although these factors help explain the growth of trade flows, the analysis presented here suggests that a narrow focus on these two dimensions tends to oversimplify the scope, variety, and dynamism of Brazil's relations with Asia. First, even before China's economic takeoff, some Asian countries were already important commercial and investment partners for Brazil—especially Japan, which remains a solid and reliable partner for Brazil through economic booms and busts. Second, although China has since become the most important of Brazil's partners in Asia, there has been a significant diversification of Brazil's trade and cooperation partners across the region. This diversification encompasses not only Brazil's historical partners, such as Japan and South Korea, but also relatively new ties, such as those with India and Indonesia, and even the small island countries of the Pacific. This branching out is also reflected in the number of strategic partnerships that Brazil has been forming in Asia since its landmark 1993 agreement with China. Finally, though Asian demand for natural resources is no doubt a core motivation for Asia's growing relations with Brazil, it is far from the only significant factor. The recent patterns in Brazil-Asia trade are explained not by only economic factors but also by political considerations.

The resulting surge in trade and investment, among other cooperative ties, has added dynamism to the Brazilian economy, expanding the diversity of goods available to Brazilian consumers and offering new areas for knowledge exchange, including science and technology programs. Nevertheless, these ties have also generated new asymmetries, along with significant institutional and structural challenges. The trade balance consistently benefits the Asian partners far more than Brazil, with Asian manufactured goods being exchanged for a narrow basket of commodities. What is more, Brazil has proved unable to move beyond its status of raw inputs provider, and Brazilian products directly compete with Asian goods not only in Brazil but also in key third markets.

Despite the persistence of structural issues that contribute to Brazil's low levels of competitiveness and innovation—including poor physical infrastructure and low-performing public education—attempted reforms have been diminished by piecemeal implementation or thwarted by interest groups, generating limited results. A coherent, longer-term economic

cooperation strategy by Brazil in its relations with Asia will need to not only redress these structural problems domestically but also muster the political will to overcome the “addiction to commodities” that contributes to the growing asymmetries in its trade with Asia. Finally, the uneven growth of the Brazilian economy—0.9 percent GDP growth in 2012, followed by 2.3 percent in 2013,² falling again in early 2014—raises the question of whether the Brazilian government will be able to successfully implement long-awaited policy changes to boost productivity and competitiveness, particularly given the rise in labor costs. This is particularly relevant because current projections for growth in Asia also foresee a continuing downturn.³

In addition, the emergence of new configurations of trade blocs—including transregional groupings such as the Pacific Alliance, the Trans-Pacific Partnership (TPP), and the Trans-Atlantic Trade Agreement—is pulling other South American states, along with their Asian partners, in other directions. Given that Brazil is faced with the proliferation of such arrangements even as the roles of the World Trade Organization (WTO) and MERCOSUR remain uncertain, the country’s commercial future will depend greatly on the strategy it develops to cope with rapidly shifting markets and to seize new opportunities while addressing the sources of competition that they may generate.

This chapter is divided into three sections. The first section provides brief background on Brazil’s economic profile and engagement with international trade, as well as with Asia more specifically. This background section also explains some of the key contextual changes reshaping Brazil’s trade relations during the past ten years, including the impact of the global economic crisis and the political impetus for renewed South-South cooperation. Next, the chapter analyzes key trends in the changing trade relationship between Brazil and Asia, both for the region as a whole and for Brazil’s key Asian trade partners: China, Japan, the ASEAN countries, South Korea, and India. The final section examines some of the recent developments that may make a significant impact on this trade relationship—among them, the implications of a sluggish MERCOSUR, the competition presented by the Pacific Alliance, and the implications of a United States–European Union trade deal. The conclusion outlines key challenges for Brazil-Asia trade relations given the ongoing economic slowdown and emerging transregional trade initiatives.

BRAZIL'S ECONOMIC PROFILE

Brazil is currently the world's seventh-largest economy by nominal gross domestic product (GDP), totaling \$2.477 trillion in 2011. This is a significant change in absolute and relative terms as compared with 1980, when Brazil was the planet's sixteenth-largest economy. Brazil has a large (currently nearing 200 million) and rather young population, as well as a vast national territory that is rich in natural resources, including oil, iron ore, and hydroelectric power. During the past decade, the country has acquired a reputation as a global commodities powerhouse. Brazil has become the world's largest net exporter of agricultural commodities, thanks to high levels of agricultural productivity, a sophisticated agricultural exports sector, and significant potential for further expansion. Total Brazilian exports grew by 326 percent between 2002 and 2011, leaping from \$60.4 billion to \$256 billion. During the same period, its imports grew 380 percent, rising from \$47 billion in 2002 to \$226 billion in 2011. Its total trade during this decade grew 350 percent, from \$108 billion in 2002 to \$482 billion in 2011.⁴ Its major exports were iron ores and concentrates (15 percent), oil and derivatives (8 percent), sugar (6 percent), soybeans and derivatives (5 percent), and poultry (3 percent). And its major imports were cars (6 percent), refined oil (5 percent), automobile parts (4 percent), electronic integrated circuits (3 percent), and packaged medicines (2 percent).

This surge in foreign trade has altered vast stretches of Brazil's landscape, with export-oriented cultivation and minerals exploration taking place both along the coastline and within the country's interior. It has also helped to finance efforts to alleviate poverty and mitigate social inequality through policies such as conditional cash transfer programs. The largest of these, Bolsa Família, benefits 13.8 million families comprising almost 50 million people—about a quarter of Brazil's population. Between 2002 and 2012, the number of Brazilians living on less than 70 reais (approximately \$30) a month fell from 8.8 percent to 3.6 percent of the population.⁵

However, both Brazil's GDP and its boom in trade have been subject to oscillations. After experiencing a decade-high of 7.5 percent GDP growth in 2010, its growth slumped to 1.0 percent a year in 2012.⁶ Moreover, Brazil's total trade fell 3.4 percent compared with 2011, with exports

decreasing 5.3 percent and imports shrinking 1.4 percent. In absolute terms, its total trade fell from \$482.3 billion to \$465.7 billion in 2012. Its trade surplus for 2012 was \$19.4 billion—a reduction of 34.8 percent from the figure for 2011, \$29.8 billion. Because Brazil's exports are highly concentrated in mineral and agricultural products, its foreign trade is particularly susceptible to price fluctuations and changes in demand for those key commodities.

Despite the scale of its trade in absolute terms, Brazil remains a relatively closed economy, accounting for a mere 1 percent of total global trade. Recent World Bank data show that Brazil is the country that imports the least in the world as a proportion of its GDP. In 2011, its imports of goods and services accounted for no more than 13 percent of its GDP, which placed it dead last on the list of 179 countries surveyed (in comparison, China's ratio of imports to GDP was 27 percent; India's was 30 percent; and Argentina's was 20 percent). Although Brazil's rich stock of natural and energy resources helps to explain this disparity—as a net exporter of oil and possessor of abundant hydroelectric potential, Brazil does not need to import significant amounts of energy—the country has a long history of protectionism and import substitution. During the “Brazilian Miracle”—a term that refers primarily to a five-year period between 1969 and 1973, during the military regime—Brazil experienced double-digit growth (as well as higher income concentration and poverty rates). The government sought to foster industrialization by protecting Brazilian companies from foreign competition, which required it to borrow vast quantities to build the heavy infrastructure needed to support this industrialization drive. When the Organization of the Petroleum-Exporting Countries raised oil prices in 1979, Brazil—which at that time was still dependent on oil imports—became heavily indebted, and its fiscal problems were then compounded by the United States' interest rate raise. With little access to foreign capital, Brazil experienced a long period of economic instability, high inflation, and indebtedness—especially to the International Monetary Fund, which demanded austerity measures and other structural adjustment policies—even as the country transitioned back to democratic rule in the 1980s.

Limited trade liberalization was implemented in Brazil during the 1990s, particularly during the administration of President Fernando Collor de

Mello, but this process was partial and uneven.⁷ Macroeconomic stability was achieved through the 1994 Real Plan, an effort led by the then–minister of finance, Fernando Henrique Cardoso. Despite this achievement, Brazil’s economy remained largely inward oriented. However, its exports did begin to grow significantly after the turn of the millennium, fueled particularly by Asian demand for iron ore, soy, and other commodities.

Strong lobbies by key industries have limited the Brazilian government’s willingness to further liberalize the economy.⁸ According to one Brazilian scholar, “The prevailing mind-set in the last 70 years—with a short interval in the mid-1990s—tells the government to pick winners and nurse them with a recipe of trade protection, tax breaks, and loads of subsidized credit.”⁹ In addition, external factors reinforce Brazil’s economic isolation. Brazil’s export diversification strategy has been limited in part by the maintenance of trade restrictions by many countries. Moreover, some of Brazil’s trade issues can only be negotiated through MERCOSUR. The initiative has become weakened in recent years, with members divided over whether the institution should remain focused on regional trade, ongoing controversies about the politicization of the group, and the creation of the Unión de Naciones Suramericanas (UNASUR; Union of South American Nations)—all of which have cast some doubt on the usefulness of MERCOSUR. Most important, some MERCOSUR members (notably, Argentina) have not been eager to open up trade, hampering negotiations on transregional agreements. Despite talks to negotiate free trade agreements with China and South Korea in the aftermath of visits by China’s President Hu Jintao and South Korea’s President Roh Moo-Hyun to MERCOSUR countries, discussions have advanced very little.¹⁰ India signed a Framework Agreement with MERCOSUR in June 2003 that led to the Agreement on Fixed Tariff Preferences in 2009, yet this preferential trade agreement only covers a limited list of products. India has recently expressed a desire to expand the agreement, broadening the products covered, but progress has been slow.¹¹

Brazil’s low degree of economic openness helps to explain the somewhat limited importance of trade to the Brazilian economy even with the commodities export boom. Although Brazil has large and well-developed agricultural, mining, manufacturing, and service sectors, trade remains a rather

small component of its overall economy, accounting for about 20 percent of its GDP. This characteristic is relevant to Brazil-Asia relations not only because it means that policymakers' attention is often focused on topics other than trade, but also because it represents a significant divergence from the Asian growth models based on export-led strategies and insertion into global value chains.¹² For all the comparisons being drawn between Brazil's developmental trajectory and Asian state-led growth models, Asian economies have been far more open to trade, and they are much more deeply integrated into regional production chains. In contrast—and in spite of the Brazilian Workers' Party's strong rhetoric about deepening ties with the rest of South America—Brazil remains largely isolated from its neighbors, with little de facto infrastructure and production integration. These differences are important in explaining not only past trends but also some of the key limitations of current Brazil-Asia trade and investment patterns.

BRAZIL'S TRADE WITH ASIA

Key Trends and Patterns

Despite the relative closed nature of the Brazil's economy, commercial ties between Brazil and Asia have grown significantly in comparison with a decade ago.¹³ Among all the regions with which Brazil trades, Asia registered the greatest increase in commercial ties with Brazil between 2002 and 2011—a jump of 770 percent. In comparison, although Brazil's trade with South America also grew during this period, it expanded by “only” 403 percent.¹⁴ This comparison reflects the growing relative importance of Asia to Brazil's international trade.

In reality, this was not the first surge in Brazil-Asia trade, though the current wave is both qualitatively and quantitatively different from the previous increase. From 1995 to 1998, Brazilian imports from Asia grew more than 250 percent in comparison with 1993. This increase resulted from the efforts of several Asian economies to counteract, through expanded trade, the signs of economic slowdown emerging from Japan during the first half of the 1990s. Taiwan, Singapore, and South Korea continued to

implement their particular styles of state-led developmentalism, while other Asian economies experienced growth—not just China but also Indonesia, Thailand, and India.¹⁵ Although this growth coincided with Brazil’s timid attempts to open up the economy in the 1990s, the major driver of the surge in trade was the Asian initiative to expand exports beyond Asia. The “rise” of these economies—rather than Brazilian initiative—thus set the stage for the boost in transregional trade that took place approximately a decade later. The pattern of goods traded was also established at that time: Brazil’s exports to Asia consisted mostly of commodities, whereas imports were dominated by manufactured goods, including the high-value-added products in which the Asian economies sought to specialize.

The second (and more significant) jump in trade between Brazil and Asia began after the turn of the millennium, as Asia—led by China—experienced high growth, creating new demands for the commodities that Brazil possesses in abundance: iron ore needed for major infrastructure projects, soybeans and derived products for feed and foodstuffs, oil for fuel, and so on. By 2011, as figures 2 and 3 indicate, Asia accounted for nearly one-third of Brazil’s exports and a similar proportion of its imports. Yet however grander in scale this flow may be from the previous (1990s) jump in Brazil-Asia trade, it differs little from that previous wave in term of content; Brazilian exports to Asia continue to be made up of mostly minerals, soy and soy products, sugar and alcohol, steel products, oil and derivatives, poultry, paper and pulp, non-iron metals, cigarettes, and aircraft.¹⁶ Imports from Asia, conversely, consist primarily of manufactured goods such as electronics.

The dramatic expansion of trade ties between Brazil and Asia during the past decade was also evident with regard to specific trade partners. By 2011, not only was China Brazil’s main trade partner (figure 4); Japan and South Korea also figured in the list of top destinations for Brazilian exports. These three countries also appeared among the key sources for Brazilian imports (though not in the same order; by then, South Korea had surpassed Japan) (figure 5). In fact, as tables 1 and 2 show, Brazil’s trade with most of its Asian partners more than doubled between 2002 and 2011. Thus, despite the clear centrality of China to this booming trade, and the continued relevance of both Japan and South Korea, Brazil’s commercial ties to the region are now far more diversified, with vastly expanded ties to Indonesia,

Table 1. Brazilian Exports to East Asia

| Importing Countries | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 (Jan-May) |
|---------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| China | 2.521,0 | 4.533,4 | 5.441,7 | 6.835,0 | 8.402,4 | 10.748,8 | 16.522,7 | 21.003,9 | 30.785,9 | 15.744,8 |
| Japan | 2.102,5 | 2.315,6 | 2.744,2 | 3.482,6 | 3.894,5 | 4.321,3 | 6.114,5 | 4.269,7 | 7.140,8 | 3.421,6 |
| Republic of Korea | 852,6 | 1.223,3 | 1.429,6 | 1.896,6 | 1.962,5 | 2.046,6 | 3.133,5 | 2.658,3 | 3.760,1 | 1.445,0 |
| Indonesia | 256,6 | 322,9 | 382,9 | 498,4 | 481,8 | 693,4 | 1.143,1 | 1.150,6 | 1.662,9 | 410,6 |
| Thailand | 350,3 | 416,5 | 648,0 | 887,9 | 732,0 | 967,5 | 1.565,7 | 1.132,0 | 1.486,4 | 608,6 |
| Singapore | 469,7 | 338,2 | 571,9 | 844,9 | 944,8 | 1.379,2 | 2.107,6 | 1.297,4 | 1.309,3 | 801,1 |
| Malaysia | 281,7 | 225,7 | 283,1 | 406,1 | 647,4 | 679,8 | 877,3 | 810,5 | 1.201,8 | 428,8 |
| Australia | 254,2 | 305,6 | 370,2 | 464,2 | 512,2 | 614,2 | 1.252,9 | 492,7 | 587,1 | 371,2 |
| Vietnam | 27,6 | 25,0 | 38,0 | 61,6 | 129,0 | 216,3 | 334,5 | 334,9 | 463,3 | 270,5 |
| Philippines | 126,8 | 117,5 | 243,4 | 244,4 | 272,6 | 394,5 | 584,5 | 320,5 | 449,4 | 185,1 |
| New Zealand | 30,5 | 36,3 | 51,5 | 54,6 | 56,5 | 72,2 | 81,2 | 39,8 | 46,1 | 48,1 |
| Myanmar | 0,8 | 4,6 | 3,1 | 2,0 | 2,8 | 1,0 | 4,0 | 7,9 | 20,7 | 3,2 |
| Cambodia | 0,6 | 0,7 | 0,7 | 0,7 | 1,7 | 2,9 | 4,9 | 3,6 | 12,3 | 1,0 |
| Mongolia | 0,2 | 0,1 | 1,3 | 1,9 | 1,7 | 2,5 | 5,4 | 2,9 | 2,4 | 4,4 |
| Brunei | 0,2 | 0,3 | 0,3 | 0,6 | 1,0 | 0,5 | 1,6 | 0,6 | 0,6 | 0,3 |
| Laos | 0,0 | 0,2 | 0,2 | 0,1 | 0,1 | 0,0 | 0,1 | 0,0 | 0,1 | 0,0 |
| Total | 7.275,3 | 9.865,9 | 12.240,1 | 15.681,6 | 18.043,0 | 22.140,7 | 33.733,4 | 33.535,2 | 48.929,2 | 23.744,3 |

Prepared by MRE/DPR/DIC – Division of Commercial Information based on data from MDIC/SECEX/AliceWeb. Countries listed in descending order of value in 2010.

Source: Ministério das Relações Exteriores, “Intercâmbio comercial Ásia do Leste x América Latina: FOCALAL,” June 2011.

Table 2. Brazilian Imports from East Asia

| Importing Countries | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 (Jan-May) |
|---------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| China | 1.554,0 | 2.147,8 | 3.710,5 | 5.354,5 | 7.990,4 | 12.621,3 | 20.044,5 | 15.911,1 | 25.594,8 | 12.105,0 |
| Republic of Korea | 1.066,7 | 1.078,8 | 1.729,9 | 2.327,0 | 3.106,3 | 3.391,4 | 5.413,1 | 4.818,6 | 8.421,8 | 4.092,2 |
| Japan | 2.347,5 | 2.520,5 | 2.868,7 | 3.405,0 | 3.839,6 | 4.609,2 | 6.807,0 | 5.367,8 | 6.981,9 | 3.371,8 |
| Thailand | 187,1 | 261,0 | 440,1 | 521,6 | 736,8 | 1.005,2 | 1.420,4 | 1.270,8 | 1.838,7 | 975,6 |
| Malaysia | 357,4 | 444,1 | 515,5 | 637,1 | 901,2 | 1.280,1 | 1.636,8 | 1.225,6 | 1.749,1 | 979,6 |
| Indonesia | 318,1 | 318,4 | 369,8 | 456,1 | 650,2 | 893,8 | 1.109,2 | 987,2 | 1.517,9 | 845,4 |
| Australia | 212,6 | 292,6 | 373,7 | 628,3 | 737,8 | 775,9 | 1.229,3 | 844,0 | 1.353,4 | 459,7 |
| Singapore | 311,9 | 414,7 | 425,3 | 815,2 | 1.188,1 | 1.208,8 | 1.745,2 | 658,4 | 848,3 | 302,3 |
| Vietnam | 15,3 | 22,1 | 31,9 | 47,8 | 75,6 | 107,0 | 200,1 | 219,6 | 473,6 | 241,8 |
| Philippines | 186,2 | 241,5 | 209,0 | 283,2 | 343,1 | 336,0 | 497,3 | 294,4 | 330,0 | 120,1 |
| New Zealand | 34,1 | 22,8 | 27,8 | 30,0 | 27,6 | 28,7 | 77,7 | 52,2 | 45,2 | 17,6 |
| Cambodia | 0,1 | 0,2 | 0,5 | 0,5 | 1,0 | 3,8 | 5,5 | 9,1 | 8,7 | 8,2 |
| Myanmar | 0,1 | 0,0 | 0,1 | 0,5 | 0,9 | 1,1 | 1,4 | 1,3 | 1,2 | 0,3 |
| Brunei | 0,0 | 0,0 | 0,0 | 0,0 | 15,7 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0 |
| Laos | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 | 0,3 | 0,2 | 0,2 | 0,3 | 0,7 |
| Mongolia | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Total | 6.591,1 | 7.764,5 | 10.702,9 | 14.506,8 | 19.614,3 | 26.262,6 | 40.187,6 | 31.660,3 | 49.165,2 | 23.520,3 |

Prepared by MRE/DPR/DIC – Division of Commercial Information based on data from MDIC/SECEX/Aliceweb. Countries listed in descending order of value in 2010.

Source: Ministério das Relações Exteriores, “Intercâmbio comercial Ásia do Leste x América Latina: FOCALAL,” June 2011.

Thailand, Singapore, and Malaysia. Brazilian exports to Indonesia, for instance, increased from \$256.6 million in 2002 to almost \$1.7 billion in 2010 (during the same period, imports grew from \$318.1 million to more than \$1.5 billion). Other, smaller countries saw their exports to Brazil expand rapidly during this period. Vietnam, whose economy is well integrated with that of China, experienced a dramatic growth in its exports to Brazil, from \$15.3 million in 2002 to \$473.6 million in 2010.

As noted by Brazilian diplomat and economist José B. S. Sarquis, these trade relations are characterized several overarching trends: a relative and dramatic decline of manufactures in Brazilian exports to Asia, from about 40 percent at the beginning of the 1990s to about 10 percent in recent years; stagnated or low levels of inter-industry trade; and the replication of those two trends in Brazil's trade relations with the main Asian economies.¹⁷

China

In Brazil's trade relations with China, the patterns noted by Sarquis are very evident. There is no doubt that Brazil-China trade accounts for much of the increase in Brazil's commerce with Asia, both before and after the onset of the global financial and economic crisis in 2008. This is particularly evident after China's entry into the WTO, which allowed it to vastly expand its trade ties. China's dramatic growth, having outgrown a dependence on national resources, required inputs from abroad to continue the expansion of its manufacturing as well as the changing lifestyle of the Chinese population, particularly its fast-growing middle class. Whereas China's top import from Brazil had once been crude oil, starting in the 1990s it had been replaced by iron ore.

In 2009, China surpassed Brazil's historic trading partners like the United States and Argentina to become Brazil's top trade partner, as well as its biggest market for exports. That year, Brazil-China trade reached \$36.1 billion, whereas Brazil-United States trade totaled \$35.6 billion. Trade with China opened up a new front of trade expansion for Brazil, and the trend continued even with the 2008 onset of the global crisis. From 2000 to 2010, Brazilian exports to China increased more than forty times, from \$1.1 billion to \$44.3 billion. The initial shock of the global crisis affected

Brazil-China trade less than Brazil's overall global trade (a reduction of only 1 percent, versus 24.3 percent). In fact, Brazilian exports to China grew 23.9 percent that year, whereas its global exports fell by 22.7 percent. In 2012, however, when both China and Brazil experienced economic slowdowns, the bilateral trade flows fell 2 percent.¹⁸ Brazil's main exports to China were iron ore (\$15 million), soybeans and derivatives (\$12 million), oil and derivatives (\$4.8 million), wood pulp and paper (\$1.3 million), and semi-finished steel and iron products (\$1 million).¹⁹ There was also a substantial increase in Chinese investments in Brazil, with China becoming one of the main sources of investment in Brazil. Conversely, Brazilian investments in China have been far smaller; there are few examples of major Brazilian companies making some headway, such as Embraer's factory in Harbin, which opened in 2003.

Bilateral institutional mechanisms to support this growing link were also strengthened. A High-Level Sino-Brazilian Commission for Coordination and Cooperation (COSBAN) was created in 2006, and its eleven subgroups, each devoted to a specific sector of cooperation, have been meeting regularly on the bilateral cooperation relationship (though the meetings have not been as regular as planned). These efforts were strengthened through President Hu Jintao's visit to Brazil in April 2010, which led to the Brazil-China Joint Action Plan for 2010–14. Subsequent COSBAN meetings were held in Brasília in 2012 and in Guangzhou in 2013. The most recent meeting took place after Brazil's relations with China were upgraded from Strategic Partnership to Global Strategic Partnership, and it was the first edition after China's leadership transition, with the Chinese government under the helm of Xi Jinping. The two parties agreed to diversify commercial and investment ties in the direction of agribusiness, higher-value-added products, and energy and infrastructure.²⁰ China has already become involved in Brazil's pre-salt oil exploration. In October 2013, two Chinese state-owned oil companies—China National Petroleum Corporation and China National Offshore Oil Corporation—joined Brazil's Petrobras, Royal Dutch Shell, and France's Total in a consortium that won the auction bid for Brazil's Libra deep water oilfield.

These efforts take place against the backdrop of closer political alignment between the two countries, including through loose coalitions such as the

Group of Twenty (G-20) and the BRICS grouping (Brazil, Russia, India, China, and South Africa; this partnership was launched in 2006 as BRIC and broadened in 2011 to include South Africa). The private sector has also been active, sometimes in tandem with high-level bilateral and multilateral meetings, with business chambers and forums helping to drum up interest and support for investment. Moreover, growing ties between Brazil and China have a demographic reflection; the Chinese community in Brazil has been expanding rapidly with the recent influx of workers and immigrants, swelling the Chinese diaspora in Brazil to about 150,000 individuals.

Economic relations between Brazil and China, however, have been marked by strong asymmetries, particularly in terms of the composition of trade and the largely unidirectional flows of investment—from China to Brazil. Although some Brazilian firms and associations have explored emerging niches within the Chinese market to boost exports and investments, such as wines, barriers to entry continue to be high. Finally, there is growing competition in third markets, with Chinese exports displacing Brazilian products in the United States, Europe, and Latin America and also in Brazil.²¹

Japan

Despite China's growing leadership vis-à-vis Brazil-Asia trade, Brazil's interdependence with Asia has been historically anchored on its relations with Japan. Brazil has the largest group of Japanese and Japanese-descended persons living outside Japan, with about 1.5 million citizens—representing more than 90 percent of Latin America's population of Japanese heritage. The Japanese-Brazilian communities have played a crucial role in consolidating trade and investment ties, especially since the 1970s, by helping to spur interest by governments, state-owned enterprises, and private-sector companies. However, the bulk of Japanese exports go to other Asian states (58 percent in 2012), with Brazil receiving only 0.8 percent of Japan's exports. In contrast, Brazil was the origin of 12.02 percent of Japanese imports in 2012. Although the Japanese economy has been adversely affected by the recent global crisis, even after its onset Brazil-Japan trade continued to grow, rising from \$12.92 billion in 2008 to \$15.69 billion in 2012. In 2012,

a full 73.2 percent of Brazil's exports to Japan consisted of commodities (especially iron ore), whereas the overwhelming majority of its imports from Japan consists of manufactured products (99.4 percent in 2012).²² Brazil's trade ties with Japan have experienced oscillations. One earlier watershed was the 1997 crisis, which tested the strength of the Japanese economy just as China was starting to take off, and propelled Japan to diversify its trade ties, especially outside Asia, through preferential arrangements. Brazil's imports of Japanese goods grew rapidly, as did its exports of iron ore to Japan. More recently, although Japan has been seriously affected by the recent global crisis, it remains an important trade and cooperation partner for Brazil.

The Brazilian government views Japan as a solid, dependable partner that has stuck with Brazil through both the peaks and troughs of economic cycles. More than 400 Japanese firms invest in Brazil, and there are efforts underway to expand these flows. In May 2013, Brazil and Japan signed an agreement to diversify their bilateral trade and investment ties and to deepen industrial cooperation.²³ Business chambers, including the Japanese entity Keidanren and the Brazil-Japan Economic Cooperation Committee, have also stepped up efforts to deepen economic ties, particularly in two strategic sectors: infrastructure, especially that related to transportation and logistics; and energy, especially given Japan's ongoing efforts to substitute other sources of energy for nuclear power.²⁴

Moreover, there has been substantial cooperation between Brazil and Japan in areas such as shipbuilding. In terms of development assistance, the Brazilian Cooperation Agency (Agência Brasileira de Cooperação, ABC) and the Japan International Cooperation Agency (JICA) have collaborated in innovative triangular cooperation programs, including agricultural projects in Africa; the Pro-Savana agricultural corridor project in Mozambique is perhaps the most visible of these efforts. The two countries are also trying to identify possibilities for joint partnership in third markets in the energy sector. Petrobras, for instance, has invested in Japan by acquiring a refinery in Okinawa. In a recent courtesy telephone call with Japanese chief cabinet secretary Osamu Fujimura, Brazil's minister of development, industry and trade, Fernando Pimentel, stressed Brazil's view of Japan as a strategic partner in Asia, particularly with respect to the

cultural and historic ties between the two countries.²⁵ Hoping to boost science and engineering cooperation, Japan recently agreed to receive Brazilian undergraduate, graduate, and postdoctoral students in related areas to study in Japan starting in 2013.

ASEAN

Brazilian trade with the ASEAN countries (South Korea, Indonesia, Thailand, Malaysia, Singapore, the Philippines, Vietnam, Burma, Brunei, Cambodia, and Laos) grew rapidly between 2003 and 2011, from \$3.15 billion to \$17.744 billion. In 2009, Brazil's trade with the ASEAN countries surpassed its trade with Japan. From 2002 to 2009, the relative weight of ASEAN in Brazil's worldwide trade oscillated between 2.59 percent and 3.57 percent. Brazil-ASEAN trade grew 236.8 percent—much faster than Brazil's global trade (which grew 160.6 percent during the same period). Brazil's exports to the ASEAN countries grew 234.8 percent, and imports increased 239.1 percent. At the same time, there was an attempt to deepen ties between ASEAN and MERCOSUR, although discussions have yielded few concrete results thus far.

Among ASEAN members, the major destinations for Brazilian exports are Singapore, Thailand, Malaysia, and Indonesia; the same countries are the top ASEAN exporters to Brazil. However, Brazil still represents a small market for ASEAN exports, making up only 0.7 percent of the total for 2011.²⁶ ASEAN presents a special opportunity for enhancing Brazil-Asia commercial ties because the bloc has one of the highest intra-industrial trade levels in the world, and because the TPP under negotiation would include ASEAN members such as Malaysia, Singapore, and Vietnam.

Other Asian Partnerships

Among other Asian countries, South Korea in particular has emerged as a promising commercial and investment partner for Brazil, with total trade surging from \$8.547 billion in 2008 to \$13.599 billion in 2012. As with most of its Asian partners, Brazil exports minerals (especially iron ore) and agricultural commodities, and imports manufactured products from South

Korea, especially electrical machines and automobiles.²⁷ The Brazilian government has expressed interest in enhancing cooperation in biotechnology, nanotechnology, and nuclear energy; in 2013, South Korean businesses explored new ways to invest in Brazil, but they also complained about the lack of information and of incentives to attract foreign capital.²⁸

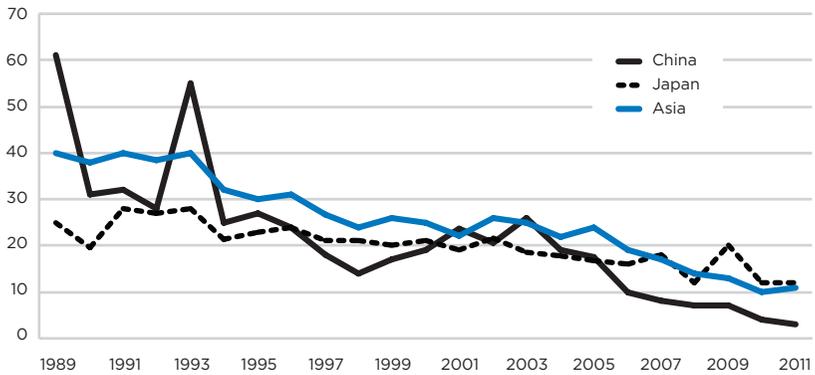
These Brazilian–South Korean economic ties, however, have a deeper history. Although South Korea was deeply affected by the 1997 Asian crisis, like Japan it responded with concerted efforts to expand its trade relationships within and beyond Asia. This strategy resulted in the growth of its trade and investment relations with Brazil. More recently, South Korea's growing concern with energy security has led it to boost relations with South American countries, especially Brazil. South Korean investments in Brazil have grown substantially, but there is no Brazilian investment in South Korea, despite potential opportunities in renewable energy and software.

In the case of India, trade with Brazil has also grown dramatically, from \$1 billion in 2003 to \$10.62 billion in 2012. This surge has been facilitated by deepening ties at the political level, both bilaterally and multilaterally. Prime Minister Mahoman Singh's visit to Brazil in September 2006 launched a Strategic Partnership between the two countries, which helped to boost investment relations. In an effort to further boost these ties and redress the imbalance in its economic relations with India, Brazil has created monitoring groups for trade with India. At the same time, India is taking steps to boost its trade with MERCOSUR by expanding the Agreement on Fixed Tariff Preferences to cover a wider range of products. Brazil's and India's common participation in the G-20, the India–Brazil–South Africa Dialogue Forum, and the BRICS also suggests potential for further cooperation, despite the two countries' frequently divergent positions regarding agricultural trade.

Finally, Brazil's ties with Asia have undergone diversification beyond the key economies, to include many of the smaller countries, even the island nations of the Pacific. Brazil has begun to import textiles from Bangladesh and Pakistan, for instance. The diversification of Brazil's export market in Asia is seen in the case of Embraer, which has sold airplanes not only to China and Japan but also to India, Australia, Pakistan, and Sri Lanka.

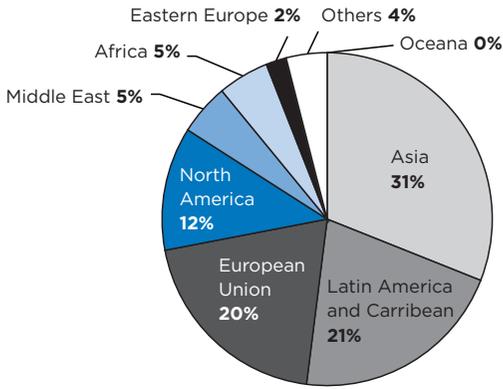
Indonesia is the site of Brazil's single largest investment in Asia, with Vale operating open-pit nickel mines and a processing plant on the island of Sulawesi. This investment helped drive the signing of a Strategic Partnership with Indonesia in 2008. The Plan of Action that followed set in motion a Working Group on Trade and Investment. These initiatives show that Brazil's trade with Asia is far from coterminous with its commercial relations with China. They also show that Asia has come to occupy an increasingly important role vis-à-vis Brazil's foreign trade, not only relative to the United States and Europe but also in comparison with MERCOSUR. In many cases, however, these growing ties have resulted more in proactive commercial diversification strategies undertaken by Asian countries than in Brazilian overtures.

Figure 1. Participation of Manufactured Products in Brazilian Exports (percent)



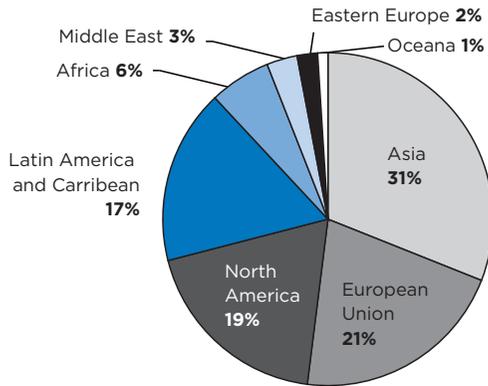
Source: Sarquis 2011, p. 181.

Figure 2. Destination of Brazilian Exports by Region, 2011



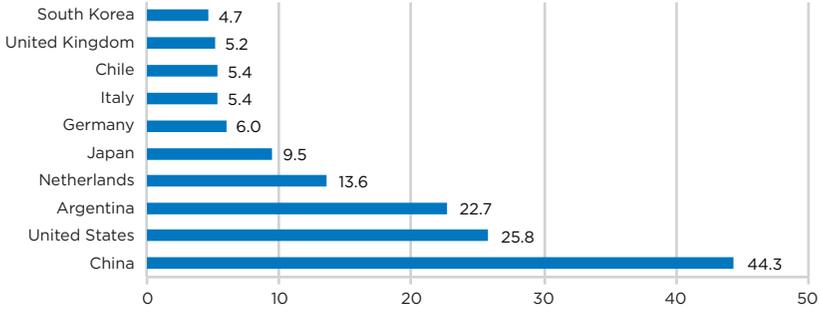
Source: Ministério das Relações Exteriores, “Comércio Exterior brasileiro 2013: maio,” Brasília, May 2013.

Figure 3. Origins of Brazilian Imports by Region, 2011



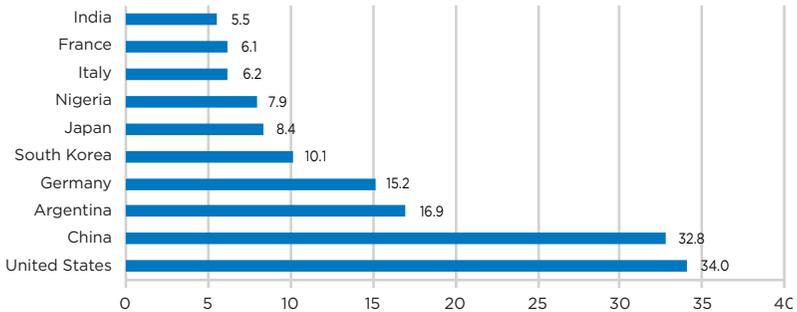
Source: Ministério das Relações Exteriores, “Comércio Exterior brasileiro 2013: maio,” Brasília, May 2013.

Figure 4. Brazil's Top Ten Trade Partners in 2012
(billions of dollars)



Source: Ministério das Relações Exteriores, “Comércio Exterior brasileiro 2013: maio,” Brasília, May 2013.

Figure 5. Origin of Main Brazilian Imports in 2012
(billions of dollars)



Source: Ministério das Relações Exteriores, “Comércio Exterior brasileiro 2013: maio,” Brasília, May 2013.

Emerging Configurations and Institutional Constraints

The surge in trade and investments between Brazil and its Asian partners cannot be explained by comparative advantage alone; there are also institutional factors that both enable and constrain these flows. From the Brazilian side, the deepening links reflect a broader trend of commercial partner diversification by the Brazilian government, which for a long time dealt with only a handful of partners, primarily the United States and the Western European countries (and, after the formation of MERCOSUR, some South American partners, especially Argentina). Since the 1960s, the Brazilian government has sought a greater variety of trade partners, as well as a wider geographic distribution of these partnerships, in addition to broadening and diversifying Brazilian exports. This drive has intensified under the recent Workers' Party administrations (starting in 2003), in part due to the party's emphasis on South-South cooperation.

In the case of Asia, despite the geographic distances involved, cultural and historical ties have helped to deepen trade and investment ties. Although Brazil has no Pacific coastline, it has significant historical and demographic relations with Asia. Brazil's trade with China dates back to the seventeenth century, when Portuguese merchant ships traveling between Macao and Lisbon stopped at Brazilian ports. Brazil's diplomatic ties to Japan were first established in 1895, and Japanese immigration to Brazil (which started in 1908) helped to establish a significant diaspora community in Brazil, especially in the country's southeastern and southern regions (smaller numbers of immigrants came from South Korea and China). Diplomatic relations between Brazil and the Asian countries often stress these historical links—for instance, by highlighting the shared cultural heritage and transnational communities as bases for expanding economic and other types of cooperation.

Political factors have also helped shape these trade relations over time. In 1974, Brazil cut off diplomatic relations with Taiwan (although trade relations were maintained) so that it could intensify its trade ties with the People's Republic of China. Brazil soon became China's main trading partner within Latin America, exporting commodities (mostly iron ore, primary materials, foodstuffs, and some consumer products) while it imported manufactured goods such as machines and oil (the latter, only until

Brazil became self-sufficient in crude oil, which was formally announced by the government in 2006). This occurred partly because of China's strategic importance during the Cold War; in addition to establishing itself as a nuclear power, China also succeeded in replacing Taiwan within the United Nations, including on the Security Council. In addition, China, like Brazil, forged foreign policies that were more autonomous from the great powers. After Deng Xiaoping launched China's economic reforms, triggering high economic growth in the 1990s, Brazil made a concerted effort to further deepen its ties with China. A Strategic Partnership was signed in 1993, and thereafter China's growing demand for raw materials helped boost the Brazilian economy through imports of iron ore, soybeans and derivatives, and other commodities. Brazil, in the meantime, imported Chinese manufactured goods but encountered difficulties in entering Chinese markets. China's entry into the WTO in December 2001 took place after the Communist Party's leadership made significant structural changes to the Chinese economy, and it proved a turning point in Brazil's trade relations with China.

Under the two Workers' Party administrations (under President Luiz Inácio Lula da Silva, 2003–11; and Dilma Rousseff, 2011–present), the Brazilian government has reinvigorated its bid to lessen political and economic dependence on the advanced economies by making South-South cooperation one of Brazil's foreign policy priorities. Within the economic dimension, diversifying trade and investment partnerships with Latin America, Africa, and Asia became a guiding principle of Brazilian economic foreign policy during this period. The deepening of such ties represented not only a way to continue forging a more autonomous development trajectory but also a chance to broaden support for Brazilian positions in multilateral discussions regarding commerce, security, and global governance reform. The project of the Workers' Party to transform Brazil into a global player has been reflected in the opening of dozens of new diplomatic representations abroad. Although most of these are located in Africa, they also include several in Asia. New embassies have been established in Sri Lanka, Bangladesh, Kazakhstan, Nepal, Afghanistan, North Korea, and Myanmar, while Bhutan, the Marshall Islands, Micronesia, and Kiribati have gained diplomatic representation.

Economically, South-South cooperation has offered a way for Brazil to complement its trade with the advanced economies, especially the United States and the European Union (which, in 2003, respectively represented 23.12 percent and 25.26 percent of Brazilian exports). Under President Lula, Brazil's cooperation with Asia, and particularly China, became one of the government's priorities. Because many Asian countries were experiencing high economic growth, they represented new opportunities to boost Brazil's GDP, despite the vast distances separating them. Asia's regional pattern of industrial integration was an additional attraction. Asia's most dynamic countries—China, Japan, and to some extent, India—helped to catalyze growth in smaller countries in the region through integration of productive sectors. In the case of the textile industry, booming apparel manufacturing in China and India helped boost production in Vietnam, Laos, Bangladesh, and Sri Lanka. This regional integration of production chains in Asia, and the decentralization of growth nodes, spurred Brazilian interest in trade not just with China but also with smaller economies.

At the same time, the various Asian institutions engaged in trade relations waxed and waned. In the late 1990s, when the Asian crisis that started in 1997 in Thailand spread to other countries in the region; the shock catalyzed important changes in the Asian trade architecture. During the crisis, the governments of those Asian economies that were most deeply affected resented the lack of support from the advanced Western economies.²⁹ A new Asian regionalism began to emerge that was partly a response to the eroding credibility of the regional and multilateral trade mechanisms. This emerging regionalism was also related to the expansion of preferential trade zones in other parts of the world, and also to growing competition among the Asian countries. However, this movement was characterized by a degree of fragmentation. Growing yet uncoordinated competition between individual countries (including, but not exclusively, for energy sources beyond Asia) has provoked the so-called spaghetti bowl effect—a tangled mass of bilateral FTA agreements—although inadequate trade policy coordination has led to mostly bilateral arrangements, with considerable redundancies, and has dampened the prospects for a more concerted approach to trade, including with Brazil.

An additional explanation can be found in Latin America—specifically, in the weakness of MERCOSUR. Political divisions in South America have

constrained MERCOSUR's effectiveness, thus hampering the formulation of a more proactive transregional trade strategy. At the same time, while the Pacific Alliance countries have traded with Asia and have become a gateway to Latin America, Brazil has steadfastly prioritized MERCOSUR and the WTO. With respect to MERCOSUR, in late 2013 Brazil began pushing for MERCOSUR to sign a trade agreement with the European Union, focusing on the industrial sector, in part as a way to counterbalance the potential competition arising from the TPP being negotiated by the Latin American, North American, and Asian countries, and the Trans-Atlantic Trade and Investment Partnership (TTIP) being discussed by the United States and the European Union. However, resistance by Argentina poses political challenges to such a deal. In the meantime, the election of the Brazilian diplomat Roberto Azevêdo to become the director-general of the WTO has strengthened Brazil's commitment to overcoming paralysis in the Doha Round of multilateral trade negotiations; the WTO's December 2013 meeting in Bali, which ended with an agreement to resume negotiations, was hailed by the Brazilian government as a significant achievement and helped to underscore Brazil's longtime position that the WTO is the most legitimate body to regulate global trade. This focus means that the Brazilian government will continue putting high expectations on the WTO to boost the country's trade relations, including those with Asia.

The Global Economic Crisis and Brazil-Asia Trade

How resilient are Brazil's commercial ties to Asia? The onset of the global financial and economic crisis in 2008 did not weaken these ties—on the contrary, trade between Brazil and its Asian partners continued to grow, in some cases accelerating. Total Brazilian exports to Asia surged from \$22.14 billion in 2007, before the start of the crisis, to \$48.9 billion in 2010. Imports from Asia also showed a robust reaction to the crisis, growing from \$26.3 billion in 2007 to \$49.2 billion in 2010 (see tables 1 and 2 above).

This resilience can be partly explained by the fact that, at least in its initial wave, the global crisis affected primarily advanced economies. Brazil's top Northern trade partners (the United States and Europe) lost space within global trade, and their commercial relations with Brazil were

negatively affected. Meanwhile, the key emerging economies, which initially were hit by the decline in demand and shrinking capital, were able to recover. Not only did they have low exposure to U.S. subprime mortgage loans and securities, they had sounder macroeconomic policy frameworks in place (compared with the experiences of the 1990s).³⁰ Brazil experienced two quarters of recession, as global demand for its commodities shrank and external credit dwindled. However, Brazil was among the first emerging markets to begin recovering—by 2010, its consumer and investor confidence had revived, helping to propel its GDP to the decade's peak of 7.5 percent. China was also able to weather the crisis, thanks in part to a series of economic stimulus packages; despite a relative slowdown, the country's GDP grew 7.8 percent in 2012, a slowdown from its double-digit growth rates of previous years, but still a significant rate of economic expansion. India was also able to rebound from the crisis, whereas Japan has experienced three periods of recession since 2008.

South-South cooperation thus became a way to compensate for the eroding trade and credit from the North, while helping to cushion emerging and smaller economies against the ongoing crisis. Brazil's trade with Asia has allowed it to reduce its commercial exposure to the recessions and slowdowns of other partners, such as the United States and the European Union. The crisis also exacerbated the loss of confidence in Western models of development that had taken root with the debt crisis and the Washington Consensus initiatives of the 1980s and 1990s. Among those Brazilians in academic and policy circles, many looked increasingly to Asian state-led models of development (though with less focus on trade liberalization) as offering alternative ideas for socioeconomic development.³¹

The crisis also gave impetus to multilateral efforts through the loose coalitions that have proliferated during the past decade. Brazil, China, and India interact not only bilaterally but also via the G-20 and the BRICS. These groupings' initial goals included not only the deepening of trade ties among emerging economies and developing countries in general but also advancing reform of the global governance system—including the UN and the Bretton Woods institutions. With the global crisis under way, finding effective means to maintain growth and implement development in more sustainable, less vulnerable ways also became key concerns for these emerging economies.

CONCLUSION

Although the public narratives about Brazil's booming trade with Asia have been dominated by the relative novelty of China's surging demand for Brazilian commodities, the trends examined within this chapter suggest a more complex picture. The diversification of ties since the turn of the millennium has not only built on Brazil's historical ties to Asia, especially Japan; it has also been driven by the Asian countries' drive to diversify their commercial ties, including with respect to oil and the other commodities exported by Brazil. The extent to which Brazil has formulated a coherent, proactive strategy to intensify and maintain these ties is less clear. Moreover, though these flows have brought substantial benefits to the Brazilian economy, helping to drive its growth in recent years (and, indirectly, helping to finance the poverty reduction programs implemented by the Workers' Party), they have also posed new challenges for Brazil's trade and investment strategy. Some analysts have stressed the fact that, somewhat ironically, Brazil thus has exchanged one source of dependence for another—and that it must now deepen its ties with the advanced economies in order to reduce what they view as its excessive dependence upon Asia, especially China.

In addition, the Brazilian government will not be able to address the growing asymmetries vis-à-vis China and its other Asian partners without confronting its structural problems at home. These hurdles include an onerous and complex tax system, inadequate infrastructure, and other factors contributing to the so-called *Custo Brasil*—that is, the elevated cost of doing business in and with Brazil. The country's other key challenges include the slow pace of reforms, especially those meant to attract investments to improve infrastructure—as in the recent case of the ports incentives package, whose effectiveness in reducing barriers to investment in the country's maritime and fluvial ports has been watered down by concessions to existing interest groups. There is also a persistent need to address basic shortcomings in health care and education. To begin to deal with these issues, the government has hired foreign doctors—mostly Cubans—to address the scarcity of professionals in Brazil's remotest and poorest areas, and a presidential decree has allocated pre-salt oil royalties to improving public education. However, without deeper structural transformations and

more responsible fiscal management, Brazil will not be able to improve its productivity and competitiveness in global markets.

One overarching concern—common to Brazil and its Asian partners—is the possibility of a sustained economic slowdown in both regions. In 2012 and 2013, Brazil experienced substantially lower growth rates than in previous years during the decade, with annual GDP growth rates dropping, and in 2013 Brazil's ability to attract foreign direct investment also decreased. Meanwhile, projections for most of the Asian economies have also ranged from tepid to pessimistic, and political factors such as the recent change in the Chinese leadership—along with Xi Jinping's plans to restructure the Chinese economy—and ongoing tensions between Beijing and Tokyo have fueled greater uncertainty regarding Asia. If the current slowdown turns into a prolonged slump, Brazil will need to rethink not only its approach to economic growth but also its trade and investment strategy.

Brazil also needs to forge a more coherent path in trade policy because the playing field is changing rapidly. One of the last major trade-related decisions that Brazil made was to reject the Free Trade Area of the Americas—out of fear that an agreement that included the United States would prove a destructive force for its own industry. As a result, Brazil bet heavily on the WTO and the Doha Round of multilateral trade negotiations, as well as on the political coherence and economic potential of MERCOSUR. Although the Bali agreement may breathe new life into the Doha Round, ongoing discussions about new transregional configurations such as the TPP and TTIP suggest that the structure of global markets may undergo deep changes during the next decade.

There is already some pressure from industry groups for the Brazilian government to devise a clearer trade strategy. The National Confederation of Industry recently argued before the government that Brazil needs to sign more trade agreements, and that Brazil is being “left behind” as its key competitors (and cooperation partners) expand their trade ties.³² Other industry groups are pressuring the government to negotiate agreements outside the MERCOSUR framework. Within the government, some diplomats believe that the potential deal with the EU is the only viable concrete strategy at the moment, because Brazil's prioritization of its South American neighbors will keep MERCOSUR on the country's foreign policy agenda for the foreseeable future, especially if the Workers' Party wins the October 2014 presidential elections.

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CHAPTER 6:

Argentina and Asia: China's Reemergence, Argentina's Recovery

Gonzalo S. Paz

The reemergence of China and the rise of India and the countries of East Asia have created new opportunities for diversification, of which Argentina has tried to take advantage to empower its recovery and eventual reemergence on the world stage. Most Argentines earnestly believe that their country has overcome the enormous economic crisis of 2001–2, thanks largely to its exports to China, which they also believe greatly mitigated the impact of the global economic crisis of 2008–9, which had only a mild effect on Argentina. China is now Argentina's second-most-important trading partner, having surpassed traditional ones like Europe and the United States; China is likewise the most important market for Argentina's agribusiness sector. After more than a half century of relative economic decline, since the mid-2000s some Argentines have even begun to believe that the restoration of their dreams of at least a modest dose of grandeur might again be achievable.

For many domestic observers, there is a certain (positive) *déjà vu* about the country's current relationship with China, in that it resembles the close relationship between Argentina and the British Empire at the beginning of the twentieth century. However, others are skeptical about China's intentions. This chapter examines Argentina's relations with the countries of Asia—including China, Japan, South Korea, Southeast Asia, and India—with special attention given to the impact of China's reemergence on Argentina's own recovery after the 2000–2001 crisis; and it maps several future trends for Argentine-Asian relations.¹

Few if any countries in Latin America have been under a process of transformation like that of Argentina in last decade. This has been due in great measure to its relationships with East Asia, and preeminently China. This impact is also geophysical; it is quite visible, both in the countryside and also—but to less of an extent—in urban areas. Moreover, the soy complex (*complejo sojero*) is a new, advanced, technologically sophisticated and dynamic economic sector that is at the core of Argentina's relations with China, India, and the countries of Southeast Asia.

A major difference between Argentina (and also Brazil) and other Latin American countries that export raw materials to China (e.g., iron ore, copper, oil, and nickel) is that soy is not an endowed or inherited resource, nor is it nonrenewable. In fact, fifteen years ago or so, soy did not constitute a significant economic sector in Argentina. This point is crucial. It has been argued that the countries of Latin America and Caribbean that have done well in their economic relationships with China in recent years (the “winners”) were the ones that benefited from the “commodity lottery.” In this regard, soy is not like copper, nickel, iron, or oil. Soy is not a given; it is an acquired, highly developed, and advanced substitutable bio-commodity. Although certainly soy's cultivation is based on available soil, sun, and water as well as entrepreneurship, Argentina was able to transform itself to take advantage at least in part of the rise of East Asia.

Diversification, in the case of Argentina, entails not only finding new markets for the same old products but also—and more impressively—developing a totally new product. The soy complex is a new economic sector that has developed almost from scratch. Of course, it is not diversification in the sense that the exports of Argentina, in fact, have become more concentrated, but it is in the sense that it involves a shift to a new type of product. In the case of China, overarching shared political goals (i.e., full respect for sovereignty and national integrity, agreements on one-China/Taiwan/Tibet and the Malvinas/Falklands, and the promotion of multipolarity), and spectacularly growing trade form the backbone of the relationship that has been declared a “strategic relationship” since 2004. However, this relationship has not been without increased trade friction and even some occasional political difficulties and misunderstandings.

A BRIEF HISTORY OF ARGENTINA-ASIA RELATIONS

Argentina's relations with major Asian countries have been diverse, but overall growing in recent years. Cultural and political links between Argentina and some of these countries, including Japan and India, date to the late nineteenth and early twentieth centuries. After World War II, Argentina's trade and political relations with Korea and Taiwan began to take shape. During the last few decades, Argentina's relations in the region have grown substantially, especially its relations with the People's Republic of China, which have grown from diplomatic beginnings in 1972 to billions of dollars in annual trade today.

Among the East Asian countries, Argentina's longest-standing relationship has been with Japan. Diplomatic relations with Japan were established in 1898 with the signing of the Treaty of Amity, Commerce, and Navigation. This treaty, as well as others Japan signed with Latin American countries, was highly appreciated in Japan because they put the countries that were party to them on an equal footing, as fully sovereign polities. As I have mentioned in other contexts, historically Latin America has been an important "exporter" of diplomatic recognition.

Argentina helped Japan in the Russian-Japanese war in 1905, selling two powerful warships, the *Rivadavia* (*Kasuga*) and *Moreno* (*Nisshin*), which defeated the Russians in the major naval battle of Tsushima on May 27–28, 1905. Because of this, during Argentina's several military governments between 1930 and 1983, the Argentine ambassador in Tokyo was usually a naval officer. The first Japanese immigrant arrived on Argentine soil in the seventeenth century, in Córdoba. The Japanese community, however, expanded during the twentieth century. As of 2011, a total of 11,675 Japanese immigrants lived in Argentina, and there are approximately 23,000 descendants of Japanese immigrants, many of them from Okinawa. They were at first engaged in laundry, flower production, and the martial arts, but now most of them are professionals, and at least one is a politician (Mario Ishii, an elected official of the *Partido Justicialista* in Buenos Aires province). Many Argentines have received training in Japan through the Japan Foundation, the Japan International Cooperation Agency (JICA), and other cooperation organizations. Cultural cooperation and sympathy

between the two nations have always been important, with the Japanese martial arts (judo, karate) being quite appreciated in Argentina; at the same time, tango has taken roots in Japan (Ranko Fujisawa, etc.). The most important Japanese investment in Argentina is the Toyota truck factory. The two countries' usually excellent bilateral relations, however, were severely affected by Argentina's 2001 economic crisis and its default on its external debt. Many Japanese citizens held Argentine bonds and were hurt by the default. Argentina's minister of foreign affairs at the time, Rafael Bielsa, traveled to Japan in 2003 to try to mend relations, but he was not successful. Seven years later (2010), Argentine Foreign Minister Jorge Taiana visited Japan, and in 2011 Minister Héctor Timerman traveled to Tokyo after the earthquake. As a result, relations have been slowly improving. Trade has been stable in recent years. In 2012, bilateral trade was \$2.2 billion, with a surplus for Japan. Argentina is Japan's sixth-largest trading partner in Latin America.² The trade pattern involves classic raw materials being traded for manufactured goods. The G-20 meetings also provide opportunity for the two countries' leaders to meet and cooperate, as well as the Forum for East Asia–Latin America Cooperation. In 2013, in Buenos Aires, Tokyo was selected to organize the 2020 Summer Olympic Games. The Japanese delegation was headed by Prime Minister Shinzo Abe.

Argentina's relations with South Korea began after World War II, when Argentina started receiving Korean immigrants.³ At the peak, there were probably 35,000 Koreans living in Argentina, but many have since immigrated to third countries—such as the United States, Canada, and Australia—and some of them went back to South Korea. Probably 8,000 went to Mexico after the 2001 crisis. Originally, they went to different provinces, but most of them ended up in Buenos Aires, and many of them worked in the textile sector, which was dominated before by the Jewish community in the Buenos Aires neighborhoods known as Once and Flores, and in other areas. There is a Korean School in Buenos Aires. Several hundred Argentines have received training in South Korea with the support of the Korea Foundation, the Korea Trade Promotion Corporation, and other organizations. During most of the Cold War period, Argentina recognized South Korea. The two countries established diplomatic relations in February 1962. In 1973, the wife of Juan Perón, María Estela Martínez

de Perón (Isabelita), and Juan Perón's powerful personal adviser José López Rega visited Pyongyang. When Peronism recovered the government in Argentina in 1973, the new government established relations with North Korea on June 1, 1973, but the North Korean diplomats in Argentina suddenly left the country, without breaking diplomatic relations, in a confusing event on June 5, 1977, during Argentina's military government.⁴ Argentina's trade with South Korea in 2012 was \$2.4 billion, and Argentina was South Korea's sixth-largest trading partner in Latin America. The trade pattern involves the classic scheme of raw materials being traded for manufactured goods. Investment is quite limited (fisheries, etc.).

Argentina's relations with India are modest, although growing. Historically, the relationship between the writers Victoria Ocampo and Rabindranath Tagore was very important, and the Indian writer visited Argentina in 1924. Indian culture as well as yoga have always been appreciated and respected in Argentina. There is a quite small Indian community in Buenos Aires. Like China, India also supports Argentina's position on the Malvinas/Falklands, according to a report following Foreign Minister Timerman's visit to India on June 19, 2013. Trade is still low, but growing quickly in recent years (it is less than \$2 billion annually). Argentina is an important exporter of edible oils (from soy and sunflower) to India. However, India played an important role during the period of Chinese sanctions (see below). Due mostly to the fact that many Indians are vegetarian, soy pellets/flour are not demanded by India (a major difference with China and the Southeast Asian countries, where such products are fed to animals). India's investment in Argentina is small but quite interesting, particularly in information technology, pharmaceuticals, chemicals, and services (e.g., telemarketing). The Indian companies that are investing in Argentina include United Phosphorus Limited, Punjab Chemicals & Crop Protection Limited (agrochemicals), Godrej (cosmetics), Glenmark (pharmaceuticals), and Havells Sylvania (lighting). Other Indian companies active in Argentina include TCS, Cognizant, Copal Partners, Irevna, Cellent, and Aegis. Argentina's natural gas company (CNG) has brought to India Argentina's advanced technology in the area, and a major engineering and hydroelectric company, IMPSA, established an office in Gurgaon.⁵ An Argentine company is also slated to build a \$30 million nuclear medicine

(radioisotope) facility in India. In Argentina's agribusiness sector, some have forecasted that India might well become the "new China" for Argentina in five to ten years, if a revolution similar to that involving soybeans occurs in Argentina with the production of edible grains like chickpeas and lentils.⁶

Argentina and the Republic of China, or Taiwan, established diplomatic relations after negotiations that took place on the sidelines of the San Francisco conference of 1945. However, the relationship was not very active. In February 1972, just after the historic visit of U.S. president Richard Nixon to Beijing in 1971, Argentina and the People's Republic of China negotiated the "normalization" of diplomatic relations in Bucharest. It is important to note that Argentina was then under military rule, and its president was General Agustín Lanusse. The militaries were clearly alienated with the West during the Cold War; however, in typical Argentine style, at the same time they also wanted to pursue diversification of foreign relations and international economic policy. After the military coup of March 24, 1976, against the civilian Peronist government, diplomatic relations continued with normalcy, in the same way that had happened between China and Chile after Pinochet's coup d'état on September 11, 1973, but in a stark difference from the Argentine Junta's approach toward another Asian communist country, North Korea (relations were severed on June 13, 1977).

This pragmatism was an attempt to keep an adequate diversity of external links, notwithstanding the remarkable regime differences, which were important then and are still relevant today. During this time, despite ideologically opposite views, there were other common interests, such as mutual support in international forums on human rights issues, trade, and the like. In June 1980, the de facto president, General Jorge R. Videla, was the first president of Argentina to visit Beijing. China has always supported Argentina in international forums regarding the Malvinas/Falklands, and it did not support Great Britain in the United Nations Security Council (Beijing abstained) during the Malvinas/Falklands war in 1982.

After democracy was restored in Argentina in 1983, Foreign Minister Dante Caputo visited Beijing in 1985, and President Raúl Alfonsín was the first democratically elected president of Argentina to visit China, in 1988. After the Tiananmen Square massacre in 1989, Argentina refused to join the other Western nations in imposing sanctions against Beijing,

and Chinese president Yang Shangkun visited Buenos Aires in 1990, as part of a Latin American tour designated to break the Chinese regime's diplomatic isolation. Soon, President Carlos Menem, who had promoted "carnal relations" with the United States and was a fervent supporter of the "Washington Consensus," was the first president in the world to visit China after Tiananmen, in November 1990; he visited China again in 1995. When President Fernando De la Rúa visited Beijing in September 2000, it was the first capital he visited outside of the hemisphere. The negotiations for China's accession to the World Trade Organization were accelerated, and the agreement was finally signed. Mirroring the progress of economic ties and preparing for growth, Argentina opened a Consulate and Trade Promotion Center in Shanghai in May 2000. In 2001, Argentina's exports to China surpassed the \$1 billion mark, an important milestone. In 2012, trade was \$17.1 billion.

THE MILESTONE YEAR OF 2004

An important chapter in the recent evolution in China-Argentina relations was written in 2004, when President Néstor Kirchner visited China from June 28 to July 2 and President Hu Jintao visited Argentina from November 16 to 18. President Kirchner's visit to Beijing, barely one year after taking office, was important in several respects. First, he began to develop the idea of seeking Chinese help to lessen the pressure on Argentina's external financial sector, which had been in default on its external debt since December 2001. Kirchner's trip opened several channels of negotiation between the two countries. Argentina's secretary of transport, Ricardo Jaime, was particularly active. In the months and weeks before Hu's visit, calculated leaking of information from high governmental circles created great expectations about the visit. Several media sources attributed to President Kirchner the saying that if what was being negotiated with the Chinese was signed, his portrait must be hung over that of General José de San Martín, the liberator of Argentina, Chile, Peru, and Ecuador, and Argentina's greatest historical hero. Other media attributed to the president another anecdote surrounding this event, in which he purportedly stood on his office table

saying that he would be considered more important than Maradona and Gardel (the country's mythic soccer and tango idols) *together*. Besides these colorful but true anecdotes, what the Argentine government believed was being negotiated was a \$20 billion investment package. In parallel fashion it was exploring the possibility of receiving a Chinese loan to fully repay its debt with the International Monetary Fund (IMF). It is easy to dismiss the importance of the above-mentioned investment, but for a country that in 2004 was just three years past the economic collapse and external debt default of December 2001, and that was still without access to international financial markets, the possibility of this external aid was of utmost importance. After all these leaks, rumors, and topics of speculation, the subsequent visit of Hu Jintao and its outcome were the subject of constant media coverage, from the full political spectrum from left to right. However, substantial aspects still remain unknown for the country's citizens. In recent years, I have conducted interviews with dozens of elite former members of the presidential cabinet, with Argentine and Chinese diplomats, and with other highly placed sources to reconstruct the events of this period. A partial account of them is presented here.

A crucial objective for the Chinese was for Argentina to declare China to be a market economy. Carrots were offered in the form of a \$20 billion assistance package, particularly consisting of loans and investments in the railway sector. Kirchner's government had made the protection of national industry and the internal market an important economic priority and a political banner, so it resisted the move, at the beginning. Brazil's declaration of China as a market economy in the days before, however, left Argentina with almost no room to maneuver. Even when Hu Jintao reached Argentina, the agreement was still not accepted by Argentina. But after a night of feverish negotiations at the Palacio San Martín, the headquarters of the Ministry of Foreign Affairs of Argentina, Argentina accepted the following day. Just five memorandums of understanding were signed about the \$20 billion package. As the coming years demonstrated, little was executed, far from the high initial expectations and limited final promises of 2004.

A very important parallel issue was the secret request of the Argentine government for Chinese support to pay the external debt of about \$10 billion that the country had with the IMF. This was one of the most explicit

attempts by Argentina to diversify its external financial sources, taking advantage of the new strength of China, and to overcome its perceived dependence on the IMF. This was an important objective for the government, because the IMF was considered by the government and important sectors of society to be the main culprit in the 2001 financial meltdown, and an instrument to pressure Argentina to implement and enforce the ideas of the “Washington Consensus.” The “liberation” of Argentina from the IMF’s diktat would also be seen as an important international political and strategic victory. In complete secrecy, President Kirchner sent a personal letter to Hu Jintao through the Chinese Embassy in Buenos Aires. Apparently neither the minister of foreign affairs nor the Embassy of Argentina in Beijing was informed. Two then-members of the Cabinet, whom I interviewed independently in Buenos Aires, confirmed the presidential letter, although the text has never been released. Kirchner gave Hu Jintao the most impressive state welcome ever seen for a foreign dignitary.

However, despite the Argentine government’s high expectations, and though the Chinese showed sympathy with the idea, in the end Beijing decided not to help Argentina. Kirchner had also become aware that he and Hu Jintao viewed the strategic element of a “strategic relationship” in a very different ways. Thus, this was a case in which the political limits of the financial strategy of diversification became evident, at least for the moment. In November 2005, Argentina’s minister of foreign affairs, Rafael Bielsa, visited Beijing, trying to sell bonds of the Argentine debt, but with limited success (my interview with him in Buenos Aires confirmed this).⁷ Despite Kirchner’s disillusionment with Hu Jintao, the president kept exploring the idea of full payment to the IMF, as a mean of achieving “independence.” When Brazil announced that it would use reserves to pay the IMF at the end of 2005, Argentina immediately announced the same approach, skillfully playing with timing and taking advantage of the mild international reaction to Brazil’s move.

THE PAMPAS: A TRANSFORMED BIOGEOPHYSICAL SPACE

The most obvious and visible physical transformation of Argentina has been that of the countryside. The production of soy or soybeans (*Glycine max*), a plant of Asiatic origin, almost unknown fifteen or twenty years ago in the country, is now roughly half of the total production of grains (about 50 million tons out of 100 million tons of total grain production). In 2013-14, production was forecast by the U.S. Department of Agriculture to reach 54.5 million tons. Thus, Argentina has become one of the most important producers of soybeans and derivatives (oil, pellet/flour, and biodiesel) in the world. Only a small amount of this massive production is used domestically; most of it is exported in some form. Because of this, for many years over the last decade Argentina has been the most important exporter of soybeans and/or soy oil and (soy) biodiesel in the world. The impact of Argentina's production and exports is huge in this sensitive and crucial market. According to the U.S. Department of Agriculture, "processed soybeans are the world's largest source of animal protein feed and the largest source of vegetable oil."⁸

This transformation is mirrored by the rise of East Asia, and particularly by China's strategic need to achieve food security. Demand for food is increasing exponentially in China. China's sheer economic progress in the last three decades means a growing middle class that can devote more of its household income to food, in particular to proteins of animal origin (e.g., fish, chicken, pork, and beef). China's domestic production of grains that are used to produce animal protein is under stress due to several structural trends. One is the displacement of the population from the countryside to the cities and the parallel reduction of the rural labor force; another one is the expansion of the urban surface over fertile land previously available for agriculture. Several millennia of farming have also taken a toll on the productivity of the land, and water scarcity and/or growing pollution are increasing problems. With a population of 1.3 billion and arable land of 121.7 million hectares, China has 21 percent of the world's population, 8.5 percent of the world's total arable land, and 6.5 percent of the world's water reserves; and since 1997, China has lost 8.2 million hectares of arable land due to urbanization and forest and grassland replanting programs, along

with the damage caused by natural disasters.⁹ Furthermore, political legitimacy in China historically has been associated with food availability (in quantity, quality) and price (inflation means basically *food price* inflation), so food security is of crucial importance for the regime's sustainability.¹⁰

The transformation of Argentina's countryside is also connected to a new phenomenon that is again correlated with China's and India's extraordinary rates of economic growth. In the last decade or so, there has also been a rapidly developing new process of production of liquid bioenergy from biomass, particularly biofuel and bioethanol. The demand for energy, and especially for fossil fuels, has skyrocketed in recent decades in China. Energy security is of great concern, particularly since China became a net importer of oil in 1993. Due to the growing demand for energy and the rapidly decreasing availability of fossil combustible (oil and gas) in China, India, Japan, and around the world, sustainable liquid bioenergy has been one of the areas that have been exponentially expanding to cope with the international demand. Soy is an excellent source of vegetable oil that is produced for human, animal, and industrial consumption; but it is also a biofuel. This combined use for food security and energy security keeps demand strong.¹¹

A massive industrial and transportation infrastructure has been and is being developed in Argentina (specifically, it is being deployed on the shores of the mighty Paraná River, in the provinces of Santa Fe and Buenos Aires) to produce biofuel from soy and soy oil. Biofuel was first exported on October 18, 2007, and in 2012, roughly 2.5 million tons of biofuel was produced in Argentina, and half of which was exported, generating an income of \$1.7 billion. At the end of the decade, Argentina was already one of the major producers of biofuel the world, and the biggest exporter. At the beginning of 2011, a forecast by the Instituto Nacional de Tecnología Agrícola (Argentina's government agency for research on agriculture, forestry, and livestock, better known as INTA) posited that the production of biofuel will increase to 3 million tons soon, and about 60 percent would be exported. In October 2013, Evonik, a German company, opened a new factory in Terminal 6 to produce 60,000 annual metric tons of sodium methylate, a key component in the biofuels production process. In a mission to Beijing in September 2011, Argentina's Ministry of Foreign Affairs started conversations to export biofuels to China.

The resilience of soy to drought and its other characteristics have produced an expansion of agriculture boundaries in Argentina. Soil under agricultural production expanded 50 percent in a few years, from 20 million hectares in 1996 to 30 million in 2007. Productivity also increased sharply due to genetically modified seed ("Roundup Ready soy seed," or "RR soy," created in 1996 by Monsanto and adopted in Argentina), changes in the productive system (*siembra directa*, i.e., no-till farming or direct planting), and the use of an intensive technology package (BASF and Bayer are also important players in this sector). Additionally, on January 14, 2010, it was announced that soy genome was sequenced for first time, opening the door for more biotechnology engineering.¹²

The environmental movement in Argentina and abroad (particularly in Europe) has been very critical of the introduction of genetically modified seeds, because of their potentially unknown risks. In 2008, Brazil approved eight new genetic varieties (referred to as "events"), and voices in Argentina are demanding that the approval process in Argentina be shortened (from 42 months to 24 months, as is usual in Brazil). In addition, soy is alleged to be the culprit in increasing erosion because of the removal of native forests, reducing the availability of grains that are consumed in Argentina, such as corn and wheat, and also increasing the prices of food, particularly for the poor.

However, soy reinforced the *siembra directa* (literally, "direct planting," that is, without plowing) productive system, which drastically reduces the erosion of soil already in production. *Siembra directa* also means reducing expensive labor costs in the summer (which has been very intensive in the use of nonrenewable fossil energy) and reducing the use of chemical control against fall weeds to a single product, glyphosate (Monsanto's Roundup, the most commonly used herbicide in the United States, whose U.S. patent expired in 2000). In 2013, China approved the importing of Argentina's and Brazil's new soy events: RR2 Intacta Pro (Monsanto), CV127 (BASF), and Liberty Link (Bayer).

Corn (maize), a classic product of Argentina for more than one hundred years, is one of the crops that initially suffered from the competition of soy. Corn has made a comeback in recent years due to soy's sustainable productive system requirements, although, compared with soy, it requires

more fossil-energy-consuming laboring and expensive chemical herbicides, and more water that is often necessary to pump and spray. Producing soy cycle after cycle might exhaust the soil in the long term, impoverishing an invaluable resource. However, corn and soy complement each other very well. Soy adds nitrogen to the soil (because of the *rizhobia* bacteria), and corn and wheat take it. The rotation between soy and corn (and, to a lesser extent, wheat) has become the typical rotation in production in Argentina. Corn is also increasingly used for the production of ethanol, another form of bioenergy. In 2012, China also accepted the importing of corn from Argentina, and exported 60,000 tons through Bunge, a private company. China also accepted the 1161 corn event, a new type of genetically modified organism (GMO), in June 2013, during the visit of Argentina's then minister of agriculture, Norberto Yahuar, to Beijing.

The expansion of soy has produced profound economic and political effects, as well as social impacts. A closely associated phenomenon is the expansion of a dynamic and sophisticated biocommodity production system and the agro-industrial sector, which is regionally decentralized, in a country that has cherished a federal view of development but nevertheless has historically become extremely concentrated on the city of Buenos Aires. During most of the twentieth century, there was cleavage between agriculture and industry, or between *campo* (the countryside, the agricultural sector) and *ciudad* (the cities, mainly the city of Buenos Aires). Argentina is the eighth-largest country in the world, and has a population of 42 million. Roughly 40 percent of its total population is located in and around Buenos Aires. Soy cultivation has produced an emergence of many highly developed industries in many cities and towns of the *pampa*, thus generating jobs. The technical analysis of scholars Andrés López and Daniela Ramos is skeptical about any positive impact of trade with China. They also posit that “trade with China has been, on average, a destroyer of employment.”¹³ On the contrary, Lucio Castro and his colleagues suggest that “trade with China and India only had a small negative effect on industrial employment.”¹⁴

This transformation of the countryside, the expansion of soy production, the decentralization of new industries, and location of them close to soy production—in a word, the empowerment of a vast area of the interior—reached visibility and front-page headlines in March 2008. On this date,

the cash-strapped government of President Cristina Fernández de Kirchner approved Resolution 125/2008, issued on March 10, 2008, increasing the tax (*retenciones*) on soy and other grain exports to 45 percent. This tax had been in effect since the economic crisis of December 2001, and had previously been increased from its original 20 percent to 27 percent, then again to 35 percent by President Néstor Kirchner at the end of his mandate. *Retenciones* are important because, according to López and Ramos, “almost 20 percent of withholding taxes originated directly from exports to China, but the total impact is probably greater due to the price effect.”¹⁵ The government’s decision caused an uprising of the producers and their new *citadins* (city dweller) allies in the towns on the interior in the *pampa*, the internationally competitive industries located there, and the political opposition to the government. The government was caught by surprise, and it responded by trying to frame the highly politicized debate in terms of classic Peronist slogans against oligarchy, which had been typical of the 1940s, and thus missing the deep changes that had been taking place in the countryside during the last decade or so.

Various crucial questions arose in the debate: first, the legality of the unilateral decision of the government (several experts contend that, constitutionally, only Congress can create new taxes; the government’s answer was that *retenciones* were not a tax but just a tariff or duty, and hence, not under the control of Congress but of the executive branch). Second, an important consequence of this position was that, because *retenciones* were not considered a tax, the federal government was also not obliged to share them with the provinces (*coparticipación*). This, in turn, made most governors tactically join the opposition (even Peronist or government-leaning and allied governors as well as numerous representatives and senators did so). The opposition was then successful in framing the conflict as one of the port or the capital versus the provinces or the interior, and thus the nation and state. The historical cleavage between *Federales* and *Unitarios* of the nineteenth century was resuscitated once again.

Because the government insisted that the *retenciones* were not taxes, the government stood firm in its position that the measure did not need to be approved by Congress, although it had a majority in both chambers. Producers of soy and other grains were represented by four very different

(and, most of the time, competing) organizations, with very different ideological backgrounds, but the unexpected crisis created by the government pushed them to coordinate the struggle against Resolution 125. Many producers blocked the roads (*piquetes*), using know-how about political pressure that was very effective on the political authorities and was already available in society, very popular in the last fifteen years or so, however frequently used by social and leftist picketer groups that generally supported the government (*piqueteros*). The government lost physical control of the public space (*la calle*), which was always crucial in Peronist governments. Despite the fact that the government was desperate to increase its control over these economic resources, it made an opening to the provinces and towns, proposing to share some of them; and, trying to gain the political initiative, it also proposed building hospitals and the like with these resources and other distributive policies. But this was too little, too late.

After several weeks of tension, the government bowed to the pressure and sent the measure to be discussed by Congress. The government was confident because it had a majority in both chambers, so it assumed it could take the risk. The project was approved by the lower chamber, albeit by a thin majority, and thus less significant than what the government was expecting. Still, the government felt secure to pass the measure in the Senate, in which it had historically enjoyed a majority. In one of the most dramatic sessions in the Congress's history, the result of the voting was a draw. In this situation, Julio Cobos, the nation's vice president (also the head of the Senate, as in the United States), was forced to vote. Cobos's "not positive" vote, as he famously put it, killed the government's resolution and created a political earthquake. The voting took place on July 17, 2008, 128 days after the tax measure had been issued by the government. Another consequence of the vice president's vote was that he was not sent by Argentina to attend the inauguration of the 2008 Olympics Games in China, as originally scheduled.

This was the first major political defeat for Kirchnerism since 2003, and it took three years for the government to recover its electoral power. In the next midterm elections in 2009, the government was again defeated, this time electorally, including former president Kirchner, who took the risk to be himself the head of the list of candidates for representatives in

the powerful Province of Buenos Aires. His list lost. An important number of new representatives were elected, with an agenda of supporting the *campo*. Following the election, the president changed his tone vis-à-vis the *campo*, becoming less confrontational. President Kirchner died suddenly on October 27, 2010; a year later, his wife, Cristina Fernández de Kirchner, won with 54 percent of the vote, thanks in part to support from the *campo*.

A TRANSFORMED URBAN SETTING

There has been much speculation in academia about the potential role that the ethnic Japanese, Korean, Indian, and Chinese communities located in some Latin American countries and the Caribbean can play, in particular as intermediaries. The Japanese community (25,000–30,000) and the Korean community (15,000) in Argentina have been well established for several decades, particularly in Buenos Aires. The history of the Chinese communities in Argentina is more recent, and so it is completely different from that of the Chinese experience in Cuba, Peru, and even Mexico.¹⁶ They are located particularly in Buenos Aires and greater Buenos Aires, which is also the area where most Argentines live. The number of ethnic Chinese living in Argentina has been estimated in 100,000 (out of a total population of roughly 42 million). Before the People's Republic of China-Argentina agreement of 1972, there were about 700 Chinese living in Argentina. During the 1970s, people coming from Taiwan settled in Argentina; during the 1980s, most Chinese came from the provinces of Fujian, Shanghai, and Guangdong; and during the 1990s and 2000s, most came from rural Fujian province and also urban areas like Shanghai and Shandong province. For the most part, the Taiwanese and the Chinese communities have lived jointly without major problems. They have created a Chinatown (Barrio Chino) in the southern part of the beautiful Belgrano residential area of Buenos Aires, but the presence of these communities spread all over the city. In recent years, however, there has been an expansion in many cities in the interior of Argentina, especially in the capital cities of the provinces and other middle-sized towns, like Pilar, La Plata, Mar del Plata, Córdoba, Rosario, and Mendoza. The ambassador of China in Argentina, Yin Hengmin, has asked

for fewer visa restrictions for Chinese citizens.¹⁷ The Chinese communities are organized in more than thirty active associations.¹⁸

At the center of this development is a proliferation of supermarkets with Chinese family property ownership and management. This is a new phenomenon for Argentina, but not totally unknown in the rest of the continent; there have even been a few historic cases in the region in the past, such those in Sonora in Mexico circa 1911 and in Jamaica circa 1925. However, the sheer scale and modernity of the current process of expansion and deployment of Chinese supermarkets (*supermercados chinos*) in Argentina is probably unparalleled. Currently, in the city of Buenos Aires and its surrounding areas, probably more than 30 percent of the total supermarkets are Chinese-owned. Most of these shops form a close-knit group, which have also been institutionalized in several legal entities, such as the Cámara de Supermercados de Propiedad de Residentes Chinos (Chamber of Supermarkets of Chinese Residents' Ownership or CASRECH), created on April 27, 2004, in Buenos Aires, and the new Federation of Chinese Supermarkets and Association, or FESACH (a union of 19 Chinese associations), created in 2013. Thus, in total, there are more than 8,600 Chinese supermarkets in Argentina, although other estimates put the number at above 12,000, in any case an astonishing figure. Although CASRECH was founded in Buenos Aires, there several branches in Rosario, Mar del Plata, Córdoba, Bahía Blanca, Mendoza, San Miguel de Tucumán, Santa Fe, and Paraná. If in the past China seemed to be strange and remote for Argentines, now the image of China for millions of Argentines is shaped by this daily contact with the Chinese communities in Argentina and its increasingly dominant presence in the supermarket sector.

These powerful associations have become well-oiled machines to coordinate, support, and defend the Chinese supermarkets and the Chinese people working in them. The collective bargaining power of the Chinese supermarkets has made them been able to keep prices lower than the competition. In a country that is suffering from a growing inflationary process, CASRECH and FESACH frequently engaged with the secretaries of commerce, Guillermo Moreno and Augusto Costa, in several transitory prices freezes for basic products that were at the core of the government's strategy for coping with inflation.

Although the Embassy of the People's Republic of China in Buenos Aires denies any link with CASRECH, the picture of the embassy is prominently displayed on CASRECH's Web site.¹⁹ An explicit objective of CASRECH is to fight racism and discrimination among its members. Another important problem is security. Insecurity and common delinquency have been rising in Argentina in recent years (although the rates are still much better than most places in Latin America), but a particularity of the Chinese supermarkets is that they have increasingly been the target of the Chinese mafia. Assassinations of Chinese owners and Chinese workers at the hands of other Chinese engaged in mafia activities are not unknown, and have created an unprecedented challenge for the authorities. Both China and Argentina have established better cooperation mechanisms to deal with this problem.

CHINA'S RAPID EXPANSION IN THE OIL SECTOR

The oil sector in Argentina was historically dominated by Yacimientos Petrolíferos Fiscales (YPF, Fiscal Petroleum Fields) for seventy-seven years, since its creation in 1922 up to 1999, when the government of Carlos Menem, still caught in the middle of the privatization fever unleashed by the "Washington Consensus" ideas, sold this powerful symbol of nationalism for \$10 billion to the Spanish company Repsol (Repsol YPF since then). However, other players have also been important, among them Shell and Esso, and other privately owned Argentine companies, such as the Petersen Group (of Enrique Eskenazi) and Bidas (founded in 1948, and owned by the Bulgheroni brothers, Carlos and Alejandro, currently the wealthiest individuals in Argentina).

This latter company is of interest for understanding the increasing Chinese penetration of Argentina's oil sector. Amoco bought 60 percent of Bidas in 1997 for \$550 million, and later Bidas created a new oil company with BP (formerly British Petroleum) and Pan American Energy. In 2005, the China National Petroleum Corporation (CNPC) bought 40 percent of Pan American Energy for approximately \$5 billion. In May 2010, the China National Offshore Corporation acquired 50 percent of the company. Since May of 2010, Bidas has acquired more units of Pan American Energy

that were in the hands of British Petroleum, for \$7 billion (although in November 2011, the deal seemed to be blocked). In 2011, with the backing of CNPC, they bought all of Esso's operations in Argentina, Paraguay, and Uruguay, becoming the second most important oil company in Argentina, and the only integrated oil company in Argentina (exploration, exploitation, refining, and retailing), besides Repsol YPF.

China's interest in Argentina's oil has been longstanding, and Argentina has been doing exploration in its own northern provinces for several years. Yet the expansion of the Chinese presence in Argentina's market is more recent. There is, of course, a correlation between this process and the Chinese expansion in the oil sectors of Venezuela, Ecuador, Cuba, and Brazil. There have been rumors for several years that Chinese companies were interested in buying shares of Repsol YPF, a move that the government signaled it opposed. In May 2011, Repsol YPF sold another block of shares to Argentina's private oil company, Petersen (Eskenazi), which then controlled 25 percent of the company, a preferred option by the government. On April 16, 2012 Argentina took control of Repsol's 51 percent share of YPF and on May 3, 2012, the Congress of Argentina approved the process.

China's oil companies have shown interest in investing associated with YPF in the Vaca Muerta shale gas field, in the provinces of Neuquén, Rio Negro and Mendoza. Vaca Muerta is one of the largest shale oil and gas field in the world. On June 13, 2013, the U.S. Department of Energy reported that Argentina has the second largest reserves in the world of shale gas (more than the reserves of shale gas of the United States, Russia, or Canada) and the fourth largest reserves of shale oil (more than Libya's or Venezuela's reserves). The development of this immense field is crucial for the economic future of Argentina and might transform Argentina into a major player in global oil and gas markets.²⁰

MINING

Mining has been an expanding sector in Argentina in recent decades. Unlike Chile, Argentina has never relied too heavily on mining, even though the two countries share the same Andes Mountains. However, in

recent decades mining in Argentina has been accelerating. A treaty with Chile that allows common mining projects to straddle the border in the Andes has helped to create a more positive situation for investors, although most projects are entirely on the soil of one nation or the other. Also, the lithium deposits that Argentina shares with Bolivia and Chile in the northern Puna region are attracting much international attention, since lithium is a scarce and strategic substance crucial in the production of batteries, an industry in a dynamic expansion phase (at the same time, however, Japan and South Korea have been the more active in this area). The bottom line is that the rise in the prices of minerals over the decade of the 2000s has been highly correlated with economic growth in China, and so the incentives for the activity have grown accordingly.

Prospecting operations have also been launched in a number of provinces, such as San Juan and Jujuy. So far, the most important Asian mining activity in Argentina has been at the Sierra Grande iron ore mine. Several Argentine administrations have been interested in the exploitation of iron ore deposits found not in the Andes but in Patagonia, in Sierra Grande, and on the Atlantic coast of the province of Rio Negro, a mineral resource considered strategic for the state in previous decades. In 1992, during Menem's government, the state-owned HIPASAN facility was closed, contributing to unemployment and migration from the nearby town of Sierra Grande, situated 8 kilometers (5 miles) to the north. In November 2006, a Chinese firm, the Metallurgical Group Corporation, bought 70 percent of the stakes that were already in the hands of another Chinese company. Since then, the company has invested around \$85 million in new equipment and machinery to replace the old ones in both areas of operation, one close to the town of Sierra Grande, and the other 32 kilometers (20 miles) from the Atlantic shore, Punta Colorada, a mining port.

The process was complicated, and the operations have been delayed by problems with the provision of water, the occurrence of labor strikes, and other issues. The provision of water has been a serious issue, particularly in the first months of 2009. The complex needs more than 2.6 million liters of water per day, and the provincial water company (Aguas Rionegrinas S.A.) has experienced difficulties in coping with this demand. The goal was to extract 2.8 million tons of mineral and 1.2 million tons of concentrated

iron in a period of two to three years, according to Han Yongzhi, the manager of the Metallurgical Group Corporation in Argentina. The cultural gap has also been a problem between the Chinese and the people of the nearby town, according to a journalist's account.²¹ According to a company source, about 2,000 jobs were created (400 directly, and 1,600 indirectly; of them, 73 are filled by Chinese workers). It is believed that there are still 214 million tons of iron ore available in the mines (there are, in fact, three main mines, and 96 kilometers of tunnels). The previous peak of production was in 1986, when more than 640,000 tons of ore were extracted. The Chinese takeover and start of the operations have been slow, but in December 2010 the first shipment of 54,000 tons was made, followed by another in February 2011. The logistics are complex: the productive output of the mine is accumulated on site, and then an iron duct transports the mineral to Punta Colorada, a mineral port on the Atlantic.²²

The expansion of mining in Argentina is highly dependent on the international prices of minerals and the cost of transportation. It is a sector that is full of potential but is still underdeveloped. The mining sector in Argentina is different from Chile's, however, in the sense that most (but not all) mines are generally far from cities. The major environmental concern is the proximity of potential mines to the sources of rivers, an issue that was at the core of several parliamentary debates in recent years. China has been cautious so far, but large Chinese mining projects in Peru and other parts of the region seem to signal that the interest is there, and it's probable that in the future China would like to increase its share in the sector. This would constitute another point of diversification for Argentinian exports; similar steps have also been taken by Australia and Canada as well as Chile and Peru. However, the expansion of mining would still be diversifying within the primary commodities sector, not into a wider range of manufactured goods, which would be preferred by most Argentines.

RAILWAY-SECTOR COOPERATION

Railways were crucial in the process of the development and expansion of Argentina's economy at the beginning of the twentieth century—and the

country's railroad network, built with British funding, was the most important in Latin America. The railways were nationalized by President Juan Domingo Perón after World War II following much debate. Since then, maintenance has been expensive and problematic, and during the privatization wave in the 1990s, Menem sold or closed most of the rail network. In recent years, several serious accidents (e.g., the February 22, 2012, crash at Estación Once de Septiembre in Buenos Aires) have also put pressure on the government to update rail service. Additionally, in a large country like Argentina, railways are potentially very important. Agreements on the railway sector were a key aspect of President Cristina Fernández de Kirchner's visit to China in July 2010, as they had previously been for the presidential visits and negotiations in 2004 (although little was implemented from these interactions). During the 2010 visit, several agreements totaling \$12 billion were signed, covering ten projects over a period of two to five years.

Several Chinese companies will benefit from the contracts. China National Machinery & Equipment Import & Export Corporation will focus on the Belgrano Cargas, a freight railway, which will be the primary project. This railway links fourteen provinces with 7,347 kilometers of track (although in 2006, only 5,069 kilometers were in use). The Belgrano line project would be handled by a consortium headed by Shaanxi Coal Group Investment Company. Another Chinese company, China Northern Locomotive & Rolling Stock Industry Corporation, will sell part of the materials, financed by the China CITIC Bank Corporation and the China Development Bank Corporation.²³ China Southern Railway would also be part of the project, targeting the capital, Buenos Aires.

There was an agreement to expand subway Line E (the Purple Line) in Buenos Aires as well as to build a new subway system for the country's second-largest city, Córdoba. Later, in March 2011, it was also announced that China's Eximbank would provide \$1.4 billion for construction on Line G (the Orange Line). In the case of Buenos Aires, Mauricio Macri, of the opposition party Propuesta Republicana, was very supportive of the project of expanding the subway network; his father, Franco Macri, the head of the industrial conglomerate SOCMA, has been working with China for several years. An old project of the transportation authorities, a train connecting Ezeiza Airport—which is also known as Ministro Pistarini International

Airport and is the country's most important—with downtown Buenos Aires, was also included. The Córdoba project has been discussed for at least seven years, and although initially it was proposed as a project with a French company and a local partner, the new rail system would eventually be built by China Railways, associated with the local company Roggio. It would be 18.5 kilometers long, with four lines and twenty-nine stations. The cost would be \$1.8 billion, higher than the original project budget (\$1.1 billion), but the reimagined project is also bigger and will be financed largely by China (85 percent) as well as supported by Argentina's national government (15 percent). The Córdoba deal was signed on July 12, 2010, in Beijing by Zhao Deyi, president of China Railways, and Argentina's secretary of transportation, Juan Pablo Schiavi. The City Council of Córdoba initially approved the project on December 16, 2010, and final approval was given on February 20, 2011. In the last several years, however, no major announcements have been made on its progress.

Rail is a fast developing sector in China that is seeking to gain business in more countries of Latin America. As part of its “going out” strategy, China is already heavily engaged with Venezuela. China's record of actual cooperation on railroads with Argentina has been modest, but progress in this area seems to be accelerating.

FINANCIAL COOPERATION

Financial cooperation is one of the most recent areas of engagement between Argentina and China. Argentina supported China's attempt to become a member of the Inter-American Development Bank, a campaign that lasted fifteen years, from 1993 to 2008. In a meeting on the sidelines of the Inter-American Development Bank's 2009 annual meeting in Colombia, the governor of the People's Bank of China, Zhou Xiaochuan, and the then-president of the Central Bank of Argentina, Martín Redrado, reached a swap agreement to potentially avoid the use of dollars in bilateral trade, for the amount of 70 billion yuan (\$10.25 billion). A renewal, or a new agreement, was discussed in early 2013. It was the first agreement of this kind between China and a country in the Latin America and Caribbean region.

China had signed only five such agreements before, none of them in the region. In 2012, Brazil and China signed a \$30 billion swap agreement.

The political and economic objectives of both countries were clear, and it was a win-win negotiation. In the case of Argentina, tactically, the swap meant an increase in the foreign reserves available in the Central Bank, an important signal to markets in the midst of the international financial meltdown; and strategically, it was a step toward the diversification of the country's external financial sources beyond the traditional multilateral organizations based in Washington, such as the IMF and the World Bank. The U.S. Treasury Department also proposed a swap program for emerging markets at the end of 2008, and while Brazil and Mexico were invited to participate, Argentina was not. For China, the swap agreement with Argentina was read internationally as an important show of support for the Chinese position that the dollar might be substituted in the future as the main unit of currency and reserve in the international monetary system, a position advanced publicly by the governor of the People's Bank of China on March 23, 2009, just seven days before signing the swap with Argentina. The China-Argentina agreement was signed on March 30, 2009, only three days before the April 2 Group of Twenty (G-20) meeting in London, where China again pushed against the dollar.

It took five years from Argentina's request to China for support to pay the IMF in 2004, and four years from the attempt to sell bonds of the external debt to China, before the currency swap agreement was achieved in 2009, which meant that some financial cooperation was finally being achieved between the two countries. This agreement opened the way for more cooperation in the future at a time when global instability had been the norm and governance was a scarce international public good. It is also possible and reasonable to suggest that as trade keeps growing, more financial coordination and more sophisticated agreements between China and Argentina could also be necessary.

In August 2011, it was announced that the Industrial and Commercial Bank of China (ICBC) would buy 80 percent of the shares of the Standard Bank in Argentina. The operation was confirmed by the Argentine authorities on November 10, 2012, and the bank has thus changed its name from Standard Bank to ICBC Argentina. The bank has 99 branches throughout

Argentina, with 3,200 employees and 911,000 individual clients. This represents the biggest Chinese financial operation in Latin America so far.

TRADE, AND TRADE AND POLITICAL FRICTION

With the spectacular growth of trade between China and Argentina, and because of the asymmetries between them, trade friction has been noisily and continuously present in their relations. Argentina has frequently adopted protectionist measures against China.²⁴ In particular, Argentina's restrictions on Chinese manufactured exports, to protect the domestic industrial sector, have irritated China. The lobbying of the labor unions (the historical core of Peronism in Argentina) and of the industrial sectors has elicited administrative decisions which have often constituted obstacles to the free importation of Chinese goods.

The single most important trade crisis between China and the Latin American countries was the unilateral measures taken by China against Argentina in 2010. In April 2010, China unilaterally suspended its purchases of Argentina's soy oil, on the technical grounds that a high level of a solvent was present in the oil. Four different hypotheses have been proposed to explain Beijing's decision, two of which are endogenous and two exogenous: First, China was promoting an indigenous crushing capacity, now working at full speed, so it needed to keep importing soybeans (which it did) but not oil; second, overstocks of soy oil and palm oil in China made it advisable to reduce them over a period of several months; third, according to China, Argentina is one of the countries that have imposed more restrictions on Chinese exports, before and in the middle of the global financial and economic crisis that started at the end of 2008, and thus it must be punished so that it and other nations could be taught a lesson (although the Chinese ambassador to Argentina, who was not the ambassador at the time of the conflict in 2010, denies that it was a commercial retaliation);²⁵ and fourth, Argentina was one of the less politically engaged countries in the region with China after the fiasco of 2004, and the Argentine president's cancellation of the first presidential trip in six years (in January 2010) added a personal insult to Hu Jintao, also creating incentive to punish Argentina.

(The reason for the cancellation of this January 2010 trip was a conflict between President Cristina Fernández de Kirchner and the vice president, Julio Cobos, over the role of the Central Bank. The president decided not to travel, because in her absence the vice president would be the highest authority in the country.)

President Cristina Fernández de Kirchner finally visited Beijing in July 2010, when she met with President Hu Jintao, Prime Minister Wen Jiabao, and other senior officials, but no solution on the matter of soy oil was reached. Following several months of high-level negotiations after her visit, China resumed importing Argentina's soy oil in October 2010, six months after interrupting these imports. However, in 2011, Argentina's exports to China of soy oil continued to be reduced.

Meanwhile, some soy oil was traded through third countries but, more importantly, India offered to buy the stock of soy oil which had not been exported to China.²⁶ India doubled its soy oil imports from Argentina during 2010, from \$1 billion to \$2 billion. The expansion of the production of biofuels in Argentina also created an internal market diversification for soy oil; thus, the general economic impact of China's unwelcome restrictions was relatively mild, very much to the surprise of both sides. Argentina's tax collection capacity was reduced, however, since in that year soy biofuels paid lower export taxes (20 percent) than soy (35 percent) and soy oil (32 percent).

On November 2010, the Chinese head of agriculture, Han Changyu, visited Argentina. According to the Argentine authorities, this was the first time someone at the ministerial level of authority for China's agriculture had visited Argentina. The purpose of Han's visit was to launch a Joint Agriculture Commission, which was managed by Argentina's minister of agriculture, livestock, and fisheries, Julián Domínguez. In a public statement, he stressed that Argentina's Strategic Plan 2010–16 for Agrifoods and Agri-industrial Production has the goal to “diversify our exports with new products and more aggregated value,” and that the timing of the meeting was good, due to China's own Plan for 2011–17.²⁷

In December 22, 2011, the Argentine congress approved law 26737 that limited new foreign acquisitions of lands in Argentina, mirroring similar legislation in Brazil concerning “land grabbing.” Although not mentioned by name, China was the main target of the law; it came on the

heels of a scandal arising from the 2010 announcement by the government of Rio Negro, Patagonia, of a deal to rent 790,000 acres for 20 years to the Chinese company Beidahuang, based in Harbin. But China's push to become a major player in Argentina's agriculture has continued in other more sophisticated ways. In 2014, COFCO, the largest Chinese agribusiness firm (a Fortune 500 company), bought 51 percent of Nidera, a Dutch Rotterdam-based agribusiness giant, with a historical presence in Argentina and other countries in the Southern Cone. COFCO also bought a 51 percent stake in Noble Agri Limited, a major Hong Kong-based agricultural commodity trader that also has grain elevators in Argentina and is a partner in the important port of Timbúes, on the Paraná River.

Due to Argentina's record of successful internal diversification to take advantage of this new opportunity (the first one in decades pertaining to the international economy), it is possible that Argentina might be able to find other aspects of agribusiness to further develop in order to create new products that will be enticing for China, as well as India. The poultry and pork industries seem already to be growing, although problems remain and manufactured goods are minimal in the country's exports to China. In fact, only 5 percent of Argentina's total exports to China are manufactured goods not based on agricultural products.²⁸ In other words, the internal debate about how to build an internationally efficient and competitive Argentine industry that existed before the reemergence of China remains, and it has gained urgency. If, during the second part of the twentieth century, it was difficult for the industries born during the world wars and the import-substitution industrialization (ISI) process to survive without a fair amount of state protection, now the challenge in the twenty-first century is even more difficult.

CONCLUSIONS

Argentina has experienced an internal economic transformation in recent years, lead largely by the emergence of East Asia and India, and particularly by the reemergence of China as an economic superpower. China is now Argentina's second-largest trading partner, and the largest in agribusiness.

Southeast Asia is also increasingly important. There is a perception in Argentina that the 2001 crisis was overcome thanks to the country's trade with China, which is also responsible for a sizable part of state tax revenues. It is also widely believed that the 2008–09 global financial and economic crisis was mild in Argentina, again, thanks to China's trade, although the great surpluses of the first years of the decade have disappeared.

With respect to the new sacred trilogy of food (soy and by-products), energy (oil and biofuels), and minerals (iron ore, copper, and nickel), soy has been a key component of China/Southeast Asia–Argentina relations and trade (Brazil recognizes the same sacred trilogy, but with different emphasis). Negotiations about finances have also been important, although a certain amount of success has been achieved recently vis-à-vis China (e.g., the 2009 currency swap and the 2012 investment in the Standard Bank). Soy expansion is the basis of the growth of biologically basic industries that have added jobs and spread federal development to different provinces and areas of the country. However, the environmental balance is not yet clear, and dependence on soy, as with any other biocommodity, might make Argentina's success vulnerable to commodity diseases and boom-and-bust cycles. The discovery of the massive Vaca Muerta shale oil and gas field has attracted the attention of Chinese oil companies, as well as other major international oil companies, and might become a key export in the future. The G-20, the emergent and only effective global governance structure during the 2008–09 crisis, has been very important for Argentina (as well as for Brazil and Mexico), in enhancing its importance and maintaining its voice in policy debates at the highest level. While Brazil also shares the BRICS forum with China, and Mexico shares the Asia-Pacific Economic Cooperation forum—another important multilateral space—with China, for Argentina the G-20 has provided a formidable and unique opportunity.²⁹ The Néstor and Cristina Fernández de Kirchner administrations have prioritized domestic politics in the G20, so more can be done in this arena. In the United Nations, Argentina was the head of the G77-plus-China group during 2011, providing another opportunity for interaction and even some coordination.

In the view of President Néstor Kirchner in the seminal year of 2004, Argentina's establishment of a strategic relationship with China was a

move with a very concrete meaning. “Strategic” meant “Grand Strategy.” Chinese financial help was viewed as crucial to “liberate” Argentina from the IMF’s control, to break its financial dependency, and to give it autonomy in financial and economic decision-making. In 2004, however, Hu Jintao decided not to risk China’s only truly strategic relationship—that with the United States—with a distracting move on the periphery of the global game. Kirchner never returned to China during his mandate. For China politically, the strategic relationship with Argentina was regionally bounded. Formally, both countries have regular political consultations, and they analyze the development of the strategic relationship.

The *déjà vu* quality of Argentina-China relations—their resemblance to those that Argentina once had with Great Britain—is an important issue for Argentina. There is probably an inevitable temptation to see the present with the eyes of the past. The analysis of this relationship is embedded in the political debates of most of the twentieth century in Argentina—about economic development, about distribution, about the nature of the links with the world and the external alliances. This debate has shaped political parties and identities, leaders’ trajectories, and public opinion and discussions. Thus this comparison, or even its metaphorical use, is fully charged with politically dense meaning.

At the centennial of its life as an independent country in 1910, Argentina enjoyed one of the highest levels of gross domestic product (GDP) in the world, and even though its level of social justice was modest, its social indicators were much better than those of the majority of European countries. Its comprehensive system of high-quality, free public education and its growing middle class distinguished Argentina from most countries in Latin America. Argentina’s GDP accounted for approximately 50 percent of the total GDP of Latin America. So it is not surprising that the idea of the similarity of the Argentina–Great Britain relationship with the Argentina–China relationship is powerful and easy to market internally. In particular, this is an idea that is very attractive to the right, because during the peak of Buenos Aires’s relations with London, the Argentine elite was also at the peak of its political supremacy and economic power.

Nevertheless, the cradle of Argentina’s nationalism in the twentieth century was its struggle to overcome what was perceived as the colonial and

dependency aspects of its relationship with Great Britain—in the trade sector (e.g., the Roca-Runciman agreement of 1933), the financial sector, and particularly with respect to its massive infrastructure of railways. In this sense, China's planned engagement in Argentina's railroad infrastructure projects will also be judged by the standard of this historical experience. Great Britain's "informal imperialism" was just "imperialism" in political debates in Argentina. For those on the left, this period symbolizes the economic concentration in few hands that the close relationship reinforced, particularly of the ownership of land among Sociedad Rural members (the so-called *oligarquía vacuna*). Thus, the project limiting the acquisition of land in Argentina which was presented by President Cristina Fernández de Kirchner in April 2011, with the undeclared objective of avoiding Chinese control of the land sources of food production in Argentina as part of a global process of land grabbing or acquisition, must also be understood in the light not only of the then-coming presidential elections of October 28, 2011, but also of Argentina's experience in its historical relationship with Great Britain.

The idea that Argentina's relationship with China is similar to the one that it used to have with Great Britain has spread easily. This idea has recast an unknown, complex present in terms of a known, reified, positive version of the past and is full of hope for the restoration of Argentina's glory and greatness. It is also very easy to understand for many people: "Things will be normal again," and the country will return to its role from the early twentieth century as the "breadbasket of the world." Argentina has not been the only breadbasket of East Asia and China in last decade, but its role in China's food security has certainly been important. For many in Argentina, in the first decade of the new century, China transformed the nostalgia for the past into a timid hope for the future. However, the soy oil trade crisis of 2010–11 was a wake-up alert for many.

This comparison is, of course, only partially correct. Yes, Argentina again has another country interested in something that it produces more efficiently than probably any other country. From the point of view of Argentina, the international trade in agricultural products is today greatly distorted by inefficient protectionism in the European Union and Japan, and the state's intervention in the form of subsidies in the United States, as it has been since the end of World War II—all of which constitutes a partial

but nevertheless important explanation of Argentina's decline in the second half of the twentieth century. Thus, the emergence of China (and India) as massive direct buyers of Argentina's food products is indirectly affecting the prices of these products on a global scale and has been the most important positive external force for Argentina's agriculture in decades.

However, the situation now is very different, for a number of reasons. Not only are Asia in general and China in particular obviously very different from Great Britain, but also the Argentina of the bicentennial (2010) is very different from the Argentina of the centennial (1910). The structures of society and of production in Argentina are profoundly different now from what they were then, as are the relevant political forces, parties, and social movements. Just to mention a couple of these, two major differences are the heavy weights of the labor unions (e.g., the Confederación General del Trabajo) and Peronism. At about the time of bicentennial, the government promoted a narrative stressing that because of distributionist policies, the situation in Argentina was better in 2010 than compared with 1910. Also, during the past decade, the export structure of Argentina vis-à-vis Asia and China has been very concentrated in the soy complex; in 1910, the primary production exported to Great Britain was probably more diversified.

The pervasive waves of anti-Americanism in Argentine society reflected the strong economic position of Argentina one hundred years ago, and the perception that the United States, challenging Great Britain as a new hegemon in the Western Hemisphere, was a threat because it was also a powerful, growing competitor in agribusiness. Great Britain's continued but weakening support for an economically powerful Argentina was a serious problem for the emergent hegemon in the region until World War II. This anti-Americanism continued in Argentina after World War II, even though the economy was not as strong as it had been in 1910, and the country lacked the support of the British Empire. Eventually, the gap between foreign policy and hard resources proved harmful for Argentina in the second part of last century. A thorough adjustment of perception and to some extent of policy only occurred after the Falklands/Malvinas war. In the 1990s, the Menem administration tried the opposite foreign policy, which basically meant automatically aligning (*alineamiento automático*) Buenos Aires with Washington. Thus, Argentina was the only Latin American country to join the United States and

its other allies in fighting the first Gulf War, and later Argentina even became a U.S. non-NATO ally, angering Brazil. This policy, famously depicted by the Argentine government as having “carnal relations” with the United States, encountered immense cultural and political resistance and was later abandoned. Nevertheless, it would be a major mistake for China to assume that remaining anti-Americanism in Argentina equates with a pro-China attitude. Replacing “carnal relations” with “Chinese penetration” will probably also encounter huge resistance, despite the fact that the economic benefits, at least in the short term, were more robust in the case of Argentina’s relationship with China.³⁰ Should the trade balance with China become more unfavorable, however, perceptions would likely change. In fact, in recent years the surpluses for Argentina in the bilateral trade have turned into deficits. The visit of Xi Jinping in July 2014 will be both a test of state of the relationship as well as an opportunity to re-launch it at a new level.

The question for Argentina is whether it can diversify its exports to China beyond the soy complex by adding other kinds of primary production from the countryside and including more mining, and, most importantly, by moving to avoid concentration in the primary sector by shifting to the manufactured and tertiary sectors. During the past decade, Argentina’s exporting to China was “glorious,” but diversification (thereby reducing dependency and risks) and adding value through job creation will be the real tests for the foreseeable future.

NOTES

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3. See Gonzalo S. Paz, “South Korea and Latin America: In the Dragon’s Shadow,” *Hemisphere* (Latin America and Caribbean Center, Florida International University), 2012, 34–35.
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18. Jorgelina do Rosario, "China no pone barreras comerciales contra ningún product argentino," interview with Yin Hengmin, April 15, 2011, cronista.com.
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CHAPTER 7:

Mexico and the Asian Challenge, 2000–2012

Enrique Dussel Peters

Since the 1990s, Mexico's leadership has prioritized active engagement in an open process of integration to the globalization movement, particularly in terms of trade and investments. In fact, to understand Mexico in 2014 and beyond, it is necessary to look back at the country's early global integration discussions in the 1980s—such as its decision to join the General Agreement on Tariffs and Trade in 1986—particularly those since the Carlos Salinas de Gortari administration (1988–94). It was under Salinas's leadership that Mexico implemented a new, active, global strategy to liberalize its markets, especially with regard to the United States. Negotiations for this regional integration process and the implementation of the North American Free Trade Agreement (NAFTA) in January 1994 shaped the trade, investment, and political agenda of the 1990s in Mexico and became a cornerstone strategy in many other countries in Latin America and beyond.

With this background in mind, this chapter analyzes the trade and investment relationship between Mexico and Asia since 2000. On the basis of increasing trade and investment flows with the region, and in the context of the “reorientalization” of the global economy and a vision of the twenty-first century as a “Pacific Century”¹—what are the characteristics

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and performance of trade and investment between Mexico and Asia?² The chapter also analyzes the discussion in Latin America and the Caribbean on the “commodification” of the region’s new economic relationship with Asia and the difficulties of integrating the region’s economies with Asian global commodity chains. The chapter then examines the specific trade and investment conditions between Mexico and Asia—as a region, and relevant countries individually—including in terms of policy consequences for the future. The possibilities of improving Mexico’s relationship with Asia overall as well as with the countries of that region (in terms of trade and investment) are also included in this analysis.

These themes are organized into three sections within this chapter. The first describes the liberalization strategy as implemented in Mexico from the late 1980s through 2013, particularly in terms of trade and investment. This brief analysis is included to provide important background on the strategic and political consensus in Mexico, which is critical for understanding the status of the current relationship between Mexico and Asia. The second section briefly examines the institutional setting in Mexico in terms of trade and investment with Asia, in addition to specific examples of Mexico’s bilateral relationships and involvement with regional and broader institutions involving Asia. This section also includes a detailed analysis of the structure of Mexico’s relationship with these countries in terms of trade and investment. The third and final section discusses the performance and potential of Mexico’s trade and investment relationship with Asia.

MEXICO’S LIBERALIZATION STRATEGY SINCE 1988

Since the late 1980s, Mexico has engaged in a rapid and thorough process of export-oriented industrialization (EOI), a different approach from that followed by most other countries during this period. Until the beginning of the new millennium, Mexico was considered one of the most successful socioeconomic cases in favor of globalization. As a result of having a coherent group of macroeconomic and regional policies—including NAFTA—Mexico became a symbol for the positive aspects of globalization for most of Latin America, as well as other parts of the world and the regional and

multilateral institutions such as the Inter-American Development Bank, the International Monetary Fund, and the World Trade Organization, among many others. Macroeconomic structural reform and macroeconomic stability, in addition to “horizontal” policies in other sectors of Mexico’s economy, were the primary catchwords for the public sector from the 1980s through 2013.³ However, Mexico’s experience—whether viewed internally or from an international perspective—has been twofold. While Mexico experienced some success in several macroeconomic variables—as well as positive results in the areas of export specialization, productivity, employment, and wage improvements in these sectors—these successful sectors display few linkages with the rest of Mexico’s economy. Since 2000, even these sectors have come under close scrutiny by other countries, particularly China and others in Asia.

Over the course of the 1980s, the new orthodoxy of EOI was widely adopted by policymakers in Latin America. The lessons of the East Asian miracle, famously summarized by the World Bank in its 1993 report,⁴ combined with influential analyses of the rent-seeking pathologies associated with earlier import-substitution industrialization (ISI) policies in Latin America,⁵ and led to a categorical rejection of previous development strategies throughout much of the region and an embrace of export-oriented policies as the new key to growth and development. Convinced that creating a market-friendly environment was the best way to generate foreign direct investment, policymakers eschewed targeted industrial policy in favor of a neutral or horizontal approach,⁶ and macroeconomic stabilization became the highest priority of governments that focused on getting the macroeconomic fundamentals right.

The argument in favor of EOI builds on the positive association between exports and economic growth and development. In contrast to ISI, EOI stresses that the global economy, through exports, should be the point of reference for any economic unit (firm, region, nation, group of nations, etc.). From this perspective, exports generally reflect efficiency, but nonexporting economic units are not efficient. EOI emphasizes neutral or export-oriented manufacturing production to maximize the efficient allocation of factors of production and promote specialization among nations according to their respective comparative cost advantages.⁷ Moreover, EOI underlines the central role of manufacturing in economies on the periphery, even though the

theoretical justification for doing so has not been sufficiently developed. In contrast to ISI proponents, who focus on the structural restrictions or bottlenecks imposed by industrialization, the “intuitive Darwinian rationale for free trade” underlying EOI argues that the degree and structure of protection on the periphery under ISI have had a significant negative impact on the allocation of resources, and subsequently on exports and overall economic structure.⁸

Probably the strongest argument that is made by EOI’s supporters against the ISI strategy of infant industry protection and overall policy of state interventions is that these methods generate rent-seeking behavior. Due to various forms of market intervention under ISI—such as import licenses and tariffs—economic units, including firms and countries, generate perverse (or “non-market-conforming”) results in this environment: excess capacity to obtain rents provided by the state, an overutilization of promotional instruments, and, in general, an economic structure that aims to reap the incentives provided by the state. In parallel, these mechanisms generate perverse social incentives and structures given that, in most cases, incentives are not taken by the initially intended groups (i.e., potential modern/industrial groups) but rather by rent-seeking and corrupt groups, which do not have an incentive to modernize/industrialize. From this perspective, the ubiquity of rent-seeking is one of the most significant obstacles for development.⁹

It is in this international and national economic context that the following major pillars and guidelines of liberalization strategy have been developed in Mexico since the 1980s, in contrast to ISI:¹⁰

1. Macroeconomic stabilization is designed to “induce” the process of microeconomic and sectoral growth and development; that is, all sectoral subsidies and specific policies were to be abolished in favor of neutral or horizontal policies.
2. As an extension of the first point, the main priority of the government is to stabilize the macroeconomy. Since 1988, the government of Mexico has viewed controlling inflation rates (or relative prices) and the fiscal deficit, as well as attracting of foreign

investment, as the main priorities for its new development strategy. (Foreign investment became the main source of financing for the new strategy because oil revenues and massive foreign credits were not available or were insufficient.) The macroeconomic priorities of the liberalization strategy were backed up by Mexican Central Bank's restrictive money and credit policies.

3. The nominal and real exchange rates are a result of controlling the inflation rate (the nominal exchange rate is an anti-inflationary anchor), that is, since controlling the inflation rate is the macroeconomic priority for the liberalization strategy, the government will not allow for devaluation, which increases inflation rates because of imported inputs.¹¹ Additionally, a stable and overvalued real exchange rate will also incentivize foreign direct investment, particularly in the financial sector.
4. Supported by the reprivatization of the banking system beginning in the mid-1980s and the massive privatization of state-owned industries, the Mexican private sector led Mexico's economy out of the "lost decade" of the 1980s through exports. The massive import liberalization process that was initiated at the end of 1985 was supposed to support the private manufacturing sector in order to orient it toward exports as a result of cheaper international imports.
5. Finally, government policies toward labor unions were of utmost significance. As reflected in the various *pactos económicos* (economic pacts between the public and private sectors, as well as with trade unions) that have been devised since 1987, only a few (government-friendly) labor unions were deemed acceptable to negotiate inside firms and with the government, while the rest were declared illegal. This process, which included violent confrontations with independent labor unions, made national wage negotiations possible in Mexico within the framework of the economic pacts and with the objective of controlling real wage growth.

Up to 2013, the Mexican government continued, with few exceptions, with a consistent liberalization strategy.¹² The implementation of NAFTA in 1994 was of fundamental relevance for the liberalization strategy. In a best case scenario, and allowing for a significant structural change regarding exports, the Mexican economy required a welcoming market outlet for the commodities resulting from Mexico's structural change. And this outlet was Mexico's main trading partner, the United States. (Otherwise, it would indeed have been difficult to imagine a successful export orientation without a market in which to sell these commodities.)¹³

This last point is critical: Mexico's globalization and liberalization strategy was primarily oriented toward integration with the United States. As discussed by Salinas de Gortari, the original (and only) strategic development concept in Mexico during this time was globalization—which meant integration with the United States, since Mexico was only viable and of interest for foreign capital investment if it was a member of one of the three largest global economic blocs (Japan, the United States, and the European Union).¹⁴

With the exception of Japan (for important and obvious trade and investment reasons, as we shall see below), the rest of Asia was in general not envisioned as a part of Mexico's strategy. As Fernández de Castro and Díaz Leal highlight, “In general, Mexican elites in charge of the design and administration of diplomacy fluctuate between two poles (that are not necessarily antagonistic): to prioritize the economic insertion to North America or diversification of economic exchanges in which Latin America and the European Union play a central role.”¹⁵ Several reflections are relevant to understanding this “strategic decision” of Mexican political and business elites, which persisted through 2013:

1. Authors such as Clark Reynolds stress that the liberalization strategy, as well as the negotiation and implementation of NAFTA, also had profound implications for security and military issues at the national, bilateral, and regional levels; that is, NAFTA included a “package of policies” beyond trade and investment and with short-, medium-, and long-term potential.¹⁶

2. In arguably the most consistent justification for a United States–focused liberalization strategy,¹⁷ Herminio Blanco Mendoza’s book on trade negotiations with the world is a good example: A mere 5 out of 275 pages refer to East Asia, while NAFTA and North America are the subject of the book’s longest chapter, which runs more than 120 pages. The book is without a single proposal or reflection on the future of Mexico-Asia trade and investment relations.¹⁸ Other responsible officials did acknowledge the importance of Mexico becoming a full member of the Asia-Pacific Economic Cooperation forum (APEC) in 1994, although with no concrete implications were considered, in contrast to North America.¹⁹ The most relevant literature justifying Mexico’s liberalization strategy at that time used trade liberalization and globalization as synonyms for economic integration with the United States.²⁰ Salinas de Gortari is also eloquent; in his book of more than 1,300 pages, the first chapter—which is almost 200 pages long—is about “the construction of the North American Free Trade Agreement.”²¹ Even more recent analyses since the 2000s have not examined Asia explicitly.²² Up through 2012, policymakers and officials had difficulty explicitly integrating Asia in their discussions,²³ although the Trans-Pacific Partnership (TPP) and the Pacific Alliance could influence further reforms in Mexico.²⁴
3. The various editions of Mexico’s Plan Nacional de Desarrollo (PND) since the 1990s have not for the most part provided specific guidelines regarding Asia.²⁵ Only since 2007 have there been specific references to Asia in the PND; that is, Mexico should enhance linkages to “China, Japan, India, Korea, Singapore, Australia, and New Zealand” through APEC;²⁶ and for the first time the PND explicitly acknowledges that “between 2000 and 2006 total trade between Mexico and the region (Asia-Pacific) increased by almost 240 percent, totaling 69 billion dollars.”²⁷ In the most recent PND, for 2013–18, the executive summary states for the first time that Mexico requires a global presence and should “consolidate as an emerging power,”²⁸ acknowledging explicitly that

there is a need for Mexico to “strengthen its diplomatic presence in this [Asia-Pacific] region. The case of China is a clear example of the latter. Mexico has the challenge of taking the relations with this country towards a new paradigm of cooperation and dialogue that allows new schemes of understanding and exchange; . . . the limited relations with other countries in the region offer trade opportunities to potentiate trade with Asia and bring tourism to the country.”²⁹ Prioritizing the alliance within North America, the new government highlights Mexico’s “global responsibility” and overall “presence in the world . . . as a regionally relevant actor” in Latin America and the Caribbean.³⁰ It explicitly mentions the need to consolidate Mexico’s presence—again in the “diversification of its economic ties”—in a group of regional forums with Asian partners, particularly the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the Forum for East Asia–Latin America Cooperation (FOCALAE), and the Pacific Economic Cooperation Council (PECC).³¹ Based on this strategy, PND 2013–18 presents seven lines of action. In addition, PND 2013–18 refers to the “Sectoral Program of Foreign Relations” (Programa Sectorial de Relaciones Exteriores) that concerns Mexico’s relationship with Asia.

4. Finally, North American integration, NAFTA in particular, did not consider the adherence of Asian countries and, more significantly, competition with Asian nations. As discussed by Dussel Peters and Gallagher,³² China has become “NAFTA’s uninvited guest” in the last decade but has not yet reacted formally and explicitly to challenges posed by Asia (especially China) in terms of a regional development agenda and specific value-added chains such as electronics, yarn/textile/garments and auto parts/automobiles, among others.³³ NAFTA, as a regional entity, did and does not consider a strategy toward Asia, in spite of important arguments in each of the NAFTA member countries and opportunities for cooperation and competition.³⁴

MEXICO AND ASIA: TRADE AND INVESTMENTS, STRATEGIES, INSTITUTIONS, AND PERFORMANCE, 2000–2013

The first part of this section examines the general strategies and issues, including cooperation agreements and diplomatic concerns, that exist between Mexico and Asia. The second part analyzes the Mexico-Asia relationship in more detail. Throughout, the focus is on the relationship's trade and investment aspects.

Strategies, Agreements, and Negotiations

As discussed in the first section, Mexico's strategy toward the region and countries of Asia has been extremely weak. As of 2013, Mexico had not been able to develop a coherent short-, medium-, and long-term strategy toward Asia. This limitation increased the gap in the trade and investment relationship between institutions in the public, private, and academic sectors, among others (as we shall see below); that is, Mexico's institutions have not responded to the current challenges and dynamism of trade and investment vis-à-vis Asia.

However, it is important to acknowledge that particular sectors have been undergoing significant development since 2000 to challenge this increasing gap. To understand the institutional setting in Mexico regarding Asia, this discussion highlights three sets of institutions in Mexico: the federal public sector, the private sector, and academia. These sectors have defined different aspects of Mexico's relationship with Asia, in the context of the liberalization strategy beginning in the late 1980s.

Public Strategies, Agreements, and Negotiations

Mexico has negotiated twelve free trade agreements (FTAs) with forty-four countries and twenty-eight agreements for the promotion and reciprocal protection of investments (APPRI) with twenty-nine countries. In the case of the Asian countries, however, Mexico has only signed an Agreement to Strengthen the Economic Association with Japan (2004), and APPRI with China (2008), South Korea (2000), India (2007), and Singapore (2005).

The discussion above on Mexico's lack of focus on Asia is very clear about the secondary relevance of Mexican instruments and mechanisms with respect to Asian countries.³⁵

Based on the twenty countries and economies defined as "Asia" for this project,³⁶ as of 2013 Mexico had the following results in terms of trade and investment agreements with Asia:³⁷ First, institutionally, Mexico's Foreign Ministry (Secretaría de Relaciones Exteriores) has the highest-ranked unit specializing on Asia, the General Direction for Asia Pacific, which reports to the deputy secretary of foreign relations (*subsecretaría de relaciones exteriores*).³⁸ Other secretariats in Mexico, such as the Secretariat of Economics, do not have specific departments working on Asia.³⁹

Second, regionally, Mexico has participated in at least five different Asian regional and multilateral mechanisms since 2000. The first was APEC, beginning in 1989, with thirteen members (including the United States, Japan, South Korea, and Canada, among others). From the beginning of Mexico's membership in APEC, it has been a critical forum for Mexico and the organization's twenty-one members; just over the last six years, then-President Calderón participated in five of the six APEC meetings and there have been an increasing number of activities within APEC.⁴⁰ Second, FOCALAE was started in 1999 to enhance diplomatic, political, and economic relations (specifically between nineteen countries in Latin America and the Caribbean and seventeen in Asia); FOCALAE has allowed Mexico to have good political dialogues and exchanges of ideas with its Asian counterparts.⁴¹ The third relevant Asia-wide institution for Mexico is PCEC, which allows for exchanges in the academic and business arenas, among others. Dozens of activities have taken place between Mexico and each of the Asian members of PCEC.⁴² Fourth, Asia and Mexico have also participated in institutions such as PECC, which continues to be one of Mexico's main formal ties to the Asia region. Fifth, and most recently, Mexico joined and has actively participated in two international trade initiatives related to Asia: the TPP and the Pacific Alliance.

Third, Mexico began participating in the TPP in October 2012, regarding TPP as "the most important and ambitious trade negotiation worldwide,"⁴³ featuring the participation of Brunei, Canada, Chile, Japan, New Zealand, Singapore, the United States, Australia, Peru, Vietnam, and Malaysia, among

others. More than twenty working panels on issues such as agriculture, customs, investments, and telecommunications make the TPP relevant for Mexico from the following perspectives: (1) It will allow for further diversification of Mexico's trade, (2) it will promote linkages to the world's most dynamic economies and trade structures, (3) it will allow preferential access to some of the world's most dynamic markets in Asia, and (4) the implications of the TPP could be very significant in the context of NAFTA integration.⁴⁴ The Pacific Alliance,⁴⁵ conversely, is a more recent Latin American initiative led by four countries (Chile, Colombia, Mexico, and Peru) to allow for the free exchange of goods, services, capital, and persons; these four countries account for 34 percent of Latin America's gross domestic product and 50 percent of trade in the region.⁴⁶

And fourth, ProMéxico offers an additional significant contribution in understanding the relationship between Mexico and Asia. ProMéxico currently depends directly on the Secretariat of Economics and has a unit working on the Asia-Pacific region to promote Mexico's trade and investment and toward enhancing its Asian investments. Today it maintains three offices in China as well as one each in Japan, Singapore, and Taiwan.⁴⁷

Also, at the state and federal district level, sub-national governments in places such as Michoacán, Sinaloa, and Mexico City have been very active in promoting cooperation and sisterhood agreements with their Asian counterparts, although initiatives at this level have been limited so far.⁴⁸

Business Organizations

A group of business organizations in Mexico work on Asia, but in general they focus on specific countries and not on the region as a whole. The following are the most significant ones today:

1. Mexican Business Council for Foreign Trade, Investment, and Technology (Consejo Empresarial Mexicano de Comercio Exterior, Inversión, y Tecnología, COMCE). This is the oldest and most specialized business organization in Mexico related to foreign trade and investments. COMCE focuses on its relationship with Mexico's public sector, as well as with those of other countries, through its various offices and affiliates. It provides specialized analysis and

consulting services, and participates in exhibitions, fairs, delegations, and knowledge transfers to other businesses. It also provides training for businesses and has excellent relations with Mexico's embassies and consulates around the world. COMCE is divided in six regional sections, including one for Asia and Oceania, which is subdivided into national/economy committees, for South Korea, China, Taiwan, New Zealand, Hong Kong, Japan, and Singapore.⁴⁹

2. There is a small but growing group of business organizations that focus on specific Asian countries, including Cámara Japonesa de Comercio e Industria de México, Cámara de Comercio y Tecnología México-China, Cámara de Comercio de México en China, and Confederación de Asociaciones Chinas en México (Cachimex). In general, these business chambers are rather recent and face stringent financial limitations. Their activities are built around the visits of delegations from their focus countries to Mexico, or from Mexico to those countries, but with little in the way of research or proposals in their fields of interest.

Academic Institutions

Academic institutions specializing in Asia are rather new in Mexico and across Latin America. However, several academic institutions have been working in this direction:

1. The Center for Asian and African Studies (CEAA) at the Colegio de México has the oldest tradition in Mexico and Latin America of studying Asia, having started in 1964, and offers programs particularly on Japan, China, and South and Southeast Asia.⁵⁰ The CEAA offers programs of study at the master's and Ph.D. levels, and is particularly focused on language (with programs in Korean, Chinese, and other Asian languages) and history, but with little specialization in current economic, trade, and investment issues.
2. The National Autonomous University of Mexico (Universidad Nacional Autónoma de México, UNAM) also offers a group

of academic options for studying Asia, in both the School of Philosophy and the School of Economics, in addition to Foreign Languages. The Center for Chinese-Mexican Studies (Cechimex) in the School of Economics has conducted in-depth studies during the last decade on trade and investment, and has produced detailed research on value-added chains, urbanization, agriculture, the environment, and increasing exchanges with Chinese counterparts.⁵¹ In several cases, academic institutions have cooperated with business organizations to formulate policy-oriented agendas.⁵²

3. Several institutions have added academic programs on Asia. The University of Guadalajara has a Department of Pacific Studies in the Center for Social Sciences and Humanities, created in 1990, focusing on Japan, China's agricultural sector, and regional integration in Asia, among other topics. The Center for Studies and Research on the Pacific Basin at the Universidad de Colima has a group of researchers with a wide variety of research interests—from overall Mexico-China relations to comparative Mexico-China analysis, human resources in the Pacific Basin, Japan, and renewable energies. Finally, the Study Program on the Asia-Pacific at the Autonomous Technological Institute of Mexico (Instituto Tecnológico Autónomo de México, ITAM) offers courses related to socioeconomic issues in Japan and China.

The Conditions and Performance of Trade and Investments, 2000–2012

Asia has increased its impact on Mexico's economy in a very profound way during the last decade, particularly in terms of trade and investments.⁵³ It could be argued that Mexico's recent relationship with Asia developed in two stages: the first stage began at the end of the 1990s and centered on trade, while the second stage began with the global economic crisis of 2008–9 and has increasingly included investments. These two stages are analyzed in depth below.

Trade

Table 1 accounts for the most significant changes in Mexico's trade since the 1990s. In general, several issues stand out:⁵⁴

1. The United States is by far Mexico's largest trading partner, both historically and today. As of 2012, United States–Mexico trade accounted for 77.60 percent and 49.93 percent of Mexican exports and imports, respectively, and for 63.77 percent of Mexico's total trade in 2012. Another significant feature of Mexico's trade with the United States is Mexico's significant trade surplus, which increased from negative balances at the beginning of the 1990s to an annual surplus below \$50 billion in the 2000s, and to a \$103 billion surplus in 2012, the highest ever.
2. Several long-standing aspects of the United States–Mexico trade relationship need to be deepened, however. Mexico's imports from the United States are still the country's highest, but have fallen very substantially; the share of U.S. imports fell from 75.49 percent in 1996 to levels below 50 percent since 2007. Similarly, there has been a decreasing trend in the share of Mexican exports to the United States, from 88.73 percent in 2000 to 77.60 percent in 2012. As a result, the United States' share of total Mexican trade fell from 81.03 percent in 1999 to 63.77 percent in 2012 reflecting a profound and continuous process of disintegration within NAFTA.⁵⁵
3. In contrast to the above-mentioned trends, Asian countries, particularly China, have increased their trade presence in Mexico. In a little more than a decade, Asia's share of Mexican trade almost tripled, from levels below 7 percent to 17.67 percent in 2012; the Chinese case is even more spectacular, increasing almost ten times during the same period, to account for a of 8.45 percent share in 2012 (or 48 percent of Asia's total trade with Mexico). Trade dynamism with Asia has been particularly significant for 2000–2012; in this period exports and imports from Asia increased

with an average annual growth rate of 19.0 percent (exports) and 15.5 percent (imports), while Mexico's total exports and imports presented an average annual growth rate of 6.9 percent and 6.5 percent, respectively.

4. In contrast to Mexico's trade with the United States, however, its trade with Asia reflects very different characteristics. In general, Mexico has massive trade deficits with Asia, which are increasing parallel to Mexico's trade surplus with the United States; Mexico's trade deficit with Asia increased more than five times since 2000 and reached \$96 billion in 2012. Asia is still a secondary export market for Mexico (accounting for 5.93 percent of Mexican exports), but is a major source of Mexico's imports (of 30.67 percent). In other words: for every \$1 exported to Asia in 2012, Mexico imported \$6.6 (in the first several years following 2000, the ratio was more than 1:10).
5. China is probably the most outstanding case in terms of overall trade between Mexico and the Asian countries. As can be seen in Table 1, it only accounts for 1.54 percent of Mexican exports and 15.36 percent of Mexican imports; imports from China have increased ten times since 2000, and the import/export coefficient was above 20 for several years and was still 10 in 2012.

Table 2 shows some of the main features of Mexico's trade with the twenty Asian economies considered for this chapter, in particular:

1. Mexican exports to these Asian countries have been increasingly concentrated on different kinds of raw materials—in particular oil, ores, and other minerals—while the technological content of Mexican exports to Asia has fallen significantly. For example, the share of medium- and high-technology products as a proportion of total exports to these Asian countries fell from levels above 50 percent in 2001 to levels below 40 percent (medium technology) and 33.23 percent (high technology) in 2012. A combination

of stagnating exports in automobile parts and automobiles and particularly dynamic exports in oil and minerals have enabled these trends.

2. Mexican imports from Asian countries, on the contrary, are almost exclusively from the manufacturing sector and nonraw materials (96.9 percent for the period 1995–2012). The share of medium- and high-technology imports over total imports from Asia has high and increasing levels—from over 60 percent in the 1990s to more than 75 percent in 2000s. Nevertheless, in the broader context of Latin America’s trade with China, Mexico still has technological capabilities, and the technological gap in trade has not widened in the last decade, although the gap is still very wide.⁵⁶

Table 3 provides a deeper analysis of the technological level of Mexico’s trade with Asia. First, it shows that total Mexican exports—and particularly those to the United States—maintain a relatively high technological level (i.e., since the 1990s more than 50 percent of Mexico’s exports have been medium or high technology, specifically 57.55 percent in 2012, while medium- and high-technology imports account for about 10 percent less [49.72 percent]). In contrast, there is a drastically different trade profile for Mexico’s trade with Asia in general, and also with each of its main trading partners in the region (i.e., there is a wide and increasing gap between exports and imports; in 2012, for example, medium- and high-technology imports from China accounted for 74 percent of all Mexican imports from China, while only 37 percent of all Mexican exports to China met this criterion).

Table 4 shows several additional characteristics of trade between particular Asian countries and Mexico, in particular:

1. During the period 1995–2012, Asia’s share of Mexico’s overall trade increased impressively, from 6.26 percent to 17.18 percent.⁵⁷
2. However, of the twenty Asian cases considered, only twelve have effectively traded with Mexico, the rest have not yet registered

imports or exports with Mexico. Cambodia, Macao, North Korea, Mongolia, Burma, Brunei, Laos, and East Timor each have very little trade with Mexico, combined less than 0.7 percent of Mexico's total trade in 2012.

3. Mexico's five main Asian trading partners according to total trade in 2012 (China, Japan, South Korea, Taiwan, and India) accounted for an overwhelming percentage of Mexico's trade with Asia in 2012: 87 percent of total trade with the region, 83.7 percent of exports, and 87.3 percent of imports.

Table 5 displays the main divisions of the Harmonized Tariff System, within which Mexico has a trade deficit with Asia; just three divisions—electrical machinery, auto parts, and automobiles—represented 75 percent of Mexico's trade deficit with Asia in 2012, reflecting the high concentration of Asian exports to Mexico in these manufacturing sectors.

Foreign Direct Investment

Mexico became one of the most successful cases of countries that have attracted foreign direct investment (FDI) by reforming their FDI law, in this case in 1993 in the context of NAFTA integration.⁵⁸ For the period 1999–2012, 102,079 firms registered FDI flows, which were highly concentrated in the top five countries; the United States alone accounted for 54.3 percent of Mexico's FDI flows during the period, followed by Spain and Canada. Asia has remained relatively stable with regard to FDI, accounting for 6.04 percent of the firms registering FDI flows during the period 1999–2012. Among the countries of Asia, South Korea and Japan accounted for the highest shares, followed by China, Taiwan, and Singapore.

Assessing these FDI transactions by value during 1999–2012, table 7 shows that:

1. Mexico attracted almost \$22 billion annually on average during the period 1999–2012. The top five investors (the United States, Spain, the Netherlands, Canada, and the United Kingdom), accounted for

84.4 percent of Mexico's total FDI during this period, where the U.S. share of total FDI in Mexico was 50.1 percent for 1999–2012.

2. Spain and the Netherlands with, respectively, 13.7 percent and 13.4 percent shares of Mexico's total FDI, are relevant, but the gap between their levels of investment and that of the United States is enormous. Asia's share of the total was 3.1 percent for the period discussed.
3. Looking within Asia, Japan alone accounted for 62 percent of the region's FDI to Mexico, accumulating \$5.8 billion for the period 1999–2012. South Korea and Singapore, each with a 0.4 percent share of Mexico's FDI, are also relevant. China and India played only minor roles regarding Mexico's FDI through 2012, with shares of 0.2 percent and 0.1 percent of total Mexican FDI during the period, respectively.

Table 8 gives some additional information on the primary Asian investors in Mexico during the period 1999–2012 in terms of the composition of FDI from the five main Asian investor countries:

1. In contrast to most FDI in Mexico (52.9 percent of FDI to Mexico comes from the reinvestment of profits, and 26 percent as accounting within firms), FDI from Asian countries stands out because 54 percent of this FDI during 1999–2012 came from new investments, and only 18.2 percent came from reinvested profits.
2. Total FDI from Asia has been increasing since 2008, particularly in its share of total Mexican FDI, from levels between 3 and 4 percent up to 15.7 percent in 2012. However, Asia's share of Mexico's total FDI for the period 1999–2012 was only 3.1 percent on average.
3. Table 8 provides additional details on the investments of the top five Asian investors in Mexico. First, Japan has been the major investor in Mexico, contributing 1.9 percent of Mexico's FDI, and in particular 4.7 percent of Mexico's new investments during the

period 1999–2012. Second, the other four major Asian investors in Mexico (South Korea, Taiwan, China, and Singapore) all stand out for their high shares of new investment in their total investment.

Available public information also allows us to distinguish an additional feature of FDI in Mexico: the amount of each FDI transaction (see table 9):

1. For the period 1999–2012, FDI per transaction for Asian countries represented 51.03 percent of total FDI in Mexico; that is, the value per FDI transaction from Asian countries in Mexico is significantly smaller than the value for FDI in Mexico as a whole.
2. Within the top five Asian sources of FDI to Mexico for the period 1999–2012, Japan and Singapore account for significantly higher levels of FDI per firm, 128 percent and 152 percent, respectively. Meanwhile, South Korea, Taiwan, and China have lower levels, respectively, 23 percent, 38 percent, and 9 percent per firm. The differentiated performances from these primary sources of Asian FDI reflect different sectoral and property structures and characteristics.⁵⁹ In general, Asian FDI in Mexico represents a significant smaller amount per firm than for total FDI in Mexico for 1999–2012.

Table 10 accounts for the sectoral performance of Asia's FDI in Mexico, showing clear investment disparities between sectors; during the period 1999–2012, manufacturing accounted for 74.32 percent and commerce for 13.71 percent of total Asian FDI to Mexico, with mining a distant third at 2.58 percent.

Finally, table 11 shows how Japan, Asia's main source of FDI to Mexico during the period 1999–2012, has specialized regionally within Mexico.⁶⁰ Japan's investment options are reflected in table 11, which begs a deeper analysis: (1) While nearly half of Japan's FDI during 1999–2012 was destined for Aguascalientes (31.9 percent) and the Distrito Federal (17.5 percent), (2) the same FDI from Japan accounted for 71.2 percent and 16.8

percent of the total FDI in each location (Aguascalientes and the Distrito Federal, respectively) during 1999–2012. FDI in Aguascalientes, for example, is directly linked to the Nissan plant, which has for more than two decades served as a supplier and production system in the region in the auto parts–automobile production chain.

CONCLUSIONS AND POLICY PROPOSALS

In the first section, this chapter presented the argument that export-orientated liberalization strategy initiated a profound structural change in Mexico at the end of the 1980s. While subsequent administrations have been open to multilateralism, in general globalization in Mexico has meant integration with the U.S. economy, in addition to FTAs with other countries in Latin America and Europe. With the exception of Japan, however, Asia was not considered in this overall strategy until very recently.

As a result of its earlier economic strategy, as discussed in the second section of the chapter, Mexico has had very weak public, private, and academic institutions regarding Asia, both in general and concerning particular countries across the region. Since the 1990s, however, Mexico has increasingly participated in Asian institutions such as APEC, FOCALAE, and PECC. But not until very recently did Mexico take active steps to engage with Asian economies via the TPP and the Pacific Alliance. Business organizations and academic institutions specializing in Asia have recently started to increase their presence, but have significant gaps in trade and investment dynamism. In spite of Mexico's active promotion of FTAs and APPRIs since the 1990s, at present it only has an economic association with Japan (2004) and APPRIs with four Asian countries (China, South Korea, India, and Singapore), which again reflects the fact that Mexico has lagged behind in trade with and investment in Asia.

The second section presented information regarding both the depth and breadth of Mexico's trade and investment relationship with Asia. Several issues stand out. First is the significant presence of Asia in Mexico's trade, particularly through imports. Asia's trade in Mexico has boomed since 2000. Second are the very significant gaps between the technology level of

imported and exported goods with respect to Mexico and its Asian partners. Mexico faces significant disadvantages compared with most of the countries of Asia and the region as a whole in terms of importing manufactured goods with medium- and high-technology levels vis-à-vis the lower technological levels of its (scarce) exports, which are predominantly of raw materials. Third, in addition to the disparity in the content of trade, Mexico presents a vast trade deficit with each of the Asian countries, particularly with China, Japan, and South Korea. Fourth, FDI performance is still far behind trade; Asia accounted for 18 percent of Mexico's trade but for only 3.1 percent of its FDI during the period 1999–2012. A second stage in this trade and investment relationship with higher levels of FDI has not yet begun, although Asia's share over Mexico's total FDI had grown to 15.7 percent in 2012. Fifth, Asia's FDI in Mexico has been characterized by higher levels of new investment, when compared with the nature of the investment by other regions and countries, as well as lower levels of FDI flows per firm, as was discussed in detail in the chapter's second section. Sixth and last, in terms of FDI, Japan as a source country and manufacturing as a target sector have so far taken the largest shares of the Asia region's FDI in Mexico. The auto parts–automobile commodity chain has been particularly relevant for Japan over the last two decades.

What are some of the discussions and policy lessons that can be taken from this performance? First, Mexican public, private, and academic institutions must invest massively and quickly to overcome more than two lost decades vis-à-vis Asia (with the exception of Japan). The lack of a strategy toward China, South Korea, Taiwan, and India, among others, has been widely acknowledged. However, only very initial concrete steps (with budgetary support) have been taken recently with the goal of overcoming these institutional trade and investment gaps.

Second, the Asia-Pacific region is very heterogeneous and differentiated in terms of trade and investment and thus requires Mexico to prioritize a smaller group of countries. Based on their trade and investment performance, China, Japan, South Korea, India, and Taiwan should be the focus of Mexico's future trade and investment policies vis-à-vis Asia.

Third, the TPP and the Pacific Alliance may allow for a new regional and interregional discussion directly with Asian countries, although they

are not particularly relevant from a trade and investment perspective for Mexico. While the Pacific Alliance is still at a very early stage, the TPP seems more relevant, at least at the time of writing in 2013. However, strictly from a Mexican perspective, Mexico already has trade and investment agreements with all the major members of TPP (i.e., the United States, Japan, and Canada). Additionally, if there were a need to enter new markets and diversify, Mexico could very well engage in bilateral negotiations with Australia and South Korea in the future.

Fourth, and very important, Mexico has not strategically updated and modernized NAFTA. Contrary to the initial negotiations on the agreement, where Mexican strategists were very clear that the parties should work toward greater integration of the “North American Region,” twenty years later, NAFTA has increasingly disintegrated. It seems surprising that public officials apparently prefer to engage in new negotiations within the TPP rather than cultivating the absolute and comparative advantages within North America and NAFTA. The TPP and NAFTA are clearly not exclusive institutions, but from a Mexican perspective, and regarding trade and investment, NAFTA should be an absolute priority and thus needs to be reactivated immediately.

Fifth, China is a particularly complicated case for Mexico in terms of trade and investment. While this chapter is not intended to and has not gone deeply into the bilateral relationship between the two countries, China clearly represents massive qualitative and quantitative challenges for Mexico. One challenge has been the massive displacement of production and employment in Mexico’s domestic and tertiary markets vis-à-vis China. Additionally, Mexico and China have undertaken very different development strategies with different instruments and mechanisms, and have had very different experiences regarding the role of the public sector in general, specifically regarding value-added chains and trade and investment policies. Strictly in terms of trade and investment, China outcompeted Mexico 10:1 in terms of imports/exports in 2012; Mexican exports to China fell by 4.2 percent in 2012, and China does not invest in Mexico essentially at all, contrary to its role in other Latin American countries.⁶¹ A detailed analysis of the two countries’ respective development agendas, as well as specific mechanisms for enhancing trade and FDI, is required to facilitate this “dialogue,” which has not yet occurred.

Sixth, and finally, Mexico must immediately improve its institutional setting (the “mesoeconomic level” of competitiveness) in order to understand and enter effectively into negotiations with Asia. The rapid and dynamic evolution of Mexico’s trade with Asia reflects the fact that today it is having difficulty competing with Asia in general and beyond exporting raw materials such as oil, copper, and other minerals. Neither the TPP nor other kinds of FTAs will solve the structural problems that are the result of decades of liberalization policies and not acknowledging the increasing importance of Asia. In addition of starting to improve its institutional framework, Mexico needs to generate specific agendas for each of its main trading partners in Asia. In the case of China, for example, a group of more than eighty experts (officials, business, academics, and others) created a complex “strategic agenda Mexico-China” spanning four fields (economy, trade, and investments; political agenda; tourism, education and culture; and sustainability and strategic development) combining 100 proposals in a 200-page document with analysis and specific proposals regarding investments, trade, institutions, customs, infrastructure (ports, airports, etc.), migration, visas, direct flights, illegal transshipment, and so on.⁶² Each of these topics requires detailed evaluations and monitoring in the short, medium, and long terms. Since December 2012, the Enrique Peña Nieto administration of has been able to overcome political barriers with China, in 2013 undertaking two presidential meetings, in Bo’ao, Hainan, China, and in Mexico City. Both administrations will need to show that they are able and willing to overcome the remaining structural deficiencies in their trade and investment relationships.

NOTES

1. Giovanni Arrighi, *Adam Smith in Beijing: Lineages of the Twenty-First Century* (London: Verso, 2007); Andre Gunder Frank, *Reorient: Global Economy in the Asian Age* (Berkeley: University of California Press, 1998).
2. In this chapter, “Asia” is defined as the group of the following twenty countries or economies: Brunei, Burma, Cambodia, China, North Korea, South Korea, the Philippines, Hong Kong, India, Indonesia, Japan, Laos, Macao, Malaysia, Mongolia, Singapore, Thailand, Taiwan, East Timor, and Vietnam.
3. Neutral, or horizontal, policies are well-known concepts are in Latin America (particularly in Mexico over the last two decades) that refer to a set of policies that

attempt to make an impact on firms, sectors, and regions, without any particular distinction, in contrast to policies based on import-substitution industrialization, which prioritized specific firms, sectors, and regions based on criteria such as import substitution, value added, and innovation and technology.

4. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).
5. Anne Krueger, *Liberalization Attempts and Consequences* (Cambridge, Mass.: Ballinger, 1978); Anne Krueger, “Trade Policy and Economic Development: How We Learn,” *American Economic Review* 87, no. 1 (1997): 1–22.
6. See note 3 above.
7. Bela Balassa, *The Newly Industrializing Countries in the World Economy* (New York: Pergamon Press, 1981).
8. Jagdish Bhagwati, “Is Free Trade Passe After All?” in *International Trade and Global Development*, edited by Ad Koekkoek and L. B. M. Mennes (London: Routledge, 1991), 10–42, at 17.
9. Krueger, “Trade Policy.”
10. Pedro Aspe Armella, *El camino mexicano de la transformación económica* (Mexico City: Fondo de Cultura Económica, 1993); Enrique Dussel Peters, *Polarizing Mexico: The Impact of Liberalization Strategy* (Boulder: Lynne Rienner, 2000); Plan Nacional de Desarrollo, *Plan Nacional de Desarrollo 2013–2018* (Mexico City: Plan Nacional de Desarrollo, 2012); Carlos Salinas de Gortari, *México: Un paso difícil a la modernidad* (Mexico City: Plaza y Janés, 2000); Carlos Salinas de Gortari, “Diez años del TLCAN y el fracaso de Cancún,” *Foreign Affairs en Español* 4, no. 1 (2004): 2–16; Eduardo Sojo Garza-Aldape, *De la alternancia al desarrollo: Políticas públicas del gobierno del cambio* (Mexico City: Fondo de Cultura Económica, 2005).
11. David Ibarra, *Política y economía: Semblanzas y ensayos* (Mexico City: Miguel Ángel Porrúa, 1999).
12. Plan Nacional de Desarrollo, *Plan Nacional de Desarrollo 2007–2012* (Mexico City: Plan Nacional de Desarrollo, 2006); Plan Nacional de Desarrollo, *Plan Nacional de Desarrollo 2013–2018*.
13. At the end of the 1980s, this was not merely a hypothetical possibility. Politicians such as Ross Perot and Patrick J. Buchanan in the United States presented strong criticisms of imports from Mexico. Stepped-up protectionism would have acted against an export orientation in Mexico and EOI in general. See also Luis Rubio, “El TLC en el desarrollo de México,” in *Políticas económicas del México contemporáneo*, edited by Luis Rubio (Mexico City: Fondo de Cultura Económica, 2001), 250–73.
14. The analysis of Salinas de Gortari in 2000 is very convincing in this direction: “The United States emerged as the only superpower in the world. Its hegemonic character meant for us that, contrary to what had happened in the past, we would no longer count with the possibility of constructing, with the colossus of the North, balances and equilibrium in the international arena, such as Mexico did with Europe in the 20th century and later with the socialist camp. . . . At the beginning of the 1990s and with the consolidated globalization, Mexico could only aspire to sustained growth if it participated in the world flows of free trade. . . . To benefit from advantages from economic globalization and, particularly, to compete with efficiency for financial

- capitals in the world, it was indispensable to create attractions compared to emerging nations from Central Europe and other regions.” Salinas de Gortari, *México: Un paso difícil a la modernidad*, 40–44.
15. Rafael Fernández de Castro and Laura Rubio Díaz Leal, “Falsa illusion: China, el contrapeso de Estados Unidos en el Hemisferio Occidental,” in *China y México. Implicaciones de una nueva relación*, edited by Enrique Dussel Peters and Yolanda Trápaga Delfin (Mexico City: UNAM/Cechemex, ITESM y *La Jornada*, 2007), 105–17, at 110.
 16. Clark Reynolds, “Poder, valor y distribución en el Tratado de Libre Comercio de América del Norte,” in *La Liberalización económica y política de México*, edited by Riordan Roett (Mexico City: Siglo Veintiuno Editores, 107-140).
 17. See the twenty-seven volumes presented by Fondo de Cultura Económica in 1994 under the title *Una visión de la Modernización de México*. Each volume was written by public officials very close to President Salinas the Gortari at that time; e.g., the book on trade negotiations is by Herminio Blanco Mendoza, and the one on the modernization of the agricultural sector is by Luis Téllez Kuenzler.
 18. Herminio Blanco Mendoza, *Las negociaciones comerciales de México con el Mundo* (Mexico City: Fondo de Cultura Económica, 1994), 151–55.
 19. Ángel Gurría, “Globalización, reforma del Estado y política exterior,” in *Transición económica y comercio exterior* (Mexico City: Bancomext, 1999), 255–79, at 277–78.
 20. Aspe Armella, *El camino mexicano*, 111–53; Nora Lustig, *Mexico: The Remaking of an Economy* (Washington, D.C.: Brookings Institution Press, 1993).
 21. Salinas de Gortari, *México: Un paso difícil a la modernidad*.
 22. Marcelo M. Giugale, Olivier Lafourcade, and Vinh Nguyen, eds., *Mexico. A Comprehensive Development Agenda for the New Era* (Washington, D.C.: World Bank, 2001); José Luis León, “México y el mundo del future: Cinco posibles escenarios,” in *La política exterior de México*, edited by El Colegio de México / Instituto Matías Romero (Mexico City: El Colegio de México / Instituto Matías Romero, 1997), 167–85.
 23. Ernesto Acevedo and Jaime Zabłudovsky, “Evaluación de la apertura comercial internacional (1986–2012),” in *Reflexiones sobre la política comercial internacional de México (2006–2012)*, edited by Beatriz Leycegui Gardoqui (Mexico City: ITAM, Secretaría de Economía, 2012), 53–98; Beatriz Leycegui Gardoqui, “Capítulo 2,” in *Reflexiones sobre la política comercial internacional de México*, ed. Leycegui Gardoqui, 99–118.
 24. Francisco Rosenzweig, “El Acuerdo de Asociación Transpacífica: Un impulse a América del Norte,” in *Reflexiones sobre la política comercial internacional de México*, ed. Leycegui Gardoqui, 434–45.
 25. See Plan Nacional de Desarrollo, *Plan Nacional de Desarrollo 1995–2000*, *Plan Nacional de Desarrollo 2001–2006*, *Plan Nacional de Desarrollo 2007–2012*, and *Plan Nacional de Desarrollo 2013–2018*. *Plan Nacional de Desarrollo 1995–2000* (PND 1995) provides a good example: Though it includes proposals for North America, Central America and the Caribbean, and South America, on Asia it only includes references on the Asia-Pacific region regarding the participation to the Asia-Pacific Economic Cooperation forum “to promote trade, investment and financial relations with its member countries, which includes some of the most dynamic economies of

the world and whose international role will increase in the future;” PND 1995, 14. In most of the PNDs since the 1990s, Asia has been considered a case for Mexico’s “diversification” see PND 2001, 62; and PND 2007, 299.

26. PND 2007, 304, and also 297.
27. Ibid., 297.
28. PND 2013, 92.
29. Ibid., 94.
30. Ibid., 147.
31. Ibid., 148.
32. Enrique Dussel Peters and Kevin Gallagher, “El huésped no-invitado del TLCAN: China y la desintegración del comercio en América del Norte,” *Revista de la CEPAL* 110 (2013): 85–111.
33. Kevin Gallagher, Timothy Wise, and Enrique Dussel Peters, eds., *The Future of North American Trade Policy: Lessons from NAFTA* (Boston: Frederick S. Pardee Center for the Study of the Longer-Range Future at Boston University, 2009).
34. In the case of Mexico, for example, there has been a slow but increasing literature on the effects of China on Mexico’s manufacturing sector. For a discussion, see Enrique Dussel Peters, ed., *América Latina y el Caribe-China: Economía, comercio e inversiones* (Mexico City: RED ALC-CHINA, UDUAL, UNAM/Cechemex, 2013); Salinas de Gortari, “Diez años del TLCAN;” and <http://www.economia.unam.mx/cechemex>.
35. Two Asian countries—South Korea, for almost a decade, and China—have requested that Mexico start free trade negotiations, but neither the public nor the private sectors have shown interest in starting negotiations in this direction.
36. These countries are listed in note 2 above.
37. Secretaría de Relaciones Exteriores, *Nuevos espacios para México en Asia-Pacífico: Memoria Documental* (Mexico City: Secretaría de Relaciones Exteriores, 2012).
38. The lack of institutional relevance of Asia in Mexico’s public sector contrasts, for example, with the existence of an undersecretary for North America and Latin America and the Caribbean in the case of Mexico’s Foreign Ministry.
39. The secretary of economics, however, has in June of 2013 informed that it will create a unit on China; it is not clear yet at which administrative level it will be situated.
40. Secretaría de Relaciones Exteriores, *Nuevos espacios para México en Asia-Pacífico*.
41. Economic Commission for Latin America and the Caribbean, *Forum for East Asia–Latin America Cooperation (FEALAC)* (Santiago: Economic Commission for Latin America and the Caribbean, 2011).
42. Secretaría de Relaciones Exteriores, *Nuevos espacios para México en Asia-Pacífico*, 40 ff.
43. PND 2013, 95.
44. This is the case, for example, if NAFTA-wide (and Mexican) supplies would not have been considered explicitly in exports beyond NAFTA in TPP negotiations. *Acuerdo de Asociación Transpacífico*, (Mexico City: Secretaría de Economía, 2013).
45. Secretaría de Economía, *Dirección General de Inversión Extranjera* (Mexico City: Secretaría de Economía, 2013).
46. PND 2013, 95–96.
47. For a full presentation, see <http://www.promexico.gob.mx/es>.
48. Enrique Dussel Peters, ed., *40 años de la relación entre México y China: Acuerdos*,

- desencuentros y futuro* (Mexico City: UNAM/CECIMEX, Cámara de Senadores y CICIR, 2012).
49. For a full description, see <http://www.comce.org.mx/>.
 50. For the details about the CEAA, see <http://ceaa.colmex.mx/>.
 51. For details, see <http://www.economia.unam.mx/cechimex>.
 52. Particularly interesting is, for example, the agenda that Agendasia established for the case of China, with 100 proposals in specific topics (including trade, investments, political links, culture, education and tourism, among others). See Agendasia, *Agenda estratégica México-China: Dirigido al C. Presidente Electo Enrique Peña Nieto* (Mexico City: Agendasia, 2012).
 53. Monitor de la Manufactura Mexicana, *Monitor de la Manufactura Mexicana* 8 (2012).
 54. Unless otherwise stated, all trade data were taken from World Trade Atlas (<http://www.gtis.com/wta.htm>), which coincides with Mexico's trade data from Comtrade (<http://comtrade.un.org>).
 55. The issue is of utmost relevance in Latin America and NAFTA. For an analysis on intraindustry trade within NAFTA and specific value-added chains in the region, see Lorena Cárdenas Castro and Enrique Dussel Peters, "El comercio intraindustrial en México: Un comparativo entre China y Estados Unidos," *Comercio Exterior* 61, no. 4 (2011): 1–15; and Dussel Peters and Gallagher, "El huésped no-invitado del TLCAN."
 56. For a full discussion, see Enrique Dussel Peters, *Recent China-LAC Trade Relations: Implications for Inequality*, Working Paper 40 (Berlin: Desigualdades.net, FU Berlin, 2013), 1–27.
 57. The aggregated data for "Asia" in tables 1 and 2 are not the same because the Banco de México's and my definitions of twenty nations of Asia are not the same.
 58. For a full understanding and discussion on FDI in Mexico, from statistics to conceptual discussions and legal changes, see Enrique Dussel Peters, Luis Miguel Galindo Paliza, Eduardo Loría, and Michael Mortimore, eds., *Inversión extranjera directa en México: Desempeño y potencial—Una perspectiva macro, meso, micro y territorial* (Mexico City: Siglo XXI, Secretaría de Economía, UNAM/Cechimex, 2007).
 59. For a full discussion on Chinese FDI and its characteristics by property and sector, see Enrique Dussel Peters, *Chinese FDI in Latin America: Does Ownership Matter?* GDAE Working Paper 33 (Medford, Mass.: Global Development And Environment Institute at Tufts University, 2012).
 60. It is very important to understand the definition of FDI used by the Secretaría de Economía (see Dussel Peters et al., *Inversión extranjera directa en México*), because FDI amounts are registered according to the place where the legal headquarters of the respective firm is located; i.e., the FDI could effectively be invested in Aguascalientes, e.g., although the firm is legally registered in Mexico City (and thus, the FDI is territorially registered by the Secretaría de Economía in Mexico City).
 61. For a full discussion these topics, see the recently created Academic Latin American Network on China (RED ALC-CHINA, <http://www.redalc-china.org/>); and Dussel Peters, *América Latina y el Caribe-China*.
 62. Agendasia, *Agenda estratégica México-China*.

Table 1. Mexico: Main Trade Structures (1993-2012)

| Exports | | | | | | |
|--------------|---------|---------------|----------------|--------|-------|--------|
| | Total | United States | European Union | Asia | China | Other |
| MILLION \$US | | | | | | |
| 1993 | 51,886 | 42,912 | 2,704 | 1,348 | 45 | 4,923 |
| 1994 | 60,882 | 51,619 | 2,875 | 1,544 | 42 | 4,844 |
| 1995 | 79,542 | 66,274 | 3,372 | 2,044 | 37 | 7,852 |
| 1996 | 96,000 | 80,570 | 3,570 | 2,601 | 38 | 9,258 |
| 1997 | 110,431 | 94,377 | 4,072 | 2,392 | 46 | 9,590 |
| 1998 | 117,539 | 103,002 | 4,018 | 2,201 | 106 | 8,318 |
| 1999 | 136,362 | 120,262 | 5,484 | 2,124 | 126 | 8,492 |
| 2000 | 166,121 | 147,400 | 5,743 | 2,158 | 204 | 10,819 |
| 2001 | 158,780 | 140,564 | 5,419 | 2,223 | 282 | 10,574 |
| 2002 | 161,046 | 141,898 | 5,630 | 3,310 | 654 | 10,209 |
| 2003 | 164,766 | 144,293 | 6,216 | 3,683 | 974 | 10,574 |
| 2004 | 187,999 | 164,522 | 6,825 | 3,942 | 986 | 12,710 |
| 2005 | 214,233 | 183,563 | 9,144 | 4,779 | 1,136 | 16,747 |
| 2006 | 249,925 | 211,799 | 11,009 | 6,386 | 1,688 | 20,731 |
| 2007 | 271,875 | 223,133 | 14,554 | 7,613 | 1,895 | 26,575 |
| 2008 | 291,343 | 233,523 | 17,288 | 8,626 | 2,045 | 31,906 |
| 2009 | 229,783 | 185,181 | 11,626 | 7,561 | 2,208 | 25,416 |
| 2010 | 298,473 | 238,684 | 14,432 | 10,704 | 4,183 | 34,653 |
| 2011 | 349,375 | 274,431 | 18,945 | 14,547 | 5,964 | 41,452 |
| 2012 | 370,915 | 287,824 | 21,988 | 17,364 | 5,721 | 43,738 |
| GROWTH RATE | | | | | | |
| 1993 | -- | -- | -- | -- | -- | -- |
| 1994 | 17.3 | 20.3 | 6.3 | 14.6 | -5.8 | -1.6 |
| 1995 | 30.6 | 28.4 | 17.3 | 32.3 | -12.2 | 62.1 |
| 1996 | 20.7 | 21.6 | 5.9 | 27.3 | 3.4 | 17.9 |
| 1997 | 15.0 | 17.1 | 14.0 | -8.0 | 19.9 | 3.6 |
| 1998 | 6.4 | 9.1 | -1.3 | -8.0 | 131.0 | -13.3 |
| 1999 | 16.0 | 16.8 | 36.5 | -3.5 | 19.2 | 2.1 |
| 2000 | 21.8 | 22.6 | 4.7 | 1.6 | 61.1 | 27.4 |
| 2001 | -4.4 | -4.6 | -5.6 | 3.0 | 38.4 | -2.3 |
| 2002 | 1.4 | 0.9 | 3.9 | 48.9 | 132.1 | -3.5 |
| 2003 | 2.3 | 1.7 | 10.4 | 11.3 | 49.0 | 3.6 |
| 2004 | 14.1 | 14.0 | 9.8 | 7.0 | 1.2 | 20.2 |
| 2005 | 14.0 | 11.6 | 34.0 | 21.2 | 15.1 | 31.8 |
| 2006 | 16.7 | 15.4 | 20.4 | 33.6 | 48.7 | 23.8 |
| 2007 | 8.8 | 5.4 | 32.2 | 19.2 | 12.3 | 28.2 |
| 2008 | 7.2 | 4.7 | 18.8 | 13.3 | 7.9 | 20.1 |
| 2009 | -21.1 | -20.7 | -32.8 | -12.3 | 8.0 | -20.3 |
| 2010 | 29.9 | 28.9 | 24.1 | 41.6 | 89.5 | 36.3 |
| 2011 | 17.1 | 15.0 | 31.3 | 35.9 | 42.6 | 19.6 |
| 2012 | 6.2 | 4.9 | 16.1 | 19.4 | -4.1 | 5.5 |
| 1993-2000 | 18.1 | 19.3 | 11.4 | 7.0 | 24.2 | 11.9 |
| 2000-2012 | 6.9 | 5.7 | 11.8 | 19.0 | 32.0 | 12.3 |

| Imports | | | | | |
|---------------------|---------------|----------------|---------|--------|--------|
| Total | United States | European Union | Asia | China | Other |
| MILLION \$US | | | | | |
| 65,367 | 45,295 | 7,908 | 7,373 | 386 | 4,791 |
| 79,346 | 54,834 | 9,199 | 9,464 | 500 | 5,848 |
| 72,453 | 53,902 | 6,830 | 7,699 | 521 | 4,022 |
| 89,469 | 67,536 | 7,874 | 8,998 | 760 | 5,061 |
| 109,808 | 82,002 | 10,156 | 11,315 | 1,247 | 6,334 |
| 125,373 | 93,258 | 11,994 | 12,840 | 1,617 | 7,280 |
| 141,975 | 105,267 | 13,180 | 15,129 | 1,921 | 8,399 |
| 174,458 | 127,534 | 15,329 | 20,271 | 2,880 | 11,323 |
| 168,396 | 113,767 | 16,841 | 25,345 | 4,027 | 12,444 |
| 168,679 | 106,557 | 17,136 | 31,360 | 6,274 | 13,626 |
| 170,546 | 105,361 | 18,645 | 31,854 | 9,401 | 14,687 |
| 196,810 | 110,827 | 21,793 | 44,400 | 14,374 | 19,790 |
| 221,820 | 118,547 | 25,982 | 53,654 | 17,696 | 23,636 |
| 256,058 | 130,311 | 29,012 | 68,893 | 24,438 | 27,842 |
| 281,949 | 139,473 | 33,822 | 79,451 | 29,744 | 29,203 |
| 308,603 | 151,335 | 39,183 | 86,211 | 34,690 | 31,874 |
| 234,385 | 112,434 | 27,226 | 72,158 | 32,529 | 22,568 |
| 301,482 | 145,007 | 32,497 | 95,918 | 45,608 | 28,059 |
| 350,843 | 174,356 | 37,585 | 107,111 | 52,248 | 31,792 |
| 370,752 | 185,110 | 40,738 | 113,714 | 56,936 | 31,190 |
| GROWTH RATE | | | | | |
| -- | -- | -- | -- | -- | -- |
| 21.4 | 21.1 | 16.3 | 28.4 | 29.3 | 22.1 |
| -8.7 | -1.7 | -25.8 | -18.7 | 4.2 | -31.2 |
| 23.5 | 25.3 | 15.3 | 16.9 | 45.9 | 25.8 |
| 22.7 | 21.4 | 29.0 | 25.8 | 64.2 | 25.2 |
| 14.2 | 13.7 | 18.1 | 13.5 | 29.6 | 14.9 |
| 13.2 | 12.9 | 9.9 | 17.8 | 18.8 | 15.4 |
| 22.9 | 21.2 | 16.3 | 34.0 | 49.9 | 34.8 |
| -3.5 | -10.8 | 9.9 | 25.0 | 39.9 | 9.9 |
| 0.2 | -6.3 | 1.8 | 23.7 | 55.8 | 9.5 |
| 1.1 | -1.1 | 8.8 | 1.6 | 49.8 | 7.8 |
| 15.4 | 5.2 | 16.9 | 39.4 | 52.9 | 34.7 |
| 12.7 | 7.0 | 19.2 | 20.8 | 23.1 | 19.4 |
| 15.4 | 9.9 | 11.7 | 28.4 | 38.1 | 17.8 |
| 10.1 | 7.0 | 16.6 | 15.3 | 21.7 | 4.9 |
| 9.5 | 8.5 | 15.9 | 8.5 | 16.6 | 9.1 |
| -24.0 | -25.7 | -30.5 | -16.3 | -6.2 | -29.2 |
| 28.6 | 29.0 | 19.4 | 32.9 | 40.2 | 24.3 |
| 16.4 | 20.2 | 15.7 | 11.7 | 14.6 | 13.3 |
| 5.7 | 6.2 | 8.4 | 6.2 | 9.0 | -1.9 |
| 15.1 | 15.9 | 9.9 | 15.5 | 33.2 | 13.1 |
| 6.5 | 3.2 | 8.5 | 15.5 | 28.2 | 8.8 |

Table 1. continued

| Exports | | | | | | |
|--------------------------------------|---------------|----------------|---------|---------|---------|--------|
| Total | United States | European Union | Asia | China | Other | |
| SHARE OVER TOTAL (percentage) | | | | | | |
| 1993 | 100.00 | 82.70 | 5.21 | 2.60 | 0.09 | 9.49 |
| 1994 | 100.00 | 84.78 | 4.72 | 2.54 | 0.07 | 7.96 |
| 1995 | 100.00 | 83.32 | 4.24 | 2.57 | 0.05 | 9.87 |
| 1996 | 100.00 | 83.93 | 3.72 | 2.71 | 0.04 | 9.64 |
| 1997 | 100.00 | 85.46 | 3.69 | 2.17 | 0.04 | 8.68 |
| 1998 | 100.00 | 87.63 | 3.42 | 1.87 | 0.09 | 7.08 |
| 1999 | 100.00 | 88.19 | 4.02 | 1.56 | 0.09 | 6.23 |
| 2000 | 100.00 | 88.73 | 3.46 | 1.30 | 0.12 | 6.51 |
| 2001 | 100.00 | 88.53 | 3.41 | 1.40 | 0.18 | 6.66 |
| 2002 | 100.00 | 88.11 | 3.50 | 2.06 | 0.41 | 6.34 |
| 2003 | 100.00 | 87.57 | 3.77 | 2.24 | 0.59 | 6.42 |
| 2004 | 100.00 | 87.51 | 3.63 | 2.10 | 0.52 | 6.76 |
| 2005 | 100.00 | 85.68 | 4.27 | 2.23 | 0.53 | 7.82 |
| 2006 | 100.00 | 84.75 | 4.40 | 2.55 | 0.68 | 8.30 |
| 2007 | 100.00 | 82.07 | 5.35 | 2.80 | 0.70 | 9.77 |
| 2008 | 100.00 | 80.15 | 5.93 | 2.96 | 0.70 | 10.95 |
| 2009 | 100.00 | 80.59 | 5.06 | 3.29 | 0.96 | 11.06 |
| 2010 | 100.00 | 79.97 | 4.84 | 3.59 | 1.40 | 11.61 |
| 2011 | 100.00 | 78.55 | 5.42 | 4.16 | 1.71 | 11.86 |
| 2012 | 100.00 | 77.60 | 5.93 | 4.68 | 1.54 | 11.79 |
| TRADE BALANCE | | | | | | |
| 1993 | -13,481 | -2,383 | -5,204 | -6,025 | -342 | 132 |
| 1994 | -18,464 | -3,216 | -6,324 | -7,920 | -457 | -1,005 |
| 1995 | 7,088 | 12,371 | -3,458 | -5,655 | -484 | 3,830 |
| 1996 | 6,531 | 13,034 | -4,303 | -6,397 | -721 | 4,197 |
| 1997 | 623 | 12,375 | -6,084 | -8,923 | -1,201 | 3,256 |
| 1998 | -7,834 | 9,743 | -7,976 | -10,639 | -1,511 | 1,037 |
| 1999 | -5,613 | 14,995 | -7,696 | -13,005 | -1,795 | 94 |
| 2000 | -8,337 | 19,865 | -9,586 | -18,113 | -2,676 | -504 |
| 2001 | -9,617 | 26,798 | -11,423 | -23,122 | -3,745 | -1,870 |
| 2002 | -7,633 | 35,341 | -11,506 | -28,050 | -5,620 | -3,418 |
| 2003 | -5,779 | 38,933 | -12,428 | -28,171 | -8,426 | -4,113 |
| 2004 | -8,811 | 53,695 | -14,968 | -40,459 | -13,388 | -7,079 |
| 2005 | -7,587 | 65,016 | -16,838 | -48,875 | -16,561 | -6,889 |
| 2006 | -6,133 | 81,488 | -18,003 | -62,508 | -22,750 | -7,110 |
| 2007 | -10,074 | 83,660 | -19,268 | -71,838 | -27,848 | -2,628 |
| 2008 | -17,261 | 82,188 | -21,895 | -77,586 | -32,646 | 32 |
| 2009 | -4,602 | 72,747 | -15,600 | -64,596 | -30,321 | 2,848 |
| 2010 | -3,009 | 93,677 | -18,065 | -85,215 | -41,425 | 6,594 |
| 2011 | -1,468 | 100,075 | -18,639 | -92,564 | -46,284 | 9,661 |
| 2012 | 163 | 102,714 | -18,750 | -96,349 | -51,215 | 12,548 |

Source: Author's elaboration based on Banxico (2013).

| Imports | | | | | |
|--------------------------------------|---------------|----------------|-------|-------|-------|
| Total | United States | European Union | Asia | China | Other |
| SHARE OVER TOTAL (percentage) | | | | | |
| 100.00 | 69.29 | 12.10 | 11.28 | 0.59 | 7.33 |
| 100.00 | 69.11 | 11.59 | 11.93 | 0.63 | 7.37 |
| 100.00 | 74.40 | 9.43 | 10.63 | 0.72 | 5.55 |
| 100.00 | 75.49 | 8.80 | 10.06 | 0.85 | 5.66 |
| 100.00 | 74.68 | 9.25 | 10.30 | 1.14 | 5.77 |
| 100.00 | 74.38 | 9.57 | 10.24 | 1.29 | 5.81 |
| 100.00 | 74.15 | 9.28 | 10.66 | 1.35 | 5.92 |
| 100.00 | 73.10 | 8.79 | 11.62 | 1.65 | 6.49 |
| 100.00 | 67.56 | 10.00 | 15.05 | 2.39 | 7.39 |
| 100.00 | 63.17 | 10.16 | 18.59 | 3.72 | 8.08 |
| 100.00 | 61.78 | 10.93 | 18.68 | 5.51 | 8.61 |
| 100.00 | 56.31 | 11.07 | 22.56 | 7.30 | 10.06 |
| 100.00 | 53.44 | 11.71 | 24.19 | 7.98 | 10.66 |
| 100.00 | 50.89 | 11.33 | 26.91 | 9.54 | 10.87 |
| 100.00 | 49.47 | 12.00 | 28.18 | 10.55 | 10.36 |
| 100.00 | 49.04 | 12.70 | 27.94 | 11.24 | 10.33 |
| 100.00 | 47.97 | 11.62 | 30.79 | 13.88 | 9.63 |
| 100.00 | 48.10 | 10.78 | 31.82 | 15.13 | 9.31 |
| 100.00 | 49.70 | 10.71 | 30.53 | 14.89 | 9.06 |
| 100.00 | 49.93 | 10.99 | 30.67 | 15.36 | 8.41 |
| SHARE OVER TOTAL TRADE | | | | | |
| 100.00 | 75.23 | 9.05 | 7.44 | 0.37 | 8.28 |
| 100.00 | 75.91 | 8.61 | 7.85 | 0.39 | 7.62 |
| 100.00 | 79.07 | 6.71 | 6.41 | 0.37 | 7.81 |
| 100.00 | 79.86 | 6.17 | 6.25 | 0.43 | 7.72 |
| 100.00 | 80.09 | 6.46 | 6.22 | 0.59 | 7.23 |
| 100.00 | 80.79 | 6.59 | 6.19 | 0.71 | 6.42 |
| 100.00 | 81.03 | 6.71 | 6.20 | 0.74 | 6.07 |
| 100.00 | 80.73 | 6.19 | 6.59 | 0.91 | 6.50 |
| 100.00 | 77.74 | 6.80 | 8.43 | 1.32 | 7.04 |
| 100.00 | 75.35 | 6.90 | 10.51 | 2.10 | 7.23 |
| 100.00 | 74.45 | 7.41 | 10.60 | 3.09 | 7.53 |
| 100.00 | 71.55 | 7.44 | 12.56 | 3.99 | 8.45 |
| 100.00 | 69.28 | 8.06 | 13.40 | 4.32 | 9.26 |
| 100.00 | 67.61 | 7.91 | 14.88 | 5.16 | 9.60 |
| 100.00 | 65.47 | 8.73 | 15.72 | 5.71 | 10.07 |
| 100.00 | 64.15 | 9.41 | 15.81 | 6.12 | 10.63 |
| 100.00 | 64.12 | 8.37 | 17.17 | 7.48 | 10.34 |
| 100.00 | 63.95 | 7.82 | 17.77 | 8.30 | 10.45 |
| 100.00 | 64.09 | 8.07 | 17.37 | 8.31 | 10.46 |
| 100.00 | 63.77 | 8.46 | 17.67 | 8.45 | 10.10 |

Table 2. Mexico: Main Imported and Exported Chapters to Asia (2012)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| EXPORTS | | | | | | | | | | |
| total | 1,925 | 2,827 | 2,248 | 1,930 | 1,973 | 2,043 | 2,078 | 2,509 | 2,275 | 3,022 |
| raw materials^a | 845 | 1,169 | 753 | 413 | 578 | 692 | 601 | 779 | 925 | 1,157 |
| medium and high technology^b | 272 | 602 | 712 | 889 | 1,005 | 889 | 1,086 | 1,108 | 832 | 1,075 |
| main 5 exported chapters (according to 2012) | 766 | 1,227 | 1,134 | 1,025 | 1,276 | 1,258 | 1,362 | 1,494 | 1,365 | 1,581 |
| 27-Oil | 493 | 620 | 431 | 133 | 253 | 360 | 276 | 379 | 548 | 370 |
| 26-Ores, slag and ash | 15 | 23 | 11 | 11 | 24 | 21 | 38 | 46 | 30 | 191 |
| 85-Electrical machinery | 92 | 136 | 197 | 248 | 306 | 265 | 366 | 276 | 183 | 213 |
| 87-Automobiles | 11 | 106 | 14 | 22 | 50 | 36 | 75 | 154 | 41 | 140 |
| 84-Autoparts | 154 | 341 | 480 | 611 | 642 | 575 | 608 | 639 | 562 | 667 |
| IMPORTS | | | | | | | | | | |
| total | 7,591 | 8,775 | 11,082 | 12,541 | 14,693 | 19,531 | 24,719 | 30,759 | 31,182 | 43,522 |
| raw materials^a | 335 | 367 | 527 | 531 | 538 | 749 | 815 | 919 | 893 | 999 |
| medium and high technology^b | 4,711 | 5,439 | 6,622 | 7,110 | 8,975 | 11,951 | 18,171 | 22,875 | 23,172 | 33,382 |
| main 5 imported chapters (according to 2012) | 4,931 | 5,677 | 6,901 | 7,398 | 9,402 | 12,435 | 18,846 | 23,674 | 24,157 | 34,626 |
| 85-Electrical machinery | 2,692 | 2,910 | 3,750 | 3,926 | 5,198 | 6,971 | 11,123 | 13,309 | 12,022 | 18,567 |
| 84-Autoparts | 1,541 | 1,850 | 2,025 | 2,228 | 2,683 | 3,315 | 5,359 | 7,529 | 8,950 | 11,338 |
| 87-Automobiles | 234 | 363 | 479 | 531 | 501 | 1,099 | 1,010 | 1,219 | 1,380 | 1,960 |
| 90-Optical instruments | 243 | 314 | 365 | 421 | 587 | 561 | 672 | 810 | 814 | 1,500 |
| 39-Plastics | 222 | 239 | 282 | 293 | 433 | 490 | 681 | 808 | 990 | 1,262 |
| SHARE (PERCENTAGE OVER TOTAL)—EXPORTS | | | | | | | | | | |
| total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| raw materials^a | 43.87 | 41.35 | 33.49 | 21.40 | 29.28 | 33.86 | 28.92 | 31.06 | 40.68 | 38.30 |
| medium and high technology^b | 14.15 | 21.31 | 31.69 | 46.07 | 50.94 | 43.54 | 52.26 | 44.14 | 36.60 | 35.57 |
| main 5 exported chapters (according to 2012) | 39.78 | 43.41 | 50.43 | 53.11 | 64.68 | 61.57 | 65.56 | 59.52 | 60.00 | 52.31 |
| 27-Oil | 25.62 | 21.95 | 19.16 | 6.91 | 12.84 | 17.60 | 13.28 | 15.11 | 24.11 | 12.25 |
| 26-Ores, slag and ash | 0.77 | 0.82 | 0.50 | 0.56 | 1.21 | 1.05 | 1.82 | 1.83 | 1.31 | 6.31 |
| 85-Electrical machinery | 4.79 | 4.83 | 8.76 | 12.84 | 15.53 | 12.98 | 17.59 | 11.00 | 8.05 | 7.05 |
| 87-Automobiles | 0.58 | 3.74 | 0.64 | 1.16 | 2.56 | 1.78 | 3.61 | 6.12 | 1.82 | 4.65 |
| 84-Autoparts | 8.02 | 12.07 | 21.37 | 31.64 | 32.54 | 28.17 | 29.25 | 25.47 | 24.71 | 22.06 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1995-2012 |
|--|--------|--------|--------|--------|--------|---------|---------|-----------|
| EXPORTS | | | | | | | | |
| 4,410 | 5,761 | 6,922 | 7,763 | 6,837 | 10,015 | 13,711 | 16,244 | 94,491 |
| 1,708 | 2,023 | 2,688 | 2,807 | 2,728 | 4,282 | 6,643 | 7,919 | 38,709 |
| 1,537 | 2,140 | 2,246 | 2,266 | 2,089 | 3,185 | 3,655 | 5,399 | 30,988 |
| 2,363 | 3,113 | 3,736 | 3,755 | 3,552 | 5,986 | 8,546 | 11,426 | 54,964 |
| 492 | 579 | 874 | 917 | 891 | 1,510 | 2,779 | 3,315 | 15,221 |
| 398 | 513 | 724 | 727 | 726 | 1,471 | 2,278 | 2,948 | 10,195 |
| 316 | 362 | 676 | 1,026 | 1,009 | 1,264 | 1,321 | 2,501 | 10,758 |
| 373 | 543 | 587 | 557 | 465 | 1,034 | 1,392 | 1,667 | 7,269 |
| 783 | 1,116 | 875 | 528 | 460 | 708 | 776 | 996 | 11,522 |
| IMPORTS | | | | | | | | |
| 52,651 | 67,811 | 77,995 | 84,528 | 70,912 | 94,287 | 104,778 | 111,172 | 868,529 |
| 1,154 | 1,556 | 2,538 | 3,089 | 2,057 | 3,015 | 3,146 | 3,473 | 26,701 |
| 40,124 | 52,210 | 59,413 | 63,497 | 54,261 | 72,429 | 78,241 | 81,446 | 644,028 |
| 41,680 | 53,933 | 61,232 | 65,486 | 55,996 | 74,799 | 81,034 | 84,552 | 666,758 |
| 24,035 | 31,001 | 34,055 | 38,281 | 34,968 | 44,661 | 46,673 | 46,390 | 380,529 |
| 11,335 | 12,641 | 13,537 | 14,000 | 12,946 | 18,181 | 20,468 | 22,788 | 172,712 |
| 2,627 | 3,838 | 4,484 | 4,666 | 2,853 | 5,086 | 6,144 | 7,278 | 45,751 |
| 2,101 | 4,703 | 7,306 | 6,504 | 3,470 | 4,473 | 4,877 | 4,893 | 44,615 |
| 1,582 | 1,750 | 1,850 | 2,035 | 1,760 | 2,398 | 2,873 | 3,203 | 23,151 |
| SHARE (PERCENTAGE OVER TOTAL)—EXPORTS | | | | | | | | |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 38.73 | 35.11 | 38.83 | 36.16 | 39.89 | 42.76 | 48.45 | 48.75 | 40.97 |
| 34.84 | 37.15 | 32.44 | 29.19 | 30.55 | 31.81 | 26.66 | 33.23 | 32.79 |
| 53.58 | 54.04 | 53.98 | 48.37 | 51.95 | 59.77 | 62.33 | 70.34 | 58.17 |
| 11.16 | 10.05 | 12.62 | 11.81 | 13.03 | 15.07 | 20.27 | 20.41 | 16.11 |
| 9.02 | 8.90 | 10.46 | 9.36 | 10.62 | 14.69 | 16.62 | 18.15 | 10.79 |
| 7.17 | 6.29 | 9.77 | 13.21 | 14.76 | 12.62 | 9.64 | 15.40 | 11.39 |
| 8.47 | 9.43 | 8.48 | 7.17 | 6.80 | 10.32 | 10.15 | 10.26 | 7.69 |
| 17.75 | 19.37 | 12.64 | 6.81 | 6.73 | 7.07 | 5.66 | 6.13 | 12.19 |

Table 2. continued

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| SHARE (PERCENTAGE OVER TOTAL)—IMPORTS | | | | | | | | | | |
| total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| raw materials^a | 4.41 | 4.19 | 4.75 | 4.23 | 3.66 | 3.84 | 3.30 | 2.99 | 2.86 | 2.29 |
| medium and high technology^b | 62.06 | 61.98 | 59.75 | 56.69 | 61.08 | 61.19 | 73.51 | 74.37 | 74.31 | 76.70 |
| main 5 imported chapters (according to 2012) | 64.96 | 64.69 | 62.28 | 58.99 | 63.99 | 63.67 | 76.24 | 76.97 | 77.47 | 79.56 |
| 85-Electrical machinery | 35.46 | 33.16 | 33.84 | 31.30 | 35.38 | 35.69 | 45.00 | 43.27 | 38.56 | 42.66 |
| 84-Autoparts | 20.30 | 21.08 | 18.28 | 17.77 | 18.26 | 16.97 | 21.68 | 24.48 | 28.70 | 26.05 |
| 87-Automobiles | 3.08 | 4.14 | 4.33 | 4.23 | 3.41 | 5.62 | 4.09 | 3.96 | 4.43 | 4.50 |
| 90-Optical instruments | 3.20 | 3.58 | 3.29 | 3.36 | 4.00 | 2.87 | 2.72 | 2.63 | 2.61 | 3.45 |
| 39-Plastics | 2.92 | 2.73 | 2.54 | 2.34 | 2.94 | 2.51 | 2.75 | 2.63 | 3.18 | 2.90 |

^a Refers to chapters 1–30 of the Harmonized Tariff System.

^b Refers to chapters 84-90 of the Harmonized Tariff System.

Source: Author's own calculations based on World Trade Atlas (WTA), 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1995-2012 |
|--|--------|--------|--------|--------|--------|--------|--------|-----------|
| SHARE (PERCENTAGE OVER TOTAL)—IMPORTS | | | | | | | | |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 2.19 | 2.29 | 3.25 | 3.65 | 2.90 | 3.20 | 3.00 | 3.12 | 3.07 |
| 76.21 | 76.99 | 76.18 | 75.12 | 76.52 | 76.82 | 74.67 | 73.26 | 74.15 |
| 79.16 | 79.53 | 78.51 | 77.47 | 78.97 | 79.33 | 77.34 | 76.05 | 76.77 |
| 45.65 | 45.72 | 43.66 | 45.29 | 49.31 | 47.37 | 44.54 | 41.73 | 43.81 |
| 21.53 | 18.64 | 17.36 | 16.56 | 18.26 | 19.28 | 19.53 | 20.50 | 19.89 |
| 4.99 | 5.66 | 5.75 | 5.52 | 4.02 | 5.39 | 5.86 | 6.55 | 5.27 |
| 3.99 | 6.94 | 9.37 | 7.69 | 4.89 | 4.74 | 4.65 | 4.40 | 5.14 |
| 3.01 | 2.58 | 2.37 | 2.41 | 2.48 | 2.54 | 2.74 | 2.88 | 2.67 |

Table 3. Mexico: Trade with Asian Countries by Medium and High-Technology Levels^a (share over respective total)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| MEXICO, TOTAL | | | | | | | | | | |
| Exports | 54.34 | 55.69 | 56.42 | 60.75 | 62.35 | 62.01 | 63.64 | 62.37 | 60.53 | 59.01 |
| Imports | 45.91 | 49.30 | 49.39 | 50.58 | 52.40 | 53.84 | 55.15 | 54.24 | 52.19 | 52.39 |
| ASIA | | | | | | | | | | |
| Exports | 14.15 | 21.31 | 31.69 | 46.07 | 50.94 | 43.54 | 52.26 | 44.14 | 36.60 | 35.57 |
| Imports | 62.06 | 61.98 | 59.75 | 56.69 | 61.08 | 61.19 | 73.51 | 74.37 | 74.31 | 76.70 |
| UNITED STATES | | | | | | | | | | |
| Exports | 58.56 | 59.65 | 59.89 | 63.67 | 64.97 | 65.03 | 66.54 | 65.28 | 63.53 | 61.96 |
| Imports | 26.92 | 21.33 | 19.34 | 19.16 | 22.19 | 21.60 | 29.35 | 37.22 | 41.20 | 47.06 |
| CHINA | | | | | | | | | | |
| Exports | 3.62 | 18.74 | 16.18 | 75.35 | 91.15 | 89.20 | 83.29 | 75.61 | 76.71 | 45.88 |
| Imports | 38.39 | 41.46 | 49.67 | 50.64 | 52.97 | 51.15 | 57.85 | 63.07 | 72.00 | 72.53 |
| SOUTH KOREA | | | | | | | | | | |
| Exports | 49.70 | 53.06 | 20.36 | 34.21 | 25.01 | 19.12 | 57.77 | 54.73 | 28.31 | 20.20 |
| Imports | 67.72 | 61.37 | 60.76 | 59.45 | 63.13 | 63.64 | 70.53 | 74.71 | 76.17 | 78.42 |
| INDIA | | | | | | | | | | |
| Exports | 12.66 | 19.77 | 9.25 | 11.13 | 29.77 | 6.17 | 2.98 | 2.10 | 0.83 | 2.08 |
| Imports | 8.81 | 13.71 | 12.27 | 11.93 | 16.11 | 14.69 | 16.66 | 16.11 | 12.37 | 26.82 |
| JAPAN | | | | | | | | | | |
| Exports | 8.55 | 10.94 | 13.22 | 18.95 | 25.22 | 24.96 | 35.50 | 41.81 | 36.02 | 38.47 |
| Imports | 40.29 | 41.34 | 41.15 | 40.69 | 42.82 | 43.19 | 45.04 | 44.27 | 44.51 | 46.45 |
| TAIWAN | | | | | | | | | | |
| Exports | 23.55 | 8.02 | 18.92 | 27.62 | 43.60 | 43.53 | 58.47 | 32.99 | 28.81 | 20.94 |
| Imports | 64.36 | 64.93 | 57.85 | 53.40 | 61.58 | 62.42 | 78.77 | 83.63 | 74.01 | 76.55 |

^a Refers to chapters 84–90 of the Harmonized Tariff System.

Source: Author's own calculations based on World Trade Atlas (WTA), 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1995-2012 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-----------|
| EXPORTS | | | | | | | | |
| 56.89 | 57.57 | 57.67 | 56.03 | 58.12 | 59.19 | 55.75 | 57.55 | 58.42 |
| 51.44 | 51.68 | 50.95 | 48.76 | 50.99 | 50.84 | 48.73 | 49.72 | 50.98 |
| ASIA | | | | | | | | |
| 34.84 | 37.15 | 32.44 | 29.19 | 30.55 | 31.81 | 26.66 | 33.23 | 32.79 |
| 76.21 | 76.99 | 76.18 | 75.12 | 76.52 | 76.82 | 74.67 | 73.26 | 74.15 |
| UNITED STATES | | | | | | | | |
| 59.68 | 60.10 | 60.65 | 58.84 | 60.72 | 62.01 | 58.72 | 61.38 | 61.51 |
| 49.12 | 54.47 | 55.07 | 51.57 | 60.83 | 63.46 | 55.88 | 57.27 | 43.82 |
| CHINA | | | | | | | | |
| 34.39 | 41.56 | 40.75 | 30.78 | 28.25 | 27.92 | 24.21 | 36.63 | 34.75 |
| 70.36 | 72.44 | 71.37 | 71.24 | 75.00 | 77.46 | 74.73 | 73.61 | 72.63 |
| SOUTH KOREA | | | | | | | | |
| 21.03 | 21.22 | 16.33 | 22.53 | 21.57 | 20.01 | 17.26 | 21.04 | 23.68 |
| 77.52 | 81.84 | 83.62 | 80.88 | 82.83 | 79.68 | 76.05 | 70.89 | 76.98 |
| INDIA | | | | | | | | |
| 2.76 | 3.83 | 6.78 | 11.03 | 18.58 | 20.92 | 9.67 | 8.46 | 9.50 |
| 27.22 | 26.75 | 28.12 | 27.38 | 26.93 | 29.11 | 33.53 | 33.62 | 27.41 |
| JAPAN | | | | | | | | |
| 37.73 | 35.94 | 35.42 | 34.03 | 34.64 | 40.58 | 35.83 | 40.10 | 31.75 |
| 47.03 | 47.19 | 46.48 | 45.71 | 45.78 | 45.32 | 45.98 | 46.61 | 45.38 |
| TAIWAN | | | | | | | | |
| 45.69 | 66.84 | 16.91 | 19.52 | 20.45 | 17.10 | 16.00 | 43.36 | 32.54 |
| 76.66 | 78.22 | 80.55 | 80.08 | 77.67 | 75.50 | 75.30 | 73.66 | 75.52 |

Table 4. continued

| | 1995 | 2000 | 2005 | 2008 | 2012 | 1995-2012 |
|--------------------|------|-------|---------|-------|-------|-----------|
| GROWTH RATE | | | | | | |
| World | -- | 50.6 | 24.5 | 16.1 | 7.6 | 32.0 |
| Asia | -- | 26.5 | 26.6 | 0.4 | 8.1 | 8.7 |
| China | -- | 32.0 | 25.0 | 5.8 | -0.8 | 18.4 |
| Japan | -- | 29.7 | 17.3 | 12.9 | 5.1 | 13.5 |
| South Korea | -- | 38.1 | 16.2 | 29.6 | 51.4 | 24.8 |
| Taiwan | -- | 36.5 | 8.3 | -2.5 | -13.9 | 15.1 |
| India | -- | 16.1 | 28.1 | 2.8 | 23.6 | 19.7 |
| Malaysia | -- | -21.3 | 3.2 | -12.3 | 17.9 | 9.3 |
| Thailand | -- | 50.7 | 54.4 | 2.5 | -13.5 | 19.1 |
| Singapore | -- | 44.0 | 13.6 | 9.8 | -1.5 | 12.4 |
| Philippines | -- | 19.5 | 48.3 | 33.2 | 19.3 | 34.4 |
| Indonesia | -- | 49.3 | 23.1 | 4.5 | 46.7 | 3.4 |
| Vietnam | -- | 21.2 | 174.4 | 41.5 | 20.2 | 63.9 |
| Hong Kong | -- | 30.8 | 52.4 | 32.2 | -36.6 | 3.3 |
| Cambodia | -- | -6.7 | 41.9 | -49.7 | -61.7 | -15.9 |
| Macao | -- | -2.2 | 31.4 | -69.8 | -58.3 | 52.3 |
| North Korea | -- | 210.0 | -- | 32.4 | -12.5 | 40.3 |
| Mongolia | -- | -17.9 | 12.5 | -12.5 | 689.7 | 34.2 |
| Burma | -- | 3.6 | -10.4 | 8.1 | 148.5 | 0.9 |
| Brunei Darussalam | -- | -- | 2,741.8 | 900.2 | 15.8 | -- |
| Laos | -- | -- | -- | -- | -- | -- |
| East Timor | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Author's own calculations based on World Trade Atlas (WTA), 2013.

| 1995 | 2000 | 2005 | 2008 | 2012 | 1995-2012 |
|--------------------|-------|---------|-------|-------|-----------|
| GROWTH RATE | | | | | |
| -- | 61.1 | 51.1 | 7.9 | -65.7 | 26.6 |
| -- | 19.9 | 61.7 | 7.0 | -9.2 | 4.4 |
| -- | 19.2 | 49.7 | -21.0 | -64.7 | 11.2 |
| -- | 57.5 | 26.5 | 13.0 | -34.3 | 12.1 |
| -- | 202.4 | 27.4 | 49.1 | -11.9 | 27.5 |
| -- | 238.0 | 1.1 | -7.3 | -8.5 | 11.7 |
| -- | -53.5 | 202.0 | -22.7 | -59.6 | 8.8 |
| -- | -59.0 | 24.5 | 26.9 | -28.0 | 5.4 |
| -- | -40.9 | 153.9 | -11.6 | 39.8 | 14.6 |
| -- | 31.2 | 229.4 | 47.8 | -49.9 | 8.4 |
| -- | 40.2 | -37.2 | 74.9 | 7.1 | 41.1 |
| -- | 5.3 | -2.3 | 20.8 | -12.1 | -1.4 |
| -- | 129.7 | 144.2 | -93.1 | 79.7 | 8.6 |
| -- | 45.7 | 7,782.5 | -4.8 | -61.1 | 8.9 |
| -- | 179.7 | 10.2 | -1.5 | 92.6 | 0.4 |
| -- | -- | -- | 50.7 | -97.9 | 11.1 |
| -- | -- | -- | 446.5 | -93.9 | -- |
| -- | -64.9 | 22.2 | 42.2 | 29.3 | 21.7 |
| -- | -- | -71.8 | 227.5 | 980.5 | 70.4 |
| -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- |

| 1995 | 2000 | 2005 | 2008 | 2012 | 1995-2012 |
|--------------------|-------|---------|-------|-------|-----------|
| GROWTH RATE | | | | | |
| -- | 49.9 | 23.1 | 16.6 | 9.0 | 31.8 |
| -- | 27.5 | 23.6 | -0.4 | 7.0 | 9.2 |
| -- | 32.7 | 24.3 | 7.2 | -2.4 | 18.3 |
| -- | 28.1 | 16.9 | 12.9 | 7.2 | 13.5 |
| -- | 24.1 | 10.5 | 12.7 | 23.7 | 20.7 |
| -- | 33.1 | 8.4 | -2.3 | -15.6 | 15.1 |
| -- | 34.0 | 23.6 | 4.8 | 23.2 | 20.2 |
| -- | 12.3 | 0.6 | -18.6 | 15.7 | 9.6 |
| -- | 55.4 | 52.6 | 3.3 | -15.1 | 19.4 |
| -- | 44.3 | 6.5 | 8.0 | -3.3 | 12.2 |
| -- | 19.1 | 54.5 | 29.8 | 18.6 | 34.1 |
| -- | 80.3 | 35.4 | -5.0 | -1.2 | 4.5 |
| -- | 15.1 | 175.8 | 46.8 | 19.9 | 79.9 |
| -- | 23.9 | 2.8 | 33.1 | -35.4 | 3.1 |
| -- | -10.2 | 46.7 | -53.1 | -65.8 | -16.7 |
| -- | -2.2 | 31.4 | -70.3 | -79.7 | 70.6 |
| -- | 127.3 | -- | 30.7 | -11.7 | 37.6 |
| -- | -13.9 | -37.5 | -78.4 | -79.0 | 2.3 |
| -- | 3.6 | -5.1 | -46.6 | 90.1 | -1.3 |
| -- | -- | 1,422.6 | 5.6 | 15.8 | -- |
| -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- |

Table 5. Mexico: Trade Balance with Asia (1995-2012)
(main 10 chapters of the Harmonized Tariff System, according to 2012)

| SA | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| All trade with Asia | -5,665 | -5,949 | -8,834 | -10,611 | -12,721 | -17,488 | -22,641 | -28,250 | -28,907 | -40,500 |
| Main 10 chapters | -4,901 | -5,216 | -7,431 | -8,828 | -10,621 | -14,583 | -19,230 | -24,287 | -24,494 | -35,903 |
| 85 Electrical Machinery | -2,599 | -2,774 | -3,553 | -3,678 | -4,891 | -6,706 | -10,757 | -13,033 | -11,839 | -18,354 |
| 84 Autoparts | -1,387 | -1,509 | -1,545 | -1,617 | -2,041 | -2,739 | -4,751 | -6,889 | -8,388 | -10,671 |
| 87 Auto-mobiles | -223 | -257 | -465 | -509 | -451 | -1,062 | -935 | -1,065 | -1,338 | -1,819 |
| 90 Optical instruments | -228 | -296 | -344 | -413 | -581 | -549 | -635 | -776 | -769 | -1,445 |
| 98 Special classification | -796 | -928 | -1,437 | -1,891 | -1,700 | -2,145 | -350 | -662 | -389 | -758 |
| 39 Plastics | -200 | -202 | -256 | -276 | -420 | -468 | -657 | -765 | -956 | -1,205 |
| 27 Oil | 446 | 572 | 350 | 46 | 199 | 229 | 108 | 199 | 432 | 186 |
| 72 Iron and steel | 298 | 420 | 62 | -95 | -168 | -496 | -449 | -418 | -389 | -596 |
| 73 Articles of iron and steel | -114 | -113 | -147 | -207 | -313 | -372 | -429 | -521 | -501 | -686 |
| 95 Toys, games | -98 | -130 | -96 | -188 | -255 | -274 | -375 | -358 | -357 | -555 |

^a *Source:* Author's own calculations based on World Trade Atlas (WTA), 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1995-2012 |
|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| -48,241 | -62,050 | -71,074 | -76,765 | -64,075 | -84,272 | -91,067 | -94,928 | -774,038 |
| -43,039 | -56,380 | -64,893 | -70,043 | -58,952 | -77,428 | -82,410 | -85,270 | -693,909 |
| -23,719 | -30,639 | -33,379 | -37,255 | -33,959 | -43,397 | -45,351 | -43,889 | -369,771 |
| -10,552 | -11,525 | -12,662 | -13,472 | -12,485 | -17,473 | -19,692 | -21,791 | -161,190 |
| -2,254 | -3,295 | -3,896 | -4,109 | -2,388 | -4,052 | -4,752 | -5,612 | -38,482 |
| -2,037 | -4,585 | -7,201 | -6,381 | -3,362 | -4,338 | -4,741 | -4,692 | -43,374 |
| -959 | -1,361 | -1,592 | -1,788 | -1,688 | -2,130 | -2,892 | -2,877 | -26,344 |
| -1,477 | -1,608 | -1,637 | -1,755 | -1,433 | -2,102 | -2,512 | -2,808 | -20,736 |
| 247 | 172 | -339 | -475 | 298 | 492 | 2,041 | 2,368 | 7,571 |
| -723 | -1,229 | -784 | -1,104 | -993 | -1,350 | -1,176 | -2,289 | -11,478 |
| -853 | -1,145 | -1,208 | -1,435 | -1,261 | -1,635 | -1,875 | -2,156 | -14,971 |
| -712 | -1,166 | -2,194 | -2,268 | -1,681 | -1,444 | -1,461 | -1,522 | -15,134 |

Table 6. Mexico: Number of Firms with FDI-flows (1999-2012)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------|-------|-------|-------|-------|-------|-------|
| Total | 7,633 | 8,170 | 8,002 | 7,887 | 7,666 | 8,106 |
| Top 5 | 5,740 | 6,093 | 5,830 | 5,573 | 5,413 | 5,827 |
| United States | 4,575 | 4,792 | 4,525 | 4,270 | 4,148 | 4,446 |
| Spain | 373 | 397 | 417 | 451 | 477 | 495 |
| Canada | 275 | 326 | 350 | 300 | 307 | 350 |
| The Netherlands | 283 | 335 | 321 | 318 | 273 | 299 |
| Germany | 234 | 243 | 217 | 234 | 208 | 237 |
| Asia | | | | | | |
| Brunei | 0 | 0 | 0 | 0 | 0 | 0 |
| Burma | 0 | 0 | 0 | 0 | 0 | 0 |
| Cambodia | 0 | 0 | 1 | 0 | 0 | 1 |
| China | 62 | 59 | 64 | 70 | 64 | 70 |
| North Korea | 2 | 10 | 15 | 4 | 0 | 0 |
| South Korea | 197 | 182 | 181 | 168 | 134 | 152 |
| Philippines | 5 | 2 | 3 | 3 | 3 | 1 |
| Hong Kong | 9 | 7 | 7 | 6 | 4 | 7 |
| India | 10 | 15 | 11 | 14 | 11 | 10 |
| Indonesia | 0 | 0 | 0 | 0 | 0 | 0 |
| Japan | 117 | 110 | 121 | 88 | 119 | 132 |
| Laos | 0 | 0 | 0 | 0 | 0 | 0 |
| Macao | 0 | 0 | 0 | 0 | 0 | 0 |
| Malaysia | 1 | 2 | 3 | 3 | 3 | 1 |
| Mongolia | 0 | 0 | 0 | 0 | 0 | 1 |
| Singapore | 22 | 24 | 22 | 14 | 14 | 17 |
| Thailand | 1 | 1 | 2 | 0 | 0 | 1 |
| Taiwan | 26 | 38 | 38 | 39 | 47 | 31 |
| East Timor | 0 | 0 | 0 | 0 | 0 | 0 |
| Vietnam | 0 | 0 | 0 | 1 | 1 | 1 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* | 1999-2012 |
|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
| 8,394 | 8,337 | 8,204 | 7,237 | 5,900 | 5,872 | 6,018 | 4,653 | 102,079 |
| 6,089 | 6,055 | 6,120 | 5,167 | 4,241 | 4,132 | 4,252 | 3,343 | 73,875 |
| 4,604 | 4,620 | 4,540 | 3,693 | 3,026 | 2,912 | 2,941 | 2,345 | 55,437 |
| 607 | 550 | 604 | 555 | 452 | 432 | 512 | 410 | 6,732 |
| 394 | 387 | 481 | 439 | 334 | 342 | 371 | 250 | 4,906 |
| 274 | 285 | 297 | 274 | 252 | 251 | 228 | 171 | 3,861 |
| 210 | 213 | 198 | 206 | 177 | 195 | 200 | 167 | 2,939 |
| | | | | | | | | |
| 466 | 473 | 428 | 400 | 355 | 388 | 403 | 396 | 6,169 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| 85 | 101 | 74 | 62 | 70 | 67 | 66 | 54 | 968 |
| 3 | 0 | 1 | 2 | 0 | 15 | 8 | 3 | 63 |
| 162 | 143 | 138 | 128 | 102 | 86 | 80 | 75 | 1,928 |
| 2 | 4 | 2 | 3 | 2 | 2 | 3 | 0 | 35 |
| 8 | 6 | 9 | 4 | 5 | 6 | 9 | 6 | 93 |
| 12 | 16 | 16 | 26 | 12 | 17 | 13 | 12 | 195 |
| 0 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 2 |
| 95 | 90 | 95 | 92 | 92 | 98 | 106 | 173 | 1,528 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 2 | 0 | 2 | 0 | 2 | 3 | 2 | 27 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 15 | 19 | 20 | 18 | 20 | 32 | 29 | 27 | 293 |
| 0 | 2 | 2 | 0 | 0 | 0 | 1 | 0 | 10 |
| 42 | 30 | 29 | 20 | 24 | 27 | 32 | 20 | 443 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 5 |

Table 6. continued

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| SHARE (PERCENTAGE) | | | | | | |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Top 5 | 75.20 | 74.58 | 72.86 | 70.66 | 70.61 | 71.89 |
| United States | 59.94 | 58.65 | 56.55 | 54.14 | 54.11 | 54.85 |
| Spain | 4.89 | 4.86 | 5.21 | 5.72 | 6.22 | 6.11 |
| Canada | 3.60 | 3.99 | 4.37 | 3.80 | 4.00 | 4.32 |
| The Netherlands | 3.71 | 4.10 | 4.01 | 4.03 | 3.56 | 3.69 |
| Germany | 3.07 | 2.97 | 2.71 | 2.97 | 2.71 | 2.92 |
| | | | | | | |
| Asia | 6.38 | 5.92 | 6.30 | 5.87 | 5.79 | 5.90 |
| Brunei | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Burma | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cambodia | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.01 |
| China | 0.81 | 0.72 | 0.80 | 0.89 | 0.83 | 0.86 |
| North Korea | 0.03 | 0.12 | 0.19 | 0.05 | 0.00 | 0.00 |
| South Korea | 2.58 | 2.23 | 2.26 | 2.13 | 1.75 | 1.88 |
| Philippines | 0.07 | 0.02 | 0.04 | 0.04 | 0.04 | 0.01 |
| Hong Kong | 0.12 | 0.09 | 0.09 | 0.08 | 0.05 | 0.09 |
| India | 0.13 | 0.18 | 0.14 | 0.18 | 0.14 | 0.12 |
| Indonesia | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Japan | 1.53 | 1.35 | 1.51 | 1.12 | 1.55 | 1.63 |
| Laos | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Macao | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Malaysia | 0.01 | 0.02 | 0.04 | 0.04 | 0.04 | 0.01 |
| Mongolia | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| Singapore | 0.29 | 0.29 | 0.27 | 0.18 | 0.18 | 0.21 |
| Thailand | 0.01 | 0.01 | 0.02 | 0.00 | 0.00 | 0.01 |
| Taiwan | 0.34 | 0.47 | 0.47 | 0.49 | 0.61 | 0.38 |
| East Timor | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Vietnam | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 |

Source: Author's own calculations based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* | 1999-2012 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|-----------|
| SHARE (PERCENTAGE) | | | | | | | | |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 72.54 | 72.63 | 74.60 | 71.40 | 71.88 | 70.37 | 70.65 | 71.85 | 72.37 |
| 54.85 | 55.42 | 55.34 | 51.03 | 51.29 | 49.59 | 48.87 | 50.40 | 54.31 |
| 7.23 | 6.60 | 7.36 | 7.67 | 7.66 | 7.36 | 8.51 | 8.81 | 6.59 |
| 4.69 | 4.64 | 5.86 | 6.07 | 5.66 | 5.82 | 6.16 | 5.37 | 4.81 |
| 3.26 | 3.42 | 3.62 | 3.79 | 4.27 | 4.27 | 3.79 | 3.68 | 3.78 |
| 2.50 | 2.55 | 2.41 | 2.85 | 3.00 | 3.32 | 3.32 | 3.59 | 2.88 |
| SHARE (PERCENTAGE) | | | | | | | | |
| 5.55 | 5.67 | 5.22 | 5.53 | 6.02 | 6.61 | 6.70 | 8.51 | 6.04 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 1.01 | 1.21 | 0.90 | 0.86 | 1.19 | 1.14 | 1.10 | 1.16 | 0.95 |
| 0.04 | 0.00 | 0.01 | 0.03 | 0.00 | 0.26 | 0.13 | 0.06 | 0.06 |
| 1.93 | 1.72 | 1.68 | 1.77 | 1.73 | 1.46 | 1.33 | 1.61 | 1.89 |
| 0.02 | 0.05 | 0.02 | 0.04 | 0.03 | 0.03 | 0.05 | 0.00 | 0.03 |
| 0.10 | 0.07 | 0.11 | 0.06 | 0.08 | 0.10 | 0.15 | 0.13 | 0.09 |
| 0.14 | 0.19 | 0.20 | 0.36 | 0.20 | 0.29 | 0.22 | 0.26 | 0.19 |
| 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 |
| 1.13 | 1.08 | 1.16 | 1.27 | 1.56 | 1.67 | 1.76 | 3.72 | 1.50 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.04 | 0.02 | 0.00 | 0.03 | 0.00 | 0.03 | 0.05 | 0.04 | 0.03 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.18 | 0.23 | 0.24 | 0.25 | 0.34 | 0.54 | 0.48 | 0.58 | 0.29 |
| 0.00 | 0.02 | 0.02 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.01 |
| 0.50 | 0.36 | 0.35 | 0.28 | 0.41 | 0.46 | 0.53 | 0.43 | 0.43 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.00 | 0.00 | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Table 7. Mexico: FDI Flows by Country of Origin (1999-2012)
(millions of \$US dollars)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------|--------|--------|--------|--------|--------|--------|
| Total FDI to Mexico | 13,934 | 18,282 | 29,962 | 23,901 | 18,672 | 24,855 |
| Top 5 | 10,189 | 18,942 | 28,255 | 21,406 | 14,000 | 21,389 |
| United States | 7,555 | 13,172 | 21,540 | 13,161 | 8,990 | 9,166 |
| Spain | 1,045 | 2,117 | 2,894 | 5,008 | 2,850 | 7,887 |
| The Netherlands | 1,086 | 2,697 | 2,654 | 1,737 | 774 | 3,379 |
| Canada | 691 | 670 | 1,029 | 238 | 304 | 649 |
| United Kingdom | -187 | 286 | 138 | 1,261 | 1,082 | 308 |
| Asia | 1,388 | 609 | 557 | 286 | 243 | 514 |
| Brunei | -- | -- | -- | -- | -- | -- |
| Burma | -- | -- | -- | -- | -- | -- |
| Cambodia | 0 | 0 | 0 | 0 | 0 | 0 |
| China | 5 | 11 | 2 | -2 | 26 | 12 |
| North Korea | 0 | 0 | 0 | 0 | 0 | 0 |
| South Korea | 46 | 30 | 51 | 32 | 57 | 67 |
| Philippines | -3 | 0 | 0 | 0 | 0 | 0 |
| Hong Kong | 2 | 4 | -1 | 0 | 2 | 2 |
| India | 0 | 28 | 4 | 0 | 0 | 1 |
| Indonesia | 0 | 0 | 0 | 1 | 0 | 0 |
| Japan | 1,247 | 443 | 187 | 179 | 139 | 392 |
| Laos | -- | -- | -- | -- | -- | -- |
| Macao | -- | -- | -- | -- | -- | -- |
| Malaysia | 0 | 0 | 0 | 0 | 0 | 0 |
| Mongolia | 0 | 0 | 0 | 0 | 0 | 0 |
| Singapore | 66 | 81 | 273 | 59 | 7 | 30 |
| Thailand | 0 | 0 | 0 | 0 | 0 | 0 |
| Taiwan | 24 | 12 | 41 | 17 | 13 | 10 |
| East Timor | -- | -- | -- | -- | -- | -- |
| Vietnam | 0 | 0 | 0 | 0 | 0 | 0 |

Source: Author's own calculations based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|--------|--------|--------|--------|--------|--------|--------|--------|-----------|
| 24,449 | 20,292 | 31,380 | 27,853 | 16,561 | 21,372 | 21,504 | 12,659 | 305,676 |
| 19,345 | 18,890 | 25,844 | 22,834 | 14,163 | 18,350 | 16,547 | 7,885 | 258,039 |
| 11,796 | 13,035 | 12,665 | 11,395 | 7,319 | 5,369 | 10,700 | 7,403 | 153,267 |
| 1,702 | 1,441 | 5,416 | 5,105 | 2,613 | 1,885 | 3,492 | -1,524 | 41,929 |
| 4,018 | 2,807 | 6,634 | 1,865 | 2,248 | 8,939 | 1,480 | 717 | 41,035 |
| 481 | 635 | 521 | 3,075 | 1,612 | 1,525 | 801 | 1,041 | 13,272 |
| 1,349 | 972 | 607 | 1,394 | 371 | 631 | 73 | 249 | 8,535 |
| | | | | | | | | |
| 343 | -1,230 | 668 | 1,157 | 914 | 715 | 1,278 | 1,985 | 9,427 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 | 24 | 9 | 13 | 34 | 14 | 21 | 74 | 259 |
| 0 | 0 | 0 | 0 | 0 | 3 | 3 | 3 | 10 |
| 97 | 72 | 91 | 475 | 76 | -4 | 100 | 107 | 1,297 |
| 0 | 0 | 0 | 0 | 0 | 0 | 69 | 0 | 67 |
| 2 | 1 | 1 | 0 | 8 | 2 | 2 | 1 | 28 |
| 2 | 0 | 8 | -3 | 6 | 6 | 8 | 2 | 64 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 168 | -1,422 | 410 | 528 | 484 | 545 | 897 | 1,658 | 5,855 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 0 | 8 | 0 | 1 | 0 | 0 | -2 | 0 | 8 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | 64 | 139 | 109 | 257 | 34 | 151 | 53 | 1,336 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 44 | 22 | 10 | 33 | 48 | 115 | 27 | 86 | 504 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Table 8. Mexico: Characteristics of Main 5 Asian Sources of FDI (1999-2012)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------|--------|--------|--------|--------|--------|
| Total flows of the world to Mexico | 13,934 | 18,282 | 29,962 | 23,901 | 18,672 | 24,855 |
| New investments | 2,353 | 3,909 | 3,887 | 2,500 | 2,119 | 2,545 |
| Reinvestment of profits | 6,409 | 8,585 | 22,955 | 15,483 | 9,412 | 14,873 |
| Accounting within firms | 5,172 | 5,788 | 3,120 | 5,917 | 7,141 | 7,436 |
| From Asia | 1,388 | 609 | 557 | 286 | 243 | 514 |
| New investments | 1,206 | 271 | 315 | 186 | 104 | 351 |
| Reinvestment of profits | 52 | 123 | 106 | 4 | 10 | 43 |
| Accounting within firms | 131 | 215 | 136 | 95 | 130 | 120 |
| China | 5 | 11 | 2 | -2 | 26 | 12 |
| New investments | 3 | 9 | 2 | -2 | 13 | 3 |
| Reinvestment of profits | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounting within firms | 2 | 1 | 0 | 1 | 13 | 9 |
| Japan | 1,247 | 443 | 187 | 179 | 139 | 392 |
| New investments | 1,175 | 251 | 20 | 125 | 69 | 291 |
| Reinvestment of profits | 49 | 118 | 105 | 2 | 5 | 43 |
| Accounting within firms | 24 | 74 | 62 | 52 | 65 | 58 |
| South Korea | 46 | 30 | 51 | 32 | 57 | 67 |
| New investments | 22 | 6 | 35 | 17 | 28 | 62 |
| Reinvestment of profits | 2 | 0 | 0 | 0 | 3 | 0 |
| Accounting within firms | 23 | 24 | 16 | 15 | 26 | 5 |
| Singapore | 66 | 81 | 273 | 59 | 7 | 30 |
| New investments | 3 | -9 | 223 | 42 | -2 | -5 |
| Reinvestment of profits | 1 | 1 | 1 | 2 | 2 | 0 |
| Accounting within firms | 62 | 89 | 49 | 15 | 7 | 35 |
| Taiwan | 24 | 12 | 41 | 17 | 13 | 10 |
| New investments | 7 | 7 | 27 | 4 | -5 | 1 |
| Reinvestment of profits | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounting within firms | 17 | 6 | 14 | 12 | 17 | 9 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|--------|--------|--------|--------|--------|--------|--------|--------|-----------|
| 24,449 | 20,292 | 31,380 | 27,853 | 16,561 | 21,372 | 21,504 | 12,659 | 305,675 |
| 4,061 | 7,776 | 8,149 | 8,339 | 4,313 | 2,839 | 7,227 | 4,458 | 64,474 |
| 12,989 | 6,340 | 17,110 | 12,015 | 8,461 | 14,124 | 10,088 | 2,926 | 161,771 |
| 7,400 | 6,175 | 6,121 | 7,499 | 3,787 | 4,410 | 4,189 | 5,275 | 79,430 |
| 343 | -1,230 | 668 | 1,157 | 914 | 715 | 1,278 | 1,985 | 9,427 |
| 250 | -1,390 | 474 | 338 | 970 | 248 | 708 | 1,026 | 5,057 |
| 48 | 45 | 47 | 502 | -7 | 112 | 311 | 315 | 1,712 |
| 45 | 115 | 146 | 317 | -50 | 355 | 259 | 644 | 2,658 |
| 15 | 24 | 9 | 13 | 34 | 14 | 21 | 74 | 259 |
| 13 | 5 | 6 | 9 | 26 | 10 | 24 | 63 | 183 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 19 | 3 | 4 | 7 | 5 | -3 | 11 | 76 |
| 168 | -1,422 | 410 | 528 | 484 | 545 | 897 | 1,658 | 5,855 |
| 151 | -1,468 | 269 | 35 | 644 | 164 | 453 | 883 | 3,061 |
| 48 | 44 | 46 | 499 | -2 | 110 | 301 | 301 | 1,670 |
| -31 | 3 | 94 | -6 | -158 | 272 | 143 | 473 | 1,124 |
| 97 | 72 | 91 | 475 | 76 | -4 | 100 | 107 | 1,297 |
| 69 | 42 | 117 | 271 | 73 | -1 | 116 | 43 | 900 |
| 0 | 1 | 1 | 2 | 2 | 0 | 14 | 1 | 25 |
| 27 | 29 | -27 | 202 | 2 | -2 | -30 | 63 | 372 |
| 14 | 64 | 139 | 109 | 257 | 34 | 151 | 53 | 1,336 |
| -13 | 8 | 72 | 3 | 200 | -11 | 102 | 18 | 632 |
| 0 | 0 | 0 | 0 | -6 | 0 | 0 | 13 | 13 |
| 27 | 55 | 67 | 105 | 64 | 45 | 49 | 22 | 690 |
| 44 | 22 | 10 | 33 | 48 | 115 | 27 | 86 | 504 |
| 30 | 14 | 2 | 19 | 15 | 79 | 6 | 14 | 219 |
| 0 | 0 | 0 | 1 | 0 | 0 | -4 | 0 | -2 |
| 15 | 8 | 8 | 14 | 33 | 36 | 25 | 72 | 287 |

Table 8. continued

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|------|-------|-------|--------|---------|--------|
| GROWTH RATE | | | | | | |
| Total flows of the world to Mexico | -- | 31.2 | 63.9 | -20.2 | -21.9 | 33.1 |
| New investments | -- | 66.1 | -0.6 | -35.7 | -15.3 | 20.1 |
| Reinvestment of profits | -- | 33.9 | 167.4 | -32.6 | -39.2 | 58.0 |
| Accounting within firms | -- | 11.9 | -46.1 | 89.7 | 20.7 | 4.1 |
| From Asia | -- | -56.1 | -8.5 | -48.8 | -14.8 | 111.3 |
| New investments | -- | -77.5 | 16.1 | -41.0 | -44.2 | 238.9 |
| Reinvestment of profits | -- | 138.1 | -13.6 | -95.8 | 120.4 | 335.5 |
| Accounting within firms | -- | 64.4 | -36.7 | -30.0 | 36.4 | -7.7 |
| China | -- | 114.9 | -77.7 | -172.4 | -1579.6 | -53.4 |
| New investments | -- | 234.2 | -80.3 | -228.2 | -625.9 | -79.5 |
| Reinvestment of profits | -- | -- | -- | -- | -- | -- |
| Accounting within firms | -- | -40.3 | -67.4 | 54.5 | 1907.9 | -28.3 |
| Japan | -- | -64.5 | -57.7 | -4.7 | -22.1 | 181.5 |
| New investments | -- | -78.7 | -91.9 | 515.0 | -44.3 | 318.4 |
| Reinvestment of profits | -- | 140.1 | -11.2 | -97.8 | 119.2 | 748.0 |
| Accounting within firms | -- | 211.9 | -16.1 | -16.8 | 25.3 | -10.0 |
| South Korea | -- | -35.1 | 67.5 | -36.9 | 78.9 | 17.5 |
| New investments | -- | -71.3 | 457.3 | -52.5 | 72.1 | 119.0 |
| Reinvestment of profits | -- | -84.3 | -56.1 | 98.2 | 1061.4 | -100.0 |
| Accounting within firms | -- | 2.5 | -33.9 | -3.2 | 71.6 | -81.6 |
| Singapore | -- | 22.5 | 236.8 | -78.5 | -88.7 | 349.9 |
| New investments | -- | -- | -- | -- | -- | -- |
| Reinvestment of profits | -- | 28.5 | -1.6 | 140.1 | 11.2 | -97.3 |
| Accounting within firms | -- | 42.9 | -45.0 | -69.9 | -55.9 | 436.1 |
| Taiwan | -- | -47.8 | 229.6 | -59.0 | -25.5 | -21.6 |
| New investments | -- | 0.5 | 314.9 | -84.2 | -214.9 | -110.8 |
| Reinvestment of profits | -- | -- | -- | -- | -- | -- |
| Accounting within firms | -- | -66.0 | 134.3 | -9.3 | 39.8 | -47.3 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|--------------------|---------|--------|--------|--------|---------|---------|--------|-----------|
| GROWTH RATE | | | | | | | | |
| -1.6 | -17.0 | 54.6 | -11.2 | -40.5 | 29.1 | 0.6 | -41.1 | -0.7 |
| 59.5 | 91.5 | 4.8 | 2.3 | -48.3 | -34.2 | 154.6 | -38.3 | 5.0 |
| -12.7 | -51.2 | 169.9 | -29.8 | -29.6 | 66.9 | -28.6 | -71.0 | -5.9 |
| -0.5 | -16.5 | -0.9 | 22.5 | -49.5 | 16.5 | -5.0 | 25.9 | 0.2 |
| -33.3 | -458.6 | -154.3 | 73.2 | -21.0 | -21.7 | 78.6 | 55.4 | 2.8 |
| -28.9 | -656.5 | -134.1 | -28.7 | 186.7 | -74.4 | 185.4 | 44.9 | -1.2 |
| 12.0 | -6.2 | 4.5 | 961.7 | -101.3 | -1817.9 | 177.1 | 1.5 | 15.0 |
| -62.5 | 156.5 | 26.8 | 116.8 | -115.8 | -810.9 | -27.1 | 148.8 | 13.1 |
| 28.1 | 56.5 | -62.1 | 44.3 | 157.4 | -57.3 | 48.2 | 245.9 | 23.0 |
| 387.2 | -60.4 | 27.2 | 41.6 | 196.0 | -63.5 | 150.0 | 161.6 | 27.0 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -70.5 | 585.8 | -85.5 | 50.4 | 74.2 | -31.8 | -157.6 | -470.5 | 12.9 |
| -57.2 | -948.1 | -128.8 | 29.0 | -8.3 | 12.5 | 64.5 | 84.9 | 2.2 |
| -47.9 | -1070.3 | -118.3 | -86.9 | 1731.3 | -74.6 | 176.6 | 95.0 | -2.2 |
| 10.7 | -7.2 | 5.0 | 977.0 | -100.3 | -6768.1 | 173.8 | 0.2 | 15.0 |
| -153.7 | -108.4 | 3514.4 | -106.1 | 2647.5 | -271.7 | -47.3 | 230.7 | 25.9 |
| 44.3 | -25.5 | 26.0 | 423.2 | -84.1 | -105.2 | -2650.2 | 6.7 | 6.6 |
| 10.6 | -38.7 | 177.5 | 131.1 | -73.2 | -102.0 | -8013.0 | -62.7 | 5.5 |
| #DIV/0! | 45.3 | 5.1 | 193.1 | -23.9 | -98.0 | 45245.5 | -93.6 | -4.6 |
| 473.2 | 6.2 | -193.2 | -844.3 | -99.2 | -260.8 | 1105.2 | -308.6 | 8.0 |
| -53.2 | 354.0 | 118.8 | -21.9 | 137.0 | -86.9 | 347.8 | -64.6 | -1.6 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | 26.3 |
| -23.7 | 106.3 | 22.1 | 57.0 | -39.1 | -29.8 | 8.3 | -55.2 | -7.8 |
| 353.5 | -49.7 | -56.8 | 246.2 | 44.7 | 138.1 | -76.4 | 217.3 | 10.4 |
| 5442.2 | -52.4 | -87.8 | 1019.3 | -22.1 | 428.8 | -92.4 | 135.2 | 6.1 |
| 244.4 | 47.3 | -33.6 | 177.5 | -- | -- | -- | -103.4 | -- |
| 59.3 | -45.5 | -3.2 | 77.0 | 144.3 | 7.7 | -29.7 | 184.6 | 11.6 |

Table 8. continued

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|-------|-------|-------|-------|-------|-------|
| SHARE (PERCENTAGE) | | | | | | |
| Total flows of the world to Mexico | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| New investments | 16.9 | 21.4 | 13.0 | 10.5 | 11.3 | 10.2 |
| Reinvestment of profits | 46.0 | 47.0 | 76.6 | 64.8 | 50.4 | 59.8 |
| Accounting within firms | 37.1 | 31.7 | 10.4 | 24.8 | 38.2 | 29.9 |
| From Asia | 10.0 | 3.3 | 1.9 | 1.2 | 1.3 | 2.1 |
| New investments | 51.2 | 6.9 | 8.1 | 7.4 | 4.9 | 13.8 |
| Reinvestment of profits | 0.8 | 1.4 | 0.5 | 0.0 | 0.1 | 0.3 |
| Accounting within firms | 2.5 | 3.7 | 4.4 | 1.6 | 1.8 | 1.6 |
| China | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 |
| New investments | 0.1 | 0.2 | 0.0 | -0.1 | 0.6 | 0.1 |
| Reinvestment of profits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting within firms | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| Japan | 9.0 | 2.4 | 0.6 | 0.7 | 0.7 | 1.6 |
| New investments | 49.9 | 6.4 | 0.5 | 5.0 | 3.3 | 11.4 |
| Reinvestment of profits | 0.8 | 1.4 | 0.5 | 0.0 | 0.1 | 0.3 |
| Accounting within firms | 0.5 | 1.3 | 2.0 | 0.9 | 0.9 | 0.8 |
| South Korea | 0.3 | 0.2 | 0.2 | 0.1 | 0.3 | 0.3 |
| New investments | 0.9 | 0.2 | 0.9 | 0.7 | 1.3 | 2.4 |
| Reinvestment of profits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting within firms | 0.4 | 0.4 | 0.5 | 0.3 | 0.4 | 0.1 |
| Singapore | 0.5 | 0.4 | 0.9 | 0.2 | 0.0 | 0.1 |
| New investments | 0.1 | -0.2 | 5.7 | 1.7 | -0.1 | -0.2 |
| Reinvestment of profits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting within firms | 1.2 | 1.5 | 1.6 | 0.2 | 0.1 | 0.5 |
| Taiwan | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| New investments | 0.3 | 0.2 | 0.7 | 0.2 | -0.2 | 0.0 |
| Reinvestment of profits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting within firms | 0.3 | 0.1 | 0.4 | 0.2 | 0.2 | 0.1 |

Source: Author's own calculations based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-----------|
| SHARE (PERCENTAGE) | | | | | | | | |
| 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 16.6 | 38.3 | 26.0 | 29.9 | 26.0 | 13.3 | 33.6 | 35.2 | 21.1 |
| 53.1 | 31.2 | 54.5 | 43.1 | 51.1 | 66.1 | 46.9 | 23.1 | 52.9 |
| 30.3 | 30.4 | 19.5 | 26.9 | 22.9 | 20.6 | 19.5 | 41.7 | 26.0 |
| 1.4 | -6.1 | 2.1 | 4.2 | 5.5 | 3.3 | 5.9 | 15.7 | 3.1 |
| 6.2 | -17.9 | 5.8 | 4.1 | 22.5 | 8.7 | 9.8 | 23.0 | 7.8 |
| 0.4 | 0.7 | 0.3 | 4.2 | -0.1 | 0.8 | 3.1 | 10.8 | 1.1 |
| 0.6 | 1.9 | 2.4 | 4.2 | -1.3 | 8.1 | 6.2 | 12.2 | 3.3 |
| 0.1 | 0.1 | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 | 0.6 | 0.1 |
| 0.3 | 0.1 | 0.1 | 0.1 | 0.6 | 0.3 | 0.3 | 1.4 | 0.3 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.3 | 0.0 | 0.1 | 0.2 | 0.1 | -0.1 | 0.2 | 0.1 |
| 0.7 | -7.0 | 1.3 | 1.9 | 2.9 | 2.6 | 4.2 | 13.1 | 1.9 |
| 3.7 | -18.9 | 3.3 | 0.4 | 14.9 | 5.8 | 6.3 | 19.8 | 4.7 |
| 0.4 | 0.7 | 0.3 | 4.2 | 0.0 | 0.8 | 3.0 | 10.3 | 1.0 |
| -0.4 | 0.0 | 1.5 | -0.1 | -4.2 | 6.2 | 3.4 | 9.0 | 1.4 |
| 0.4 | 0.4 | 0.3 | 1.7 | 0.5 | 0.0 | 0.5 | 0.8 | 0.4 |
| 1.7 | 0.5 | 1.4 | 3.2 | 1.7 | -0.1 | 1.6 | 1.0 | 1.4 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| 0.4 | 0.5 | -0.4 | 2.7 | 0.0 | -0.1 | -0.7 | 1.2 | 0.5 |
| 0.1 | 0.3 | 0.4 | 0.4 | 1.6 | 0.2 | 0.7 | 0.4 | 0.4 |
| -0.3 | 0.1 | 0.9 | 0.0 | 4.6 | -0.4 | 1.4 | 0.4 | 1.0 |
| 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.5 | 0.0 |
| 0.4 | 0.9 | 1.1 | 1.4 | 1.7 | 1.0 | 1.2 | 0.4 | 0.9 |
| 0.2 | 0.1 | 0.0 | 0.1 | 0.3 | 0.5 | 0.1 | 0.7 | 0.2 |
| 0.7 | 0.2 | 0.0 | 0.2 | 0.3 | 2.8 | 0.1 | 0.3 | 0.3 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.2 | 0.1 | 0.1 | 0.2 | 0.9 | 0.8 | 0.6 | 1.4 | 0.4 |

Table 9. Mexico: Amount of FDI-Transaction (1999-2012)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------------|--------|--------|--------|--------|--------|--------|
| \$MILLION PER FIRM | | | | | | |
| Total Mexico | 1.83 | 2.24 | 3.74 | 3.03 | 2.44 | 3.07 |
| Asia | 2.85 | 1.26 | 1.11 | 0.62 | 0.55 | 1.08 |
| Brunei | -- | -- | -- | -- | -- | -- |
| Burma | -- | -- | -- | -- | -- | -- |
| Cambodia | -- | -- | 0.00 | -- | -- | 0.01 |
| China | 0.08 | 0.18 | 0.04 | -0.02 | 0.40 | 0.17 |
| North Korea | 0.00 | 0.03 | 0.01 | 0.00 | -- | -- |
| South Korea | 0.24 | 0.17 | 0.28 | 0.19 | 0.43 | 0.44 |
| Philippines | -0.64 | 0.06 | 0.03 | 0.01 | 0.00 | 0.00 |
| Hong Kong | 0.26 | 0.58 | -0.15 | -0.02 | 0.53 | 0.26 |
| India | 0.02 | 1.84 | 0.39 | 0.02 | 0.01 | 0.14 |
| Indonesia | -- | -- | -- | -- | -- | -- |
| Japan | 10.66 | 4.03 | 1.55 | 2.03 | 1.17 | 2.97 |
| Laos | -- | -- | -- | -- | -- | -- |
| Macao | -- | -- | -- | -- | -- | -- |
| Malaysia | 0.01 | 0.04 | 0.00 | 0.14 | 0.00 | 0.30 |
| Mongolia | -- | -- | -- | -- | -- | 0.00 |
| Singapore | 3.00 | 3.37 | 12.39 | 4.19 | 0.47 | 1.76 |
| Thailand | 0.03 | 0.01 | -0.04 | -- | -- | 0.00 |
| Taiwan | 0.92 | 0.33 | 1.08 | 0.43 | 0.27 | 0.32 |
| East Timor | -- | -- | -- | -- | -- | -- |
| Vietnam | -- | -- | -- | 0.00 | 0.00 | 0.00 |
| TOTAL MEXICO = 100 | | | | | | |
| Total Mexico | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Asia | 156.15 | 56.24 | 29.53 | 20.35 | 22.50 | 35.08 |
| Brunei | -- | -- | -- | -- | -- | -- |
| Burma | -- | -- | -- | -- | -- | -- |
| Cambodia | -- | -- | -- | -- | -- | -- |
| China | 4.41 | 8.12 | 1.00 | -0.82 | 16.45 | 5.57 |
| North Korea | 0.22 | 1.19 | 0.14 | 0.01 | -- | -- |
| South Korea | 12.93 | 7.41 | 7.46 | 6.27 | 17.49 | 14.39 |
| Philippines | -35.26 | 2.53 | 0.84 | 0.28 | 0.06 | 0.15 |
| Hong Kong | 14.52 | 25.76 | -4.00 | -0.60 | 21.70 | 8.40 |
| India | 0.96 | 82.10 | 10.31 | 0.82 | 0.22 | 4.72 |
| Indonesia | -- | -- | -- | -- | -- | -- |
| Japan | 584.05 | 179.89 | 41.35 | 66.97 | 48.02 | 96.81 |
| Laos | -- | -- | -- | -- | -- | -- |
| Macao | -- | -- | -- | -- | -- | -- |
| Malaysia | 0.29 | 1.89 | 0.12 | 4.69 | 0.03 | 9.83 |
| Mongolia | -- | -- | -- | -- | -- | 0.01 |
| Singapore | 164.51 | 150.73 | 331.02 | 138.40 | 19.49 | 57.36 |
| Thailand | 1.37 | 0.43 | -1.04 | -- | -- | 0.15 |
| Taiwan | 50.23 | 14.64 | 28.83 | 14.22 | 10.93 | 10.32 |
| East Timor | -- | -- | -- | -- | -- | -- |
| Vietnam | -- | -- | -- | 0.00 | 0.05 | 0.01 |

Source: Author's own elaboration based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|---------------------------|---------|--------|--------|--------|--------|--------|--------|-----------|
| \$MILLION PER FIRM | | | | | | | | |
| 2.91 | 2.43 | 3.82 | 3.85 | 2.81 | 3.64 | 3.57 | 2.72 | 2.99 |
| 0.74 | -2.60 | 1.56 | 2.89 | 2.57 | 1.84 | 3.17 | 5.01 | 1.53 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 0.02 | 0.00 | -- | -- | -- | -- | -- | -- | 0.05 |
| 0.18 | 0.24 | 0.12 | 0.21 | 0.48 | 0.21 | 0.32 | 1.37 | 0.27 |
| 0.00 | -- | 0.10 | 0.01 | -- | 0.18 | 0.43 | 1.16 | 0.16 |
| 0.60 | 0.50 | 0.66 | 3.71 | 0.74 | -0.05 | 1.25 | 1.43 | 0.67 |
| 0.01 | 0.00 | 0.07 | 0.04 | 0.01 | 0.02 | 23.07 | -- | 1.90 |
| 0.25 | 0.21 | 0.15 | 0.12 | 1.58 | 0.32 | 0.25 | 0.21 | 0.30 |
| 0.20 | 0.03 | 0.50 | -0.12 | 0.51 | 0.35 | 0.61 | 0.16 | 0.33 |
| -- | 0.00 | -- | -- | -- | 0.00 | -- | -- | 0.28 |
| 1.76 | -15.79 | 4.31 | 5.74 | 5.27 | 5.56 | 8.46 | 9.58 | 3.83 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 0.11 | 4.06 | -- | 0.25 | -- | 0.01 | -0.66 | 0.00 | 0.29 |
| -- | -- | -- | -- | -- | -- | -- | -- | 0.00 |
| 0.93 | 3.34 | 6.95 | 6.03 | 12.87 | 1.05 | 5.21 | 1.98 | 4.56 |
| -- | 0.01 | 0.00 | -- | -- | -- | 0.00 | -- | 0.01 |
| 1.06 | 0.75 | 0.33 | 1.67 | 2.02 | 4.27 | 0.85 | 4.32 | 1.14 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 0.00 | 0.01 | -- | -- | -- | -- | 0.00 |
| TOTAL MEXICO = 100 | | | | | | | | |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 25.27 | -106.81 | 40.80 | 75.14 | 91.68 | 50.65 | 88.72 | 184.25 | 51.03 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | 1.54 |
| 6.18 | 9.75 | 3.21 | 5.49 | 17.17 | 5.90 | 9.05 | 50.23 | 8.92 |
| -- | -- | 2.69 | 0.33 | -- | 5.00 | 12.11 | 42.50 | 5.38 |
| 20.52 | 20.71 | 17.21 | 96.46 | 26.42 | -1.26 | 35.12 | 52.50 | 22.47 |
| 0.43 | 0.10 | 1.84 | 1.10 | 0.40 | 0.43 | 645.53 | -- | 63.53 |
| 8.43 | 8.65 | 4.04 | 3.13 | 56.14 | 8.78 | 7.06 | 7.88 | 9.92 |
| 6.88 | 1.13 | 13.14 | -3.02 | 18.01 | 9.68 | 16.94 | 5.76 | 10.88 |
| -- | 0.09 | -- | -- | -- | 0.04 | -- | -- | 9.25 |
| 60.57 | -648.94 | 112.71 | 149.20 | 187.59 | 152.81 | 236.76 | 352.21 | 127.96 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| 3.82 | 166.78 | -- | 6.58 | -- | 0.17 | -18.50 | 0.00 | 9.67 |
| -- | -- | -- | -- | -- | -- | -- | -- | 0.01 |
| 32.04 | 137.43 | 181.76 | 156.72 | 458.39 | 28.95 | 145.71 | 72.74 | 152.22 |
| -- | 0.36 | 0.02 | -- | -- | -- | -- | -- | 0.21 |
| 36.35 | 30.66 | 8.72 | 43.50 | 71.90 | 117.36 | 23.80 | 158.70 | 37.98 |
| -- | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | 0.01 | 0.25 | -- | -- | -- | -- | 0.08 |

Table 10. Mexico: FDI Flows from Asia by Sector (1999–2012)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|-------|------|------|------|------|------|
| MILLIONS OF \$US | | | | | | |
| Total | 1,388 | 609 | 557 | 286 | 243 | 514 |
| 11 Agriculture | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 Mining | 0 | 0 | 2 | 16 | 0 | -3 |
| 22 Generation, transmission and distribution of electric energy, water | 1 | 1 | 0 | 0 | 13 | 13 |
| 23 Construction | -3 | 0 | 0 | 70 | 27 | 15 |
| 31-33 Manufacturing | 1,369 | 578 | 529 | 155 | 98 | 440 |
| 43 & 46 Commerce | 23 | 38 | 53 | 42 | 57 | 34 |
| 48 & 49 Transportation, mail and storage | -2 | 0 | 0 | 0 | 0 | 0 |
| 51 Mass media information | -4 | 0 | 0 | 0 | 0 | 0 |
| 52 Financial services | 0 | 0 | 0 | 0 | 1 | 9 |
| 53 Housing services and rent | 0 | -8 | 1 | 1 | 2 | 6 |
| 54 Professional services, scientists | 0 | 1 | 0 | 0 | 10 | 7 |
| 55 Corporate | 0 | 0 | 0 | 0 | 0 | 0 |
| 56 Services to support business | 4 | 1 | -33 | 0 | 14 | -9 |
| 61 Educational services | 0 | -1 | 0 | 0 | 0 | 0 |
| 62 Health services | 0 | 0 | 0 | 0 | 0 | 0 |
| 71 Cultural and sport services | 0 | 0 | 0 | 0 | 0 | 0 |
| 72 Services for temporary housing and food and beverage preparation | 1 | 1 | 3 | 1 | 22 | 2 |
| 81 Other services, except government | 0 | 0 | 0 | 0 | 0 | 0 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|-------------------------|--------|------|-------|------|------|-------|-------|-----------|
| MILLIONS OF \$US | | | | | | | | |
| 343 | -1,230 | 668 | 1,157 | 914 | 715 | 1,278 | 1,985 | 9,427 |
| 0 | 0 | 74 | 9 | 8 | 1 | 0 | 0 | 92 |
| 0 | 0 | 0 | 84 | 50 | 3 | 26 | 65 | 243 |
| -13 | -14 | 0 | 0 | -12 | -2 | 0 | 0 | -12 |
| -6 | 11 | -29 | 3 | 74 | 6 | 173 | 7 | 347 |
| 250 | -1,328 | 368 | 823 | 553 | 646 | 873 | 1,651 | 7,006 |
| 91 | 61 | 142 | 219 | 137 | 8 | 148 | 239 | 1,293 |
| 0 | 2 | 0 | 0 | 0 | 2 | 2 | 4 | 9 |
| 0 | 0 | 6 | 0 | 5 | 3 | 0 | 0 | 11 |
| 5 | 0 | 62 | 2 | -7 | 17 | 0 | 1 | 89 |
| 3 | 2 | 3 | 1 | 1 | 15 | 36 | 6 | 68 |
| 2 | 12 | 3 | 14 | 13 | 13 | 17 | 12 | 102 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | 22 | 50 | 2 | 90 | 2 | 0 | 1 | 154 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -1 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1 | 2 | 5 | 0 | 1 | -1 | 0 | -2 | 36 |
| 0 | 0 | -17 | 0 | -1 | 3 | 2 | 2 | -12 |

Table 10. continued

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|--------|--------|--------|--------|--------|--------|
| SHARE OVER TOTAL (PERCENTAGE) | | | | | | |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 11 Agriculture | 0.00 | 0.00 | 0.06 | -0.03 | 0.00 | -0.03 |
| 21 Mining | 0.00 | 0.00 | 0.40 | 5.55 | 0.00 | -0.56 |
| 22 Generation, transmission and distribution of electric energy, water | 0.08 | 0.15 | 0.00 | 0.00 | 5.49 | 2.61 |
| 23 Construction | -0.23 | -0.03 | 0.07 | 24.46 | 10.90 | 2.84 |
| 31-33 Manufacturing | 98.62 | 94.81 | 94.97 | 54.35 | 40.37 | 85.57 |
| 43 & 46 Commerce | 1.64 | 6.19 | 9.56 | 14.68 | 23.49 | 6.68 |
| 48 & 49 Transportation, mail and storage | -0.18 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 51 Mass media information | -0.32 | 0.04 | 0.00 | 0.00 | 0.03 | 0.01 |
| 52 Financial services | 0.00 | 0.01 | 0.00 | 0.01 | 0.25 | 1.74 |
| 53 Housing services and rent | 0.00 | -1.35 | 0.20 | 0.27 | 0.73 | 1.11 |
| 54 Professional services, scientists | -0.01 | 0.11 | 0.01 | 0.04 | 4.12 | 1.33 |
| 55 Corporate | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 56 Services to support business | 0.29 | 0.13 | -5.86 | 0.17 | 5.64 | -1.69 |
| 61 Educational services | 0.01 | -0.14 | 0.01 | 0.00 | 0.00 | 0.00 |
| 62 Health services | 0.01 | 0.00 | 0.00 | 0.07 | 0.04 | 0.00 |
| 71 Cultural and sport services | 0.00 | 0.00 | 0.00 | 0.04 | 0.10 | 0.00 |
| 72 Services for temporary housing and food and beverage preparation | 0.07 | 0.10 | 0.56 | 0.31 | 8.84 | 0.38 |
| 81 Other services, except government | 0.00 | -0.02 | 0.02 | 0.08 | 0.01 | 0.00 |

Source: Author's own elaboration based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|-----------|
| SHARE OVER TOTAL (PERCENTAGE) | | | | | | | | |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 0.00 | 0.00 | 11.06 | 0.77 | 0.92 | 0.08 | 0.00 | 0.00 | 0.98 |
| 0.00 | 0.00 | 0.00 | 7.23 | 5.53 | 0.36 | 2.05 | 3.28 | 2.58 |
| -3.73 | 1.12 | 0.00 | 0.00 | -1.27 | -0.30 | 0.00 | 0.00 | -0.12 |
| -1.65 | -0.87 | -4.29 | 0.22 | 8.13 | 0.83 | 13.55 | 0.34 | 3.68 |
| 72.86 | 107.98 | 55.16 | 71.12 | 60.54 | 90.33 | 68.36 | 83.17 | 74.32 |
| 26.58 | -4.96 | 21.29 | 18.93 | 15.03 | 1.18 | 11.55 | 12.05 | 13.71 |
| 0.02 | -0.19 | 0.03 | 0.03 | 0.00 | 0.32 | 0.15 | 0.20 | 0.09 |
| 0.00 | -0.01 | 0.88 | 0.02 | 0.56 | 0.44 | 0.00 | 0.00 | 0.11 |
| 1.33 | 0.00 | 9.33 | 0.13 | -0.74 | 2.31 | 0.01 | 0.06 | 0.95 |
| 0.93 | -0.15 | 0.47 | 0.08 | 0.12 | 2.06 | 2.83 | 0.31 | 0.73 |
| 0.45 | -0.96 | 0.44 | 1.21 | 1.40 | 1.81 | 1.33 | 0.60 | 1.09 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2.86 | -1.79 | 7.42 | 0.21 | 9.84 | 0.34 | -0.03 | 0.05 | 1.64 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.01 | -0.01 |
| 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 0.27 | -0.17 | 0.79 | 0.03 | 0.08 | -0.13 | 0.04 | -0.12 | 0.38 |
| 0.08 | 0.00 | -2.58 | -0.01 | -0.12 | 0.36 | 0.16 | 0.08 | -0.12 |

Table 11. Mexico's FDI by Region: The Case of Japan (1999-2012)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------|--------|--------|--------|--------|--------|--------|
| \$MILLIONS | | | | | | |
| MEXICO | 13,934 | 18,282 | 29,962 | 23,901 | 18,672 | 24,855 |
| Aguascalientes | 91 | 82 | 104 | 11 | 34 | 304 |
| Baja California | 1,174 | 985 | 876 | 978 | 778 | 996 |
| Chihuahua | 615 | 1,210 | 694 | 585 | 1,107 | 677 |
| Coahuila | 234 | 311 | 189 | 204 | 167 | 180 |
| Distrito Federal | 6,304 | 9,042 | 22,044 | 16,562 | 11,276 | 14,341 |
| Estado de México | 1,414 | 545 | 917 | 776 | 718 | 3,576 |
| Guanajuato | 146 | 49 | 275 | 162 | 242 | 73 |
| Jalisco | 540 | 1,196 | 491 | 328 | 387 | 608 |
| Nuevo León | 1,554 | 2,389 | 2,090 | 2,196 | 1,641 | 1,470 |
| Querétaro | 142 | 180 | 207 | 255 | 56 | 151 |
| Rest | 1,720 | 2,294 | 2,075 | 1,844 | 2,266 | 2,478 |
| \$MILLIONS | | | | | | |
| JAPAN | 1,247 | 443 | 187 | 179 | 139 | 392 |
| Aguascalientes | 6 | 22 | -46 | 6 | 4 | 226 |
| Baja California | 32 | 58 | 53 | 39 | 10 | 69 |
| Chihuahua | 13 | 22 | 29 | 16 | 13 | 18 |
| Coahuila | -1 | 0 | 3 | 16 | 0 | 0 |
| Distrito Federal | 1,173 | 283 | 5 | 75 | 62 | 41 |
| Estado de México | -2 | 3 | 0 | 2 | 1 | 1 |
| Guanajuato | -2 | 0 | 2 | 0 | 0 | 0 |
| Jalisco | 3 | 1 | 1 | 0 | 0 | 2 |
| Nuevo León | 26 | 48 | 107 | 8 | 29 | 34 |
| Querétaro | -22 | 5 | 12 | 17 | 13 | 0 |
| Rest | 22 | 2 | 22 | 0 | 6 | 1 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|-----------|
| \$MILLIONS | | | | | | | | |
| 24,449 | 20,292 | 31,380 | 27,853 | 16,561 | 21,372 | 21,504 | 12,659 | 305,676 |
| 105 | 113 | 206 | 425 | 366 | 319 | 155 | 307 | 2,622 |
| 1,094 | 957 | 866 | 1,458 | 603 | 906 | 673 | 591 | 12,936 |
| 1,170 | 1,542 | 1,731 | 1,481 | 1,128 | 1,527 | 930 | 968 | 15,365 |
| 154 | 342 | 118 | 1,139 | 129 | 137 | 90 | 106 | 3,499 |
| 12,610 | 9,939 | 17,424 | 13,506 | 8,719 | 7,556 | 13,619 | 3,480 | 166,423 |
| 877 | 1,392 | 862 | 1,631 | 1,617 | 1,179 | 692 | 1,556 | 17,753 |
| 318 | -71 | 260 | 283 | 136 | 122 | 279 | 497 | 2,770 |
| 1,253 | 760 | 499 | 214 | 845 | 1,665 | 632 | 772 | 10,188 |
| 5,138 | 2,000 | 3,129 | 1,952 | 1,318 | 5,290 | 1,378 | 1,158 | 32,704 |
| 97 | 222 | 157 | 446 | 463 | 393 | 447 | 530 | 3,747 |
| 1,632 | 3,096 | 6,128 | 5,319 | 1,235 | 2,277 | 2,608 | 2,695 | 37,668 |
| \$MILLIONS | | | | | | | | |
| 168 | -1,422 | 410 | 528 | 484 | 545 | 897 | 1,658 | 5,855 |
| 65 | 32 | 181 | 402 | 262 | 282 | 132 | 292 | 1,867 |
| 10 | 26 | 18 | -22 | 21 | 14 | 9 | 18 | 355 |
| 23 | 23 | 17 | 13 | 17 | 14 | 5 | 28 | 251 |
| 0 | 0 | 4 | 0 | 8 | 0 | 0 | 3 | 33 |
| -1 | -1,570 | 80 | 22 | -36 | 21 | 524 | 348 | 1,028 |
| 13 | 18 | 14 | 3 | 36 | 64 | 6 | 103 | 265 |
| 5 | 0 | 1 | -3 | 11 | 12 | 25 | 415 | 466 |
| 0 | 4 | 10 | 24 | 40 | 71 | 97 | 278 | 531 |
| 48 | 35 | 24 | 41 | 16 | 76 | 76 | 95 | 662 |
| 3 | 9 | 4 | 12 | 64 | -9 | 5 | 25 | 137 |
| 1 | 1 | 55 | 37 | 44 | 0 | 17 | 51 | 260 |

Table 11. continued

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|-------|-------|-------|-------|-------|-------|
| SHARE (PERCENTAGE OVER JAPAN'S TOTAL) | | | | | | |
| JAPAN | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Aguascalientes | 0.5 | 4.9 | -24.5 | 3.3 | 3.2 | 57.7 |
| Baja California | 2.6 | 13.0 | 28.1 | 21.9 | 6.9 | 17.6 |
| Chihuahua | 1.0 | 5.0 | 15.4 | 8.9 | 9.6 | 4.5 |
| Coahuila | -0.1 | -0.1 | 1.6 | 8.9 | 0.1 | 0.0 |
| Distrito Federal | 94.0 | 63.9 | 2.5 | 41.8 | 44.7 | 10.5 |
| Estado de México | -0.1 | 0.7 | 0.0 | 1.2 | 1.0 | 0.4 |
| Guanajuato | -0.2 | 0.0 | 1.0 | -0.1 | -0.1 | 0.0 |
| Jalisco | 0.2 | 0.1 | 0.6 | 0.1 | 0.2 | 0.5 |
| Nuevo León | 2.1 | 10.8 | 57.3 | 4.5 | 20.5 | 8.6 |
| Querétaro | -1.8 | 1.1 | 6.2 | 9.5 | 9.2 | 0.0 |
| Rest | 1,720 | 2,294 | 2,075 | 1,844 | 2,266 | 2,478 |
| SHARE (PERCENTAGE OVER MEXICO'S RESPECTIVE PROVINCE, TOTAL) | | | | | | |
| JAPAN | 9.0 | 2.4 | 0.6 | 0.7 | 0.7 | 1.6 |
| Aguascalientes | 6.7 | 26.6 | -44.2 | 56.1 | 13.0 | 74.3 |
| Baja California | 2.8 | 5.9 | 6.0 | 4.0 | 1.2 | 6.9 |
| Chihuahua | 2.0 | 1.8 | 4.2 | 2.7 | 1.2 | 2.6 |
| Coahuila | -0.6 | -0.1 | 1.6 | 7.8 | 0.1 | 0.0 |
| Distrito Federal | 18.6 | 3.1 | 0.0 | 0.5 | 0.6 | 0.3 |
| Estado de México | -0.1 | 0.5 | 0.0 | 0.3 | 0.2 | 0.0 |
| Guanajuato | -1.3 | -0.1 | 0.7 | -0.1 | -0.1 | 0.0 |
| Jalisco | 0.5 | 0.1 | 0.2 | 0.1 | 0.1 | 0.3 |
| Nuevo León | 1.7 | 2.0 | 5.1 | 0.4 | 1.7 | 2.3 |
| Querétaro | -15.5 | 2.7 | 5.6 | 6.7 | 22.8 | 0.0 |
| Rest | 1,720 | 2,294 | 2,075 | 1,844 | 2,266 | 2,478 |

Source: Author's own elaboration based on *Dirección General de Inversión Extranjera, Secretaría de Economía*, 2013.

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 1999-2012 |
|--|-------|-------|-------|-------|-------|-------|-------|-----------|
| SHARE (PERCENTAGE OVER JAPAN'S TOTAL) | | | | | | | | |
| 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 39.0 | -2.2 | 44.3 | 76.2 | 54.1 | 51.8 | 14.7 | 17.6 | 31.9 |
| 6.2 | -1.8 | 4.4 | -4.2 | 4.4 | 2.7 | 1.0 | 1.1 | 6.1 |
| 13.9 | -1.6 | 4.3 | 2.4 | 3.5 | 2.6 | 0.5 | 1.7 | 4.3 |
| 0.0 | 0.0 | 1.0 | 0.0 | 1.7 | 0.0 | 0.0 | 0.2 | 0.6 |
| -0.7 | 110.4 | 19.6 | 4.1 | -7.4 | 3.9 | 58.5 | 21.0 | 17.5 |
| 8.0 | -1.3 | 3.5 | 0.5 | 7.5 | 11.8 | 0.7 | 6.2 | 4.5 |
| 2.7 | 0.0 | 0.2 | -0.5 | 2.3 | 2.1 | 2.8 | 25.0 | 8.0 |
| 0.1 | -0.3 | 2.5 | 4.5 | 8.2 | 13.0 | 10.9 | 16.8 | 9.1 |
| 28.4 | -2.5 | 6.0 | 7.7 | 3.3 | 13.9 | 8.5 | 5.8 | 11.3 |
| 1.8 | -0.6 | 0.9 | 2.2 | 13.3 | -1.6 | 0.5 | 1.5 | 2.3 |
| 1,632 | 3,096 | 6,128 | 5,319 | 1,235 | 2,277 | 2,608 | 2,695 | 37,668 |
| SHARE (PERCENTAGE OVER MEXICO'S RESPECTIVE PROVINCE, TOTAL) | | | | | | | | |
| 0.7 | -7.0 | 1.3 | 1.9 | 2.9 | 2.6 | 4.2 | 13.1 | 1.9 |
| 62.2 | 28.0 | 87.9 | 94.7 | 71.5 | 88.4 | 84.9 | 95.3 | 71.2 |
| 1.0 | 2.7 | 2.1 | -1.5 | 3.5 | 1.6 | 1.4 | 3.0 | 2.7 |
| 2.0 | 1.5 | 1.0 | 0.9 | 1.5 | 0.9 | 0.5 | 2.9 | 1.6 |
| 0.0 | 0.0 | 3.3 | 0.0 | 6.5 | 0.1 | 0.0 | 2.8 | 0.9 |
| 0.0 | -15.8 | 0.5 | 0.2 | -0.4 | 0.3 | 3.9 | 10.0 | 0.6 |
| 1.5 | 1.3 | 1.7 | 0.2 | 2.3 | 5.5 | 0.9 | 6.6 | 1.5 |
| 1.4 | -0.6 | 0.3 | -1.0 | 8.3 | 9.4 | 9.0 | 83.5 | 16.8 |
| 0.0 | 0.5 | 2.0 | 11.0 | 4.7 | 4.3 | 15.4 | 36.1 | 5.2 |
| 0.9 | 1.8 | 0.8 | 2.1 | 1.2 | 1.4 | 5.5 | 8.2 | 2.0 |
| 3.1 | 4.1 | 2.4 | 2.7 | 13.9 | -2.3 | 1.0 | 4.8 | 3.7 |
| 1,632 | 3,096 | 6,128 | 5,319 | 1,235 | 2,277 | 2,608 | 2,695 | 37,668 |

CHAPTER 8:

Colombia and Asia: Trying to Make Up for Lost Time

Mauricio Reina and Sandra Oviedo

Colombia stands out as a special case in the context of Latin America's economic growth over the past few years. In most Latin American countries, recent growth has been fueled by an export boom in commodities, driven by demand in Asian countries. Colombia, meanwhile, stands out in the region for its relatively low export openness and meager trade relations with Asia.

This is not to say that Colombia has not shared in Latin America's recent economic boom. In fact, so far in this century Colombia's economy has grown at an average annual rate of 4.3 percent, which is above the average for Latin America. However, exports—and specifically, exports to Asia—have not been the main engine of growth. Much of the recent driving economic force in Colombia has come from an increase in consumer spending and investment, the result of abundant liquidity and a substantial improvement in the country's security situation.

The secondary role of foreign trade as an engine of growth is one of the most distinctive traits of the current Colombian economy. In fact, Colombia is one of the most closed countries in Latin America in terms of its trade with the world, and especially with Asia. To be sure, Colombia's trade with the Asian countries has been growing gradually over the last few years, but it is still quite small compared with that of other countries in the region.

The nascent development of economic ties with Asia constitutes both a weakness and a strength for the Colombian economy. On one hand, Colombia has not benefited as much as other Latin American countries

from the economic driver of sales to the world's most dynamic region. On the other hand, the country can still learn from its neighbors' experience to minimize the potential costs of an inadequate relationship with Asia.

The way Colombia goes about strengthening its relations with Asia will be a critical factor in the country's economic performance in the coming decades. The Asian countries have played and will continue to play a central role in the global economy in this century. As this chapter shows, assuming that the countries of Asia keep growing at a higher average rate than the rest of the world, the Asian economy's share of global gross domestic product (GDP) will increase from its 25 percent level in 2010 to just over 50 percent in 2050. This doubling of Asia's share of the global economy would mean that the countries in that region would be responsible for 60 percent of the world's growth over the next four decades.

These numbers are eloquent testimony to how immensely important it is for a country like Colombia, which cannot grow based on its domestic market alone, to adequately integrate itself into the Asian region so as to be able to maintain its economic dynamism in the coming decades.

This chapter analyzes the current state of Colombia's economic relations with Asia, explores the determining factors behind it, and evaluates what should be done to take full advantage of its potential. The following section presents an analysis of how the Colombian economy is connected to the rest of the world in general and to Asia in particular. The third section examines the shift in the country's international integration strategy and its relationship with the Asian countries under the government of Juan Manuel Santos. The fourth section evaluates the characteristics of Colombia's foreign trade and its implicit pattern of specialization, and reflects on the role of its relations with Asia in that context. Finally, the fifth section lays out some thoughts on the dilemmas the Colombian economy faces in seeking to more fully benefit from its relations with Asia.

COLOMBIA IS LAGGING BEHIND IN ITS RELATIONSHIP WITH THE WORLD AND WITH ASIA

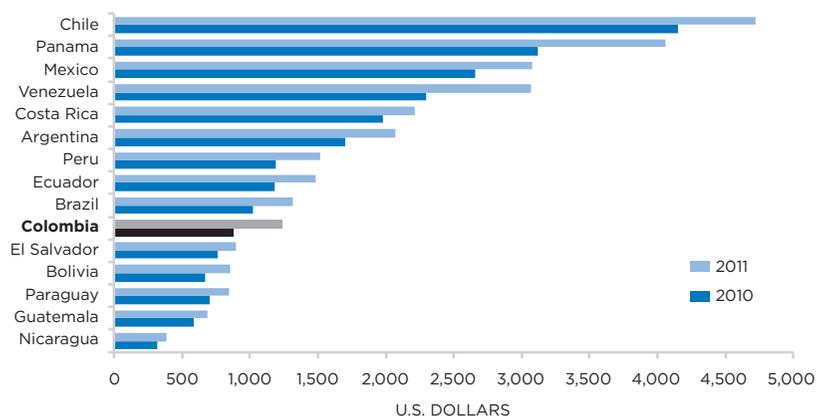
Global Economic Ties

Among the major economies of Latin America, Colombia's is one of the most closed, in terms of both exports and imports. As seen in figure 1, Colombia ranks tenth in Latin America in foreign sales, with a rate of exports per capita that is barely a quarter that of Chile and a third that of Mexico.

It could be argued that this low level of exports is the result of an anti-export bias brought about by the significant appreciation of the peso over the last decade. However, Colombia's limited trading relationship with the world extends to imports, which indicates that this is a structural phenomenon that transcends the current exchange rate situation. Figure 2 shows that Colombia ranks eleventh in the region when it comes to purchases from the rest of the world, with a value of imports per capita that is less than a third that of Chile or Costa Rica.

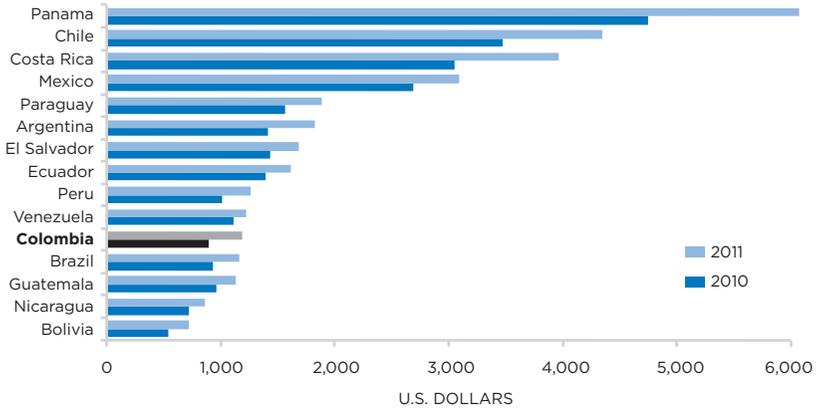
The lag in the internationalization of the Colombian economy is reduced somewhat when the evolution of foreign investment is considered. As figure

Figure 1. Latin America: Exports per Capita, 2010 and 2011



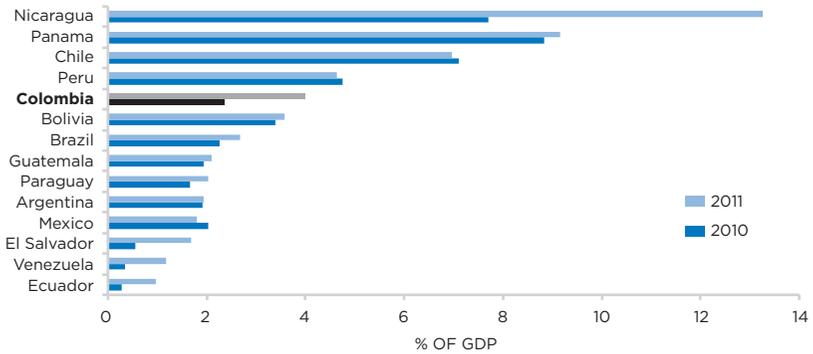
Source: Authors' own calculations, using UN COMTRADE and IMF data.

Figure 2. Latin America: Imports per Capita, 2010 and 2011



Source: Authors' own calculations, using UN COMTRADE and IMF data.

Figure 3. Latin America: Foreign Direct Investment, 2010 and 2011 (percentage of GDP)



Source: Authors' own calculations, using data from ECLAC, IMF, and Colombia's Banco de la República.

3 shows, Colombia ranks fifth in the region in terms of foreign direct investment flows as a percentage of GDP, behind economies such as those of Chile and Peru. It is worth noting that more than two-thirds of those foreign capital flows have been directed toward the mining and hydrocarbon sectors.

The under integration of the Colombian economy internationally is the result of several factors. These include, notably, the historical development of Colombia's international relations, a trade policy that tends to be protectionist, and a complex geography that has become a natural protection factor for the economy.

Colombian foreign policy was historically isolationist and has only recently started to be energized. Throughout the twentieth century, Colombia had a pragmatic foreign policy that put a higher premium on its relationship with the United States than on its dealings with the rest of the world.¹ That strategy of subordination to Washington was so marked that for much of the last century, Colombia's foreign affairs doctrine was nicknamed "Respice Polum" (Mirar al Polo)—"Look toward the [North] Pole."

The concentration of Colombia's foreign policy on its relations with the United States intensified dramatically at the end of the last century and the beginning of this one, as a result of the fragile domestic security situation. The substantial strengthening of Colombian guerrilla forces during the 1990s, along with the headway made by drug-trafficking organizations, stymied the state's ability to control the national territory and provide security to its citizens. The weakening of the state in the face of illegal actors came to be so pronounced that Colombia even began to be classified among the so-called "failed states," that is, those that are extremely vulnerable to action by illegal operators and are at high risk of collapse.²

Given the major threat posed by illegal actors, the governments of the time strengthened their ties with the United States, centering on the issue of security. Both the government of Andrés Pastrana (1998–2002) and the first administration of Álvaro Uribe (2002–06) made military cooperation with Washington a centerpiece of their international strategy, to strengthen the armed forces and combat drug trafficking and guerrilla activity. This strategy especially resonated in Washington following the terrorist attacks of September 2001, when the administration of George W. Bush launched a crusade against international terrorism, an effort the Colombian government pragmatically joined.

The strengthening of Colombia's ties with the United States centering on military cooperation took place in a complex context in Latin America. The rise to power of left and center-left governments in several countries in the region led to considerable resistance to the policies of military cooperation between Bogotá and Washington. In some cases, this resistance resulted in animosity and confrontation, due to the spillover of anti-guerrilla military actions beyond Colombia's borders, as happened in the cases of Venezuela and Ecuador. Thus, in its attempt to strengthen the state against illegal armed groups, Colombia wound up in virtual isolation in the region.³

The evolution of trade policy also contributed to Colombia's delay in integrating into the world economy. As happened in several Latin American countries, for much of the second half of the last century, the Colombian economy adopted a policy of industrialization by import substitution, whereby domestic production was protected from international competition by high tariffs. Over time, that policy translated into a significant drag on the productivity of national industry, which lacked incentives to innovate and become more competitive.

Toward the end of the 1980s and the beginning of the 1990s, the Colombian government advanced a policy of economic openness that consisted of reducing tariffs and virtually eliminating import quotas. Complementing these measures, during the first half of the 1990s, was the attempt to consolidate a common market for the Andean countries. This goal involved the total elimination of tariffs applicable to trade with Venezuela, Ecuador, and Bolivia, and substantial liberalization in terms of Peru.

Although these measures moved Colombia's economy forward in the process of international integration, they had some significant limitations. The first was that trade policy continued to be biased against exports, because a special protection program remained for the farming and ranching sector, resulting in a loss of competitiveness for the entire economy.⁴

This special program, known as Price Bands (*Franjas de Precios*), established variable tariffs for the farming and ranching sector, which, though appearing to be neutral, in fact have a protectionist bias. This system has been left intact over the years, and it will only gradually be dismantled by 2030, based on the terms negotiated under the free trade agreement (FTA) signed between Colombia and the United States.

Table 1. Free Trade Agreements in Force

| Colombia | Chile | Mexico | Peru |
|------------------------------|--------------------|----------------|----------------|
| EFTA (AELC) | P4 Agreement (TPP) | EFTA (AELC) | EFTA (AELC) |
| ALADI | EFTA (AELC) | ALADI | ALADI |
| CAN | ALADI | Chile | CAN |
| Canada | Australia | Colombia | Canada |
| Chile | Canada | Costa Rica | Chile |
| Mexico | China | Israel | China |
| Northern Triangle | Colombia | Japan | South Korea |
| United States | Costa Rica | El Salvador | United States |
| GSTP (SGPC) | South Korea | Guatemala | Japan |
| Venezuela (partial coverage) | El Salvador | Honduras | Mexico |
| | United States | Nicaragua | Panama |
| | Guatemala | Peru | PTN |
| | Honduras | PTN | Singapore |
| | India | GSTP (SGPC) | GSTP (SGPC) |
| | Japan | NAFTA | European Union |
| | Malaysia | European Union | |
| | Mexico | | |
| | Panama | | |
| | Peru | | |
| | PTN | | |
| | GSTP (SGPC) | | |
| | Turkey | | |
| | European Union | | |

Note: P4 Agreement: Trans-Pacific Strategic Economic Partnership Agreement, made up of Brunei Darussalam, Chile, New Zealand, and Singapore. EFTA (European Free Trade Area) members: Iceland, Lichtenstein, Norway, and Switzerland. ALADI: Latin American Integration Association. CAN (Andean Community) members: Bolivia, Colombia, Ecuador, and Peru. PTN: Protocol Relating to Trade Negotiations among Developing Countries, made up of Bangladesh, Brazil, Chile, Republic of Korea, Egypt, the Philippines, Israel, Mexico, Pakistan, Paraguay, Peru, Serbia, Tunisia, Turkey, and Uruguay. GSTP: General System of Trade Preferences among Developing Countries. Northern Triangle made up of El Salvador, Guatemala, and Honduras. NAFTA: North American Free Trade Agreement made up of Canada, the United States, and Mexico.

Sources: World Trade Organization; Ministry of Trade, Industry, and Tourism of Colombia.

The second trade policy limitation applied toward the end of the last century has to do with the inherent shortcomings in pursuing consolidation of a common market among the Andean countries. Although Colombia was the country that most benefited from that program, multiplying its industrial exports, the Andean market distorted the member countries' comparative advantage by maintaining high tariffs with the rest of the world.

Moreover, the Andean market began to weaken as the majority of its member countries saw a rise to power of leftist governments that favor state intervention over free trade. In this context, Colombia in 2009 suffered a collapse of its trade relations with Venezuela, which had become the most important market for Colombian manufactured products.

In short, despite steps toward liberalization in the 1990s, Colombian trade policy even today maintains a protectionist bias that will only begin to be weakened with the elimination of tariffs, as established through the FTAs it has signed over the last few years. While Colombia has accelerated the negotiation of these types of agreements in the recent past, until now this strategy has basically not included the signing of trade agreements with Asian economies, though other countries in the region have done so. As seen in table 1, Chile, Peru, and Mexico have agreements in force with several Asian countries, while Colombia has negotiated only one, with South Korea, which still has not taken effect.

The delay in the international integration of the Colombian economy is not explained merely by trends in the country's foreign policy and trade policy. Colombia's complex geography and the striking underdevelopment of its infrastructure have also played a critical role in keeping the domestic economy out of international trade flows. As a result of the protectionism described above, the main production centers were established in the central regions of the country, primarily around the cities of Bogotá, Medellín, and Cali. Thus, the major industries were at a distance from the coasts and were relatively isolated from each other due to the obstacles presented by the imposing mountain ranges of the Andes.

These obstacles have been magnified by Colombia's highway system, which is extremely backward even by Latin American standards. In 2001, only 10 percent of the roads in Colombia were paved, compared with 20 percent in a sample of nineteen Latin American countries. Meanwhile, in 2008 Colombia

had 287 kilometers of paved roads per 1 million inhabitants, while Chile had more than 1,000 kilometers. Further, the density of paved roads (kilometers of paved road per 1,000 square kilometers) is under 15 in Colombia, while the average for Latin America is 36, and for middle-income countries, 82.⁵

The obstacles that geography and an underdeveloped infrastructure represent for the internationalization of Colombia's economy can be summed up in one indicator. According to recent estimates, it costs three times as much to transport a container from Bogotá to Barranquilla, on Colombia's Atlantic Coast, as it does to move the container from Barranquilla to Hong Kong. Besides the disproportionate costs of domestic transportation, it is worth noting that the cost comparison of transporting merchandise to Asia is made based on shipment from the Atlantic Coast and not the Pacific, as common sense would dictate. The reason is simple: The highway infrastructure from the center of the country to the Pacific Coast is so unreliable that the costs in that case would be even higher.

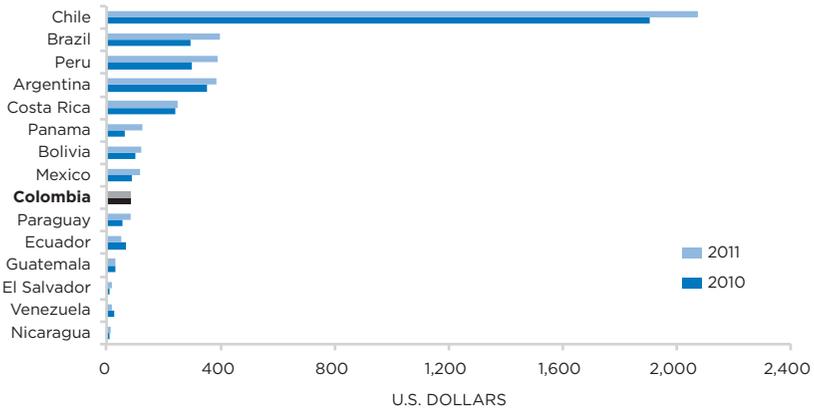
Economic Relations with Asia

Even though Colombian exports to Asia have picked up considerably over the last decade, they continue to be extremely low compared with what other countries in Latin America have achieved. While in 2002 exports to Asia represented 3.1 percent of Colombia's sales abroad, in 2012 that figure rose to 11.1 percent. Despite that pace of growth, however, the Colombian economy continues to be poorly positioned in this area when compared with those of its neighbors.

As can be seen in figure 4, the value of Colombian exports to Asian countries is less than \$90 per capita. Chile has twenty-four times that amount, and Brazil and Argentina nearly five times. China has increasingly been capturing a larger share of the country's sales abroad, as figure 5 shows.

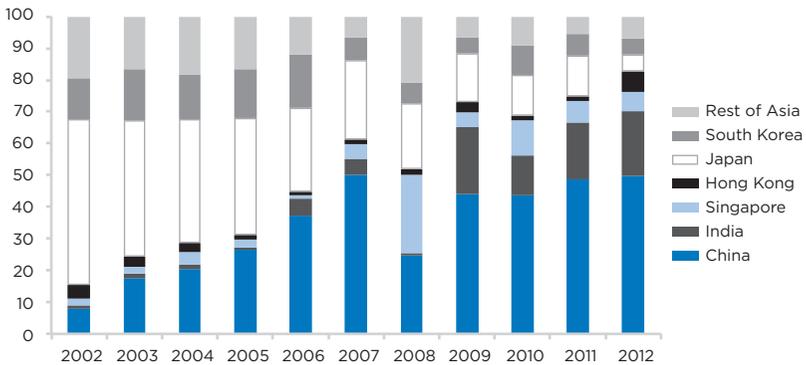
In the case of Colombian imports, the role of Asia has been more important and has been growing recently at a faster pace. Though purchases from Asian countries represented 15.5 percent of Colombia's total imports in 2002, by 2012 that figure had grown to nearly 27 percent. Despite this vigorous growth, Colombia ranks tenth in Latin America when it comes to imports from Asia. As figure 6 shows, imports from Asia were about \$290 per capita

Figure 4. Latin America: Per Capita Exports to Asia, 2010 and 2011



Source: Authors' own calculations, using UN COMTRADE and IMF data.

Figure 5. Destination of Colombian Exports to Asia, 2002-12



Source: Authors' own calculations, using DANE data.

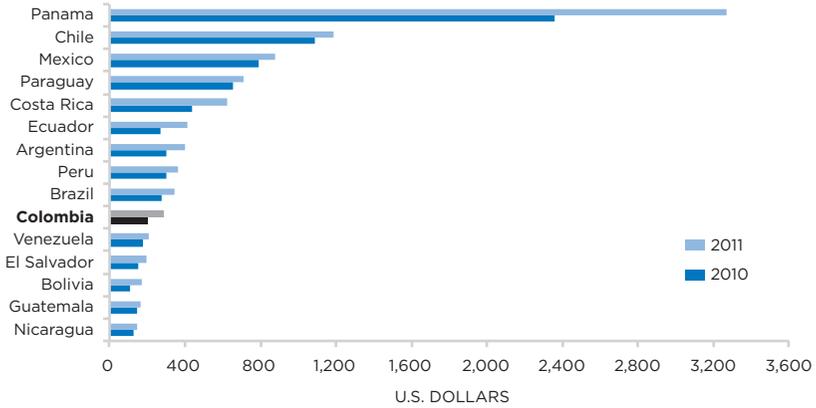
in 2001—more than triple the per capita exports to that region, but less than one-quarter of Chile’s per capita imports and less than one-third of Mexico’s. As with exports, China’s share has also been dominant, more than doubling in the last ten years to over 60 percent in 2012 (figure 7).

Relations between the Colombian economy and the Asian countries are even more embryonic when it comes to productive investment. Colombia has been turning into an increasingly attractive destination for foreign investment, as mentioned in the previous section, and in recent years it has begun to distinguish itself as an exporter of direct investment. However, Asia has not been an important part of these trends. As figure 8 shows, the amount of foreign investment that has come from Asia in recent years is minimal compared with that from other sources. In any case, it should be noted that the main Asian investors in Colombia in the recent past have been Japan, China, and South Korea.

Meanwhile, Colombian investment in Asian countries has also been miniscule, as can be seen in figure 9. The bulk of that amount corresponds to the investment made by Grupo Nutresa—a Colombian-owned, multi-Latin company (“*multilatina*”) that operates in the food sector—in one of Malaysia’s largest companies producing soluble coffee and coffee extracts. In this case, the Colombian company has invested jointly with two Japanese companies (one of which is the Mitsubishi Group), which makes this a very interesting case for other Colombian companies that might want to join global value chains—a path the country should make every effort to explore, as this chapter explains further on.

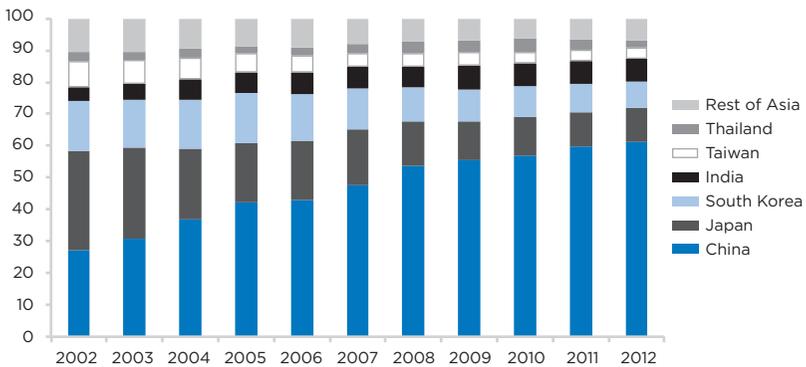
The incipient development of Colombia’s trade and investment relations with Asia has been accompanied by the country’s limited diplomatic presence in that region. As can be seen in table 2, Colombia has fewer embassies in Asian countries than Mexico and Chile (whose economy is just 70 percent the size of Colombia’s). The situation is similar when it comes to trade promotion offices. As seen in table 3, Colombia has half the number of trade offices that Mexico has in Asian countries, and a third the number that Chile has. As is discussed in the next section, this situation of Colombia’s meager diplomatic presence in the region is starting to change, thanks to the efforts of the current Colombian government and the joint strategy of the Pacific Alliance’s member countries.

Figure 6. Per Capita Imports from Asia, 2010 and 2011



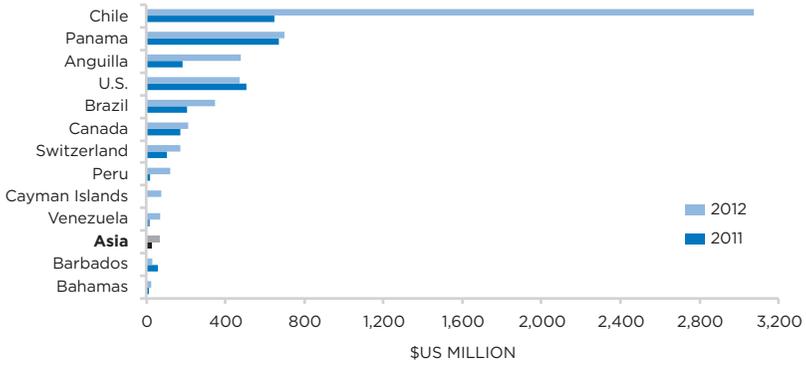
Source: Authors' own calculations, using UN COMTRADE and IMF data.

Figure 7. Origin of Colombian Imports from Asia, 2002-12



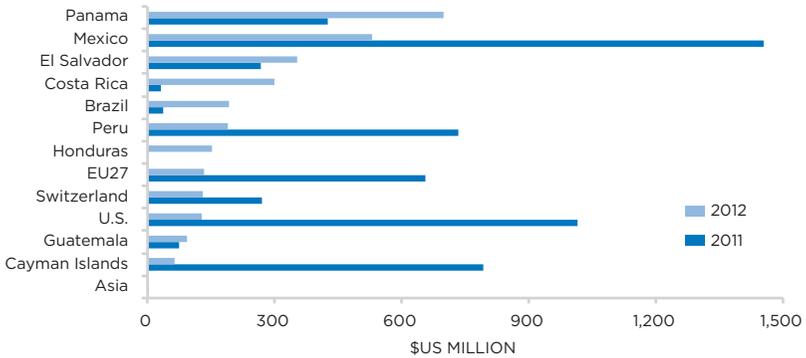
Source: Authors' own calculations, using DANE data.

Figure 8. Origin of Foreign Direct Investment to Colombia, 2011 and 2012 (millions of dollars)



Source: Authors' own calculations, using data from Colombia's Banco de la República.

Figure 9. Destination of Colombian Direct Investment Abroad, 2011 and 2012 (millions of dollars)



Source: Authors' own calculations, using data from Colombia's Banco de la República.

Table 2. Embassies of Colombia, Mexico, and Chile in Asian Countries

| Colombia | Mexico | Chile |
|-------------|-------------|-------------|
| China | China | China |
| South Korea | South Korea | South Korea |
| India | Philippines | Philippines |
| Indonesia | India | India |
| Japan | Indonesia | Indonesia |
| Malaysia | Iran | Japan |
| | Japan | Malaysia |
| | Malaysia | Singapore |
| | Singapore | Thailand |
| | Thailand | Vietnam |
| | Vietnam | |

Sources: Ministry of Foreign Affairs of Colombia, Secretariat of Foreign Affairs of Mexico, and Ministry of Foreign Affairs of Chile.

Table 3. Trade Offices of Colombia, Mexico, and Chile in Asian Countries

| Colombia | Mexico | Chile |
|----------------|------------------|------------------|
| China | China | China |
| <i>Beijing</i> | <i>Beijing</i> | <i>Beijing</i> |
| India | <i>Hong Kong</i> | <i>Hong Kong</i> |
| Japan | <i>Shanghai</i> | <i>Guangzhou</i> |
| Singapore | South Korea | <i>Shanghai</i> |
| | India | South Korea |
| | Japan | India |
| | Singapore | Indonesia |
| | Taiwan | Japan |
| | | Malaysia |
| | | Singapore |
| | | Thailand |
| | | Vietnam |
| | | Taiwan |

Sources: Proexport–Colombia, ProMéxico, and ProChile.

RECENT PROGRESS AND PERSPECTIVES

The strategy of international integration of the Colombian economy, and within that its relationship with the Asian countries, has undergone a significant shift in recent years. As mentioned above, at the end of the last century and the early part of this one, Colombia's foreign policy was characterized by deepening ties with the United States centering on military cooperation. This policy can be viewed as a state survival strategy, in that it sought to deal with the guerrilla and drug-trafficking organizations that had made such dramatic inroads in the 1990s; however, it came at a high cost internationally by leaving the country in virtual isolation.

Meanwhile, in the economic arena, the second half of the last decade was marked by the development of a clear policy of negotiating trade agreements with different countries and blocs, including the United States, the European Union, and several Latin American countries. This strategy sought to recover the ground that had been lost at the end of the last century and the beginning of this one, and hence to further the Colombian economy's international integration.

Thus, in 2010 Juan Manuel Santos took office in an environment characterized by the concentration of a major part of the international agenda on security issues, the antagonism of several neighboring countries toward Colombia's foreign policy, and the promotion of trade agreements as a mechanism to further the international integration of the Colombian economy. In this context, the Santos administration decided to shift course by diversifying the issues and interlocutors on the foreign agenda and by accelerating trade negotiations with various countries, including some in Asia.

Although it is still too early to assess the results of this new strategy, on the economic front it has produced some results that are pertinent to this study. In recent years, Colombia has concluded negotiations on an FTA with South Korea, which still has to be ratified by the Congress, and which should begin to take effect in 2014 and will become the first agreement of this type with an Asian country. In addition, the Colombian government has begun negotiating an FTA with Japan, and it has announced that it will assess the possibility of doing something similar with China. Meanwhile, the country has begun to broaden its

diplomatic and commercial presence in the region, both directly and through the Pacific Alliance.

The Pacific Alliance is one of the most ambitious regional integration processes Colombia has undertaken in recent years, and it is perhaps the country's most important strategy for strengthening its ties with the Asian countries. Created on June 6, 2012, the Pacific Alliance is a mechanism for economic integration and political coordination being driven by Chile, Peru, Mexico, and Colombia. The member countries have a population of more than 200 million, a combined GDP of over \$1.7 trillion—about one-third of the Latin American economy—and an average annual per capita income of more than \$10,000.

The member countries of the Pacific Alliance aim to work on several fronts. For one, they are moving toward a free flow of goods, services, capital, and people among the four countries. For another, the members are seeking greater mutual cooperation that would enable them to capitalize on the experience each has accumulated in different areas. In addition, the countries are seeking to create mechanisms for joint action that would open the door for improved integration into the international economy, particularly in the Asian region.

The Pacific Alliance is an open integration mechanism that does not conflict with the trade agreements already in force in Latin America or with those the member countries have with countries outside the region, such as the Asian countries. In fact, one of the purposes of the alliance is to more thoroughly integrate the member countries into global value chains.

Toward this end, the aim of the Pacific Alliance is that the increased production potential created by the free flow of raw materials and the factors of production among the four members can be turned into an export platform to take advantage of the trade agreements each of the parties has with other countries. This expanded market of the four members and the platform they will create for exporting to other countries, such as the United States, is a draw for investment by countries from other regions of the world, such as the Asian countries.

The Pacific Alliance also has the potential to help the Colombian economy strengthen its ties with Asia in other ways. As was mentioned above, Peru, Chile, and Mexico have made more progress than Colombia in their

relations with the Asian countries—not just in trade and finance, but also in the diplomatic arena. Moreover, those countries are currently parties to the negotiation of the Trans-Pacific Partnership Agreement, which could turn out to be one of the most important agreements of this century. The countries that have been participating so far in the negotiations represent 30 percent of global GDP, 20 percent of global exports, and 10 percent of the world's population—numbers that will continue to grow in the near future as other nations that have expressed interest join the process.

Consequently, as it continues to deepen its ties with Peru, Chile, and Mexico, Colombia will be in a strong position to join the Trans-Pacific Partnership Agreement in the future, which would enable the country to be part of the integration plan that will likely govern the most dynamic economic region of the world in this century. Until that happens, the creation of the Pacific Alliance in itself is already offering opportunities for the country to forge ahead in developing closer ties to the Asian economies, as evidenced by the alliance member countries' initiative to open joint trade and diplomatic offices in the region.

CHARACTERISTICS OF COLOMBIA'S FOREIGN TRADE AND THE ROLE OF ASIA

Over the past decade, Colombia's foreign trade has seen unprecedented growth. Exports have more than quintupled, from about \$12 billion in 2002 to a little over \$60 billion in 2012. A similar trend has occurred with imports, which went from \$12.7 billion in 2002 to \$58 billion in 2012.

Notwithstanding this pace of growth, the recent evolution of Colombia's foreign trade reveals some striking features that raise concerns about its potential impact on economic performance.

Limited Exposure to the International Market

First of all, the recent gains have not been enough to keep Colombia from being very closed off from trade with the rest of the world. As mentioned above, the Colombian economy ranks tenth and eleventh in Latin America

in per capita exports and imports, respectively (figures 1 and 2). Despite recent dynamic growth, exports represent less than 18 percent of GDP, and the same is true for imports. By the standards of emerging economies, and even by the levels of Latin American economies, this reflects a low level of openness to international trade.

This underperformance in international trade integration is a problem for Colombia on two fronts. For one, the Colombian economy is barely middle-sized, which means that the domestic market is insufficient for the production system to be able to achieve economies of scale that will guarantee efficiency and high productivity. In addition, evidence has shown that opening up to the global market is one of the characteristics shared by economies that have grown significantly in the recent past.

Several empirical exercises lead to this conclusion. Michael Spence, a Nobel laureate in economics, has shown that all the countries that managed to achieve sustained growth over the final twenty-five years of the twentieth century were integrated into the global economy.⁶ Moreover, the International Monetary Fund has indicated that the difference between emerging economies that are growing robustly and those that are stagnating is that the former are oriented toward the international market.⁷ In addition, the United Nations Development Program has reported that forty of the forty-five countries with the largest increases in their Human Development Index between 1990 and 2012 were closely connected to the global market.⁸ In this context, maintaining an economy that is relatively closed to international trade comes at great cost for the country because it sacrifices the potential sources of growth.

Weak Ties with Asia

Colombia's embryonic commercial and financial relationship with Asia underscores this sacrifice of sources of growth. The Asian countries not only make up the most dynamic bloc in today's global economy, but their growth structure is also evolving toward a much more sustainable pattern that could ensure their global leadership until at least halfway through this century.

The achievements the Asian countries have had so far are undeniable. From 2001 through 2010, the income of developing Asian countries grew

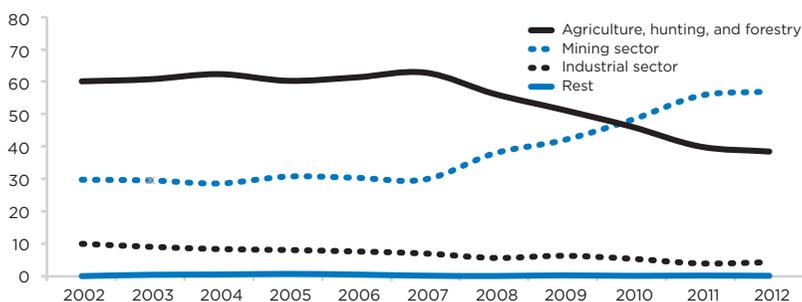
by an average annual rate of 9.4 percent, investment reached a record level of 35 percent of GDP, and exports grew at an average rate of 11.4 percent. In addition, Asia has the largest accumulation of savings in the world, it has become the largest lender to developing countries, and it is the region that has shown the greatest capital growth per worker in recent years.⁹

Besides its recent success, Asia is ever closer to achieving a much more stable growth model than it has had up until now. The foundations for growth in the region appear to be very stable in the medium term: high levels of savings and investment, high-quality human capital, an outstanding work ethic, and the increasingly domestic nature of its growth, thanks to certain expanding national markets. By way of example, while in 2009 private consumer spending represented just 35 percent of GDP in China—far below the worldwide average of 61 percent—it is estimated that this figure could rise to 75 percent in 2030, if current growth rates continue. Meanwhile, in other countries of the region, consumer spending has already reached a significant share of the economy, as in the case of Vietnam (66 percent), Indonesia (63 percent), and Thailand (51 percent).

Although it is impossible to anticipate the future performance of the Asian economies, the Asian Development Bank has undertaken an interesting prospective study showing the magnitude of the region's potential achievements. The results of this exercise indicate that if the Asian countries continue to grow at a higher rate than the average for the rest of the world, the Asian economy's share of global GDP would go from the 25 percent it represented in 2010 to slightly more than 50 percent in 2050. This doubling of Asia's share of the world economy would mean that the countries of the region would account for 60 percent of the world's growth over the next four decades.¹⁰

Weakening of Manufacturing Exports

Besides its limited connection to the global economy and its weak economic ties with Asia, the pattern of international integration of the Colombian economy has another complex aspect. As seen in figure 10, in the last five years exports of manufactured goods have been losing ground in terms of percentage of the country's total sales, while hydrocarbons and mining

Figure 10. Colombian Exports by Sector, 2002-12 (percent)

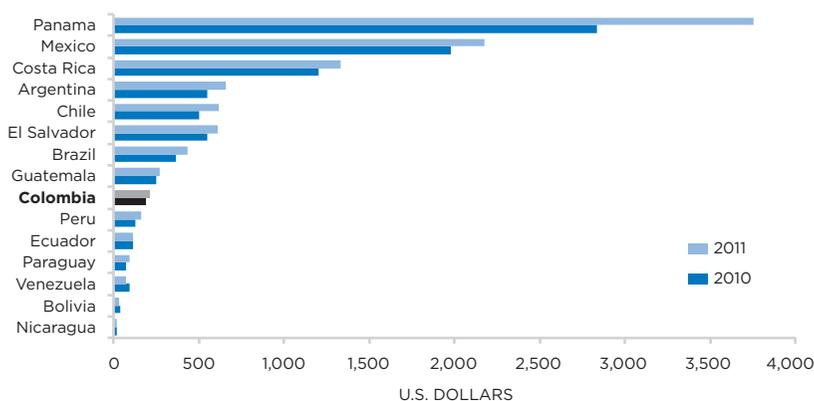
Note: Sectors are defined based on the International Standard Industrial Classification (ISIC), Rev. 3, to two digits.

Source: Authors' own calculations, using DANE data.

products have become the country's leading export category. Thus it is no surprise that Colombia today ranks ninth in Latin America in manufacturing exports per capita (figure 11).

The weakening of Colombia's manufacturing exports is due to several factors. First, it is the result of the weakening of neighboring markets that had become the primary destination for Colombian manufacturing exports. Sales of industrial products manufactured in Colombia took off significantly in the 1990s, thanks to the regional markets with which Colombia had signed trade agreements.

In fact, Colombian manufacturing exports were the big winners in terms of trade integration in the Andean Community (Comunidad Andina, CAN). On average over the last decade, the boom in Colombian manufacturing exports was concentrated in the Venezuelan market, the result of the growing deterioration of that country's production base and the dynamic pace of its import growth, driven by high oil prices. The collapse of the Venezuelan market beginning in 2009 seriously affected Colombia's industrial sales, which only now, nearly four years later, have begun to take hold in other markets in the region, such as in Chile and Peru.

Figure 11. Per Capita Manufacturing Exports, 2010 and 2011

Note: Manufactured products are those included in the categories of the International Standard Industrial Classification (ISIC) that correspond to the following sections: (5) chemicals and related products not elsewhere specified or included; (6) manufactured goods, classified chiefly by material (excluding division 68, nonferrous metals); (7) machinery and transport equipment; and (8) miscellaneous manufactured articles.

Source: Authors' own calculations, using UN COMTRADE and IMF data.

The second factor that has weakened Colombian manufacturing exports has been the steep appreciation of the Colombian peso in the last ten years. As figure 12 shows, the exchange rate went from over 2,800 pesos per \$1 in 2002 and 2003 to about 1,800 pesos per \$1 today. The appreciation of the peso has meant a nearly 30 percent loss of competitiveness through the exchange rate for tradable products in the economy, and this can be explained with three basic reasons. The expansive monetary policies of developed countries have led to an excessive abundance of liquidity in the international market, which has put downward pressure on the currencies of several Latin American countries.

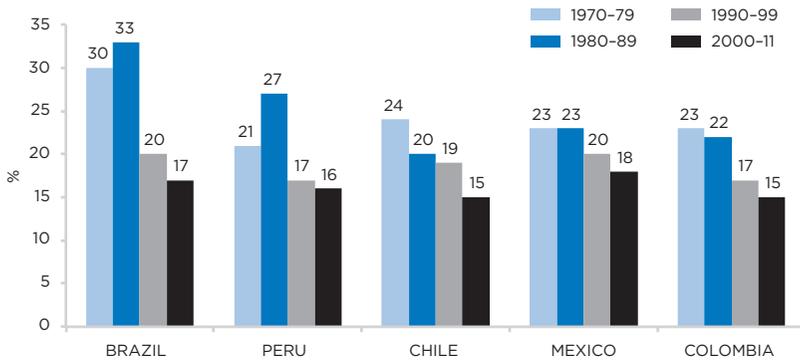
Meanwhile, Colombia's significant progress on security has become a factor attracting international investment in its economy. In addition,

Figure 12. Colombian Peso: Exchange Rate with U.S. Dollar



Source: Colombia's Banco de la República.

Figure 13. Manufacturing Share of GDP



Source: "Comentario Económico del día: El debate de la desindustrialización en Colombia," ANIF, November 2012, <http://anif.co/sites/default/files/uploads/Nov6-12.pdf>.

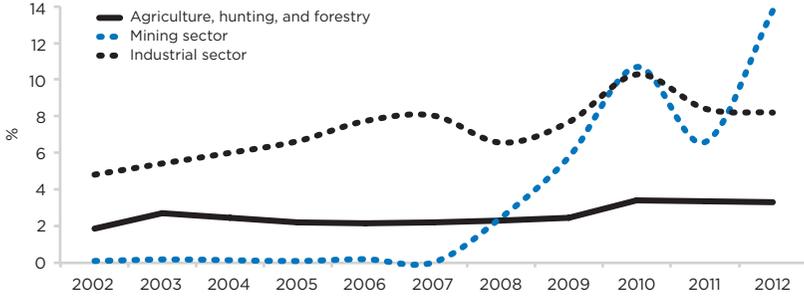
although the surge of mining-energy exports in the last few years has not been as strong as that of raw material exports from other countries in the region, it has represented a significant inflow of foreign currency due to foreign investment and the sector's sales abroad.

Finally, the weakening of manufacturing exports reflects the competitive lag in Colombia's industrial sector. As can be seen in figure 13, in recent decades industry has been losing in terms of its share of the economy, going from about 23 percent of GDP in the 1970s to about 15 percent in recent years. The same chart shows that the relative weakening of the manufacturing sector has not been exclusive to Colombia but rather has been a widespread pattern in Latin America.

Although a thorough assessment of the causes behind the weakening of Colombian industry goes beyond the scope of this study, several issues should be noted. First, the fact that the manufacturing slump has been going on for more than three decades and is shared by several countries in Latin America underscores the relative nature of specific factors in play at this particular juncture in Colombia, such as the appreciation of the peso or the mining-energy boom. Of course, these two circumstances have been contributing factors in industrial competitiveness in the recent past, but they cannot be blamed for a crisis that already had structural features.

Further, the weakening of Colombian industry is partly a result of its inadequate preparation to join the global economy. As has already been stated, the Colombian economy stands out in Latin America as one of those most closed to international trade, which means that the domestic production system has had few incentives to raise its competitiveness to global levels. Of course, a group of Colombian companies have accepted the challenge of globalization and today are included among the so-called *multilatinos* multinational companies, with exports and investments in many countries in the hemisphere; however, for a long time the majority chose to take advantage of the protection from international competition that Colombia's trade policy and rough geography offered. It is only now, as the FTA with the United States has entered into force, that some Colombian industrial companies have begun to move from the middle of the country toward the coasts, which has led to significant industrial growth in cities such as Barranquilla and Cartagena, to the detriment of others such as Bogotá.

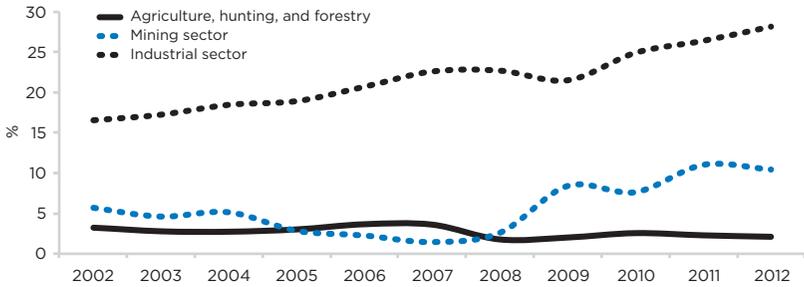
Figure 14. Colombian Exports to Asia by Sector, 2002-12 (percent)



Note: Sectors are defined based on the International Standard Industrial Classification (ISIC), Rev. 3, to two digits.

Source: Authors' own calculations, using DANE data.

Figure 15. Colombian Imports from Asia by Sector, 2002-12 (percent)



Note: Sectors are defined based on the International Standard Industrial Classification (ISIC), Rev. 3, to two digits.

Source: Authors' own calculations, using DANE data.

In this context, it makes sense to try to determine the role Asia has played in the gradual shift in Colombia's productive activity away from manufacturing and toward raw materials and services. In general, the Asian countries' trade with Latin American countries may have led to this type of shift, as the former specialize in exporting manufactured goods and the latter in exporting raw materials.

But this factor does not seem to have been very important in the case of Colombia. As this study has shown, foreign trade still does not carry enough weight in the GDP to determine the production characteristics of the economy, and even less so when it comes to foreign trade with Asia. The Asian countries have not played a central role in increases of exports and imports in the last decade (figures 14 and 15). However, in certain specific sectors, unfair trade competition from Asia has played a very harmful role. That is the case, for example, with textiles, clothing, and shoes, which since the mid-1990s have suffered problems stemming from illegal imports from Asian countries, whether through under-invoicing of imports, dumping, or simple contraband (table 4).

Conversely, the Asian countries have not been directly responsible for an appreciating peso, which has made the tradable sectors of the economy less

Table 4. Colombia: Asian Countries and Antidumping Investigations

| Antidumping Investigations | Number of Petitions | Asian Countries Reported and Percentage of Total Petitions |
|---|---------------------|---|
| Under way | 4 | China, 100% (four petitions) South Korea, 25% (one petition) |
| Applicable to rights still in effect, 2006-12 | 7 | China, 100% (seven petitions) |
| Applicable to already expired rights, 2004-10 | 6 | China, 83%* (five petitions) |

Note: In a petition applying rights since expired, the reported entities include China and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)

Source: Subdirección Prácticas Comerciales del Ministerio de Comercio, Industria y Turismo de Colombia, April 2013.

competitive in the last ten years. Other Latin American countries have been subject to pressures to revalue their currency, stemming from exports of raw materials to Asian economies or due to large amounts of foreign investment especially targeted toward mining and infrastructure. That phenomenon has not been seen directly in Colombia. The share of Asian markets as destinations for Colombian exports is not very large, and the flows of investment capital from that region have been minimal.

This does not mean that Asia has been irrelevant to the investment and export boom in oil and mining that Colombia has seen in the last decade. Many of the production and investment projects behind that boom probably would not have been developed without this century's increase in international prices of raw materials in the global market. And this international boom in raw materials clearly would not have happened without the significant demand generated by the expanding Asian economies. Thus, even though Asian countries may not have been direct buyers of Colombian oil, or investors in the country's mining projects, without their economic development neither of these developments would have occurred.

But it is through a medium-term perspective that the Asian countries' influence on the weakening of industry in countries such as Colombia can be better established. As has already been mentioned, the underperformance of manufacturing in the Colombian economy and in other Latin American economies began more than two decades ago, a period that coincides with the strengthening of industry in several Asian countries.

This divergence in production has become more pronounced as each region has consolidated its own development pattern. While the Latin American countries have followed a pattern of production based primarily on the comparative advantages derived from cheap labor and an abundance of natural resources, the Asian countries have developed long-term projects based on competitive advantages associated with science and technology education and the existence of innovation systems applied to production activity. As economic globalization has expanded worldwide, these divergent production processes have meant that the Latin American manufacturing sector has been weakening structurally as its Asian competitors have become stronger.

FINAL THOUGHTS: HOW TO BENEFIT MOST FROM THE RELATIONSHIP WITH ASIA

Colombia needs to integrate more deeply into the global economy to have sources for sustainable growth in the medium term. The strengthening of its relations with the Asian countries—which could account for 60 percent of global growth from now until 2050—should play a central role in this process. However, that relationship carries significant risks, as it could suggest a specialization of the Colombian economy in raw materials to the detriment of other productive sectors.

To make the most of its trade relations with Asia, the Colombian economy should try to integrate itself into global value chains so that it can benefit from the pull of Asia and participate in manufacturing production and service-related activities with a high added value. To move forward along these lines, it is essential to first try to overcome the main bottlenecks that are limiting the country's competitiveness.

For Colombia to be able to make this leap, it must dramatically improve the quality and coverage of higher education, move ahead with major pending investments in highway infrastructure, and develop a rigorous system of research and innovation that will have an effective impact on business activity. This is how a country can make the leap from a type of growth based on exports of raw materials and low-cost manufactured products to another kind of growth supported by the sale of goods with a high value added and a significant technological component. Currently, the Colombian government is making progress in the right direction in the case of infrastructure, but challenges remain in education and in science and technology.

Moreover, Colombia must move ahead to become a magnet for Asian investment other than that geared toward mining and infrastructure—the type of investment that could link the local production system with global value chains. For that to happen, it is essential for the authorities to move forward to create an expanded market that would be attractive for Asian companies and build an export platform that would allow Asian companies to manufacture their products in the zone for export to other countries in the hemisphere, such as the United States.

The Pacific Alliance represents a great opportunity for the country to reach those objectives. The expanded economic opportunity offered by the countries in the alliance provides a very attractive market for Asian companies, but also an ideal platform for exporting to other countries in the region. In addition, the free flow of the factors of production being pursued by the Pacific Alliance, along with the rules of origin governing trade of intermediate and finished goods among its members, pave the way for the countries' integration into global value chains.

Of course, the Pacific Alliance and any other trade strategies that Colombia may adopt will fail to bring about the right relationship between the Colombian economy and the Asian region if the Colombian government does not move quickly to overcome its competitive bottlenecks. It is important to keep in mind that the differences in the development models of Asia and Latin America—the former based on knowledge, technology, and entrepreneurship; the latter based on cheap labor and natural resources—go a long way toward explaining why the two regions have followed such different paths of economic development.

NOTES

1. Juan Gabriel Tokatlian and Rodrigo Pardo, *Política Exterior Colombiana: ¿De la subordinación a la autonomía?* (Bogotá: Ediciones Uniandes/ Tercer Mundo Editores, 1998).
2. E.g., in 2005 the Failed States Index, published by the U.S. think tank Fund for Peace and *Foreign Policy* magazine, ranked Colombia fourteenth among the seventy-six countries analyzed.
3. Gustavo Bell, Sandra Borda, Hernando José Gómez, Socorro Ramírez, Mauricio Reina, Camilo Reyes, and Juan Gabriel Tokatlian, *Misión de Política Exterior de Colombia* (Bogotá: Inter-American Development Bank, Andean Development Corporation, and Fedesarrollo, Ministry of Foreign Affairs, 2010).
4. Mauricio Reina, "Internacionalización de la Economía Colombiana: Comercio e Inversión," in *Colombia 2010–2014: Propuestas de Política Pública* (Bogotá: CAF and Fedesarrollo, 2010).
5. Juan Benavides, "Reformas para atraer la Inversión Privada en la Infraestructura Vial," in *Colombia 2010–2014*.
6. Michael Spence, *The Next Convergence: The Future of Economic Growth in a Multispeed World* (New York: Farrar, Straus & Giroux, 2011), chap. 7.

7. International Monetary Fund, *World Economic Outlook, February 2013* (Washington, D.C.: International Monetary Fund, 2013).
8. *The Economist*, "Not by Bread Alone: Development," March 16, 2013, 62.
9. Asian Development Bank, *Asia 2050: Realizing the Asian Century* (Manila: Asian Development Bank, 2011), <http://www.adb.org/publications/asia-2050-realizing-asian-century>.
10. Ibid.

CHAPTER 9:

Latin America's Pivot? What the Pacific Century Means for U.S.-Hemispheric Relations

Daniel Kurtz-Phelan

A SHARED PACIFIC CENTURY

In Washington, for at least the past decade, discussions of Asia and Latin America have tended to narrow to one particular aspect of that topic and to take on a particular foreboding tone. What is China doing *to* Latin America? What sinister or otherwise threatening design is driving its commercial and strategic activities in the region, what nefarious objective might they be advancing? Does Beijing aim to displace Washington in Latin America, using its booming trade and other diplomatic and economic tools to undermine the United States' political, security, and economic interests in the Western Hemisphere?

That standard discussion reflects some real concerns, but it represents an overly myopic approach to a broader, more complex, and potentially more significant story: broader in terms of the number of players and interests involved, on both sides of the Pacific; more complex in terms of the way Latin American interests in and policies toward Asia interact with Asian interests in and policies toward Latin America; and potentially more significant in terms of how the United States and Latin American governments can together help shape developments in the Pacific in the face of a rising China, rather than simply being shaped by them.

The tone of the standard discussion often seems to imply that the Latin American countries in question are desperate, benighted backwaters willing to accept *de facto* subjugation in exchange for a couple of trade deals, to accede to neocolonial peonage for the sake of a gleaming new soccer stadium or sleek new ministry building. In fact, the most important players on the Latin American side of this relationship are dynamic, economically vibrant, democratic countries that increasingly have the capability and willingness to pursue opportunities in the “Broader Pacific” with an eye toward their own long-term interests. They see themselves as active players in a geographic space, as Secretary of State Hillary Clinton defined it in the context of U.S. policy, “stretching from the Indian subcontinent to the western shores of the Americas...span[ning] two oceans—the Pacific and the Indian—that are increasingly linked by shipping and strategy.”¹

As U.S. foreign policy—in the wake of the “pivot,” the “rebalance,” or whatever appellation comes next—focuses on this geographic space and as geopolitics and geoeconomics are increasingly driven by developments within it, the engagement of Latin American countries in the Pacific presents significant opportunities for the United States, in Asia and in our own hemisphere. The starting point for seizing those opportunities is considering not just what China may be *doing to* Latin America, nor even just the roles Japan, South Korea, India, and other Asian powers may play in the region, but on engaging intensively with Latin American leaders and societies as they define their own interests and shape their own roles in the Pacific. It is considering the Latin America-Asia relationship not just in terms of *defending* our interests, but in terms of identifying and promoting convergent or common interests and reinvigorating key partnerships to advance them.

For the United States, the benefits of such an emphasis are fourfold. First, it raises the possibility of gaining new partners in our broader policy initiatives in the Asia-Pacific. Latin American governments are generally wary, and rightly so, of any suggestion that they can help “contain” China. But that is not the thrust of U.S. policy today, and if it were, Latin America would not offer up especially valuable allies in the cause. Instead, the United States’ partners in Latin America have a role to play in economic initiatives, multilateral diplomacy, and development efforts that play to their strengths

and address common concerns and convergent interests, with the Pacific as the premier venue for their growing global ambitions.

Second, and related, it provides new strategic content for a U.S.-Latin American relationship that has been in need of it for some time. During the Cold War, it was fear of Soviet penetration that motivated significant U.S. engagement, often to unfortunate effect. Since the early 1990s, U.S. policymakers have struggled to identify a strategic logic for U.S. policy in the region to replace that of the Cold War; shared interests in the Pacific can provide one, allowing the relationship to serve significant and affirmative agendas (in contrast to the defensive concerns that drove Cold War logic) that advance the basic goals of both sides.

Third, it provides a new impetus for integration in the hemisphere, one that can attract greater support and provoke less neuralgic opposition than recent attempts have. The drive for a Free Trade Area of the Americas, launched shortly after the Cold War came to an end and maintained as the centerpiece of U.S. initiative in the hemisphere for a decade, ran up on the shoals of opposition from Brazil, Argentina, and Venezuela. But Latin America's Pacific Rim, as U.S. officials have begun to emphasize, is an unbroken chain of American free-trade partners, from Canada to Chile. These partners have demonstrated a consistent and serious interest in deepening economic relationships, even as the overall hemispheric effort remains stalled, and policies in the Broader Pacific provide both an impetus and mechanisms for doing so.

And finally—as a consequence—this emphasis can infuse new energy into common efforts to advance some of the basic goals of U.S. engagement in recent years, presenting new opportunities related to education, innovation, competitiveness, social inclusion, and more.

In short, the “pivot” should not mean that U.S. attention passes over Latin America. Played correctly, neither the United States nor our partners in Latin America will be pivoting away from one another, but pivoting together, to the considerable benefit of all. In order to achieve that, U.S. policy must have common engagement in the Pacific at its core rather than leaving it as an afterthought to the more traditional pillars of U.S. engagement in Latin America.

CHINA FEAR OR PACIFIC OPPORTUNITY?

In 2002, China replaced Japan as the largest Asian economic player in Latin America. Since then, the surging volumes of trade and investment between China and Latin America—along with a more restrained and quieter escalation of political engagement—have become well known, the source of much and anxious discussion in Washington. From 2001 to 2011, Latin America's trade with China grew some 30 percent a year, driven by booming Chinese demand for commodities; a number of major Latin American economies were well positioned to satisfy the appetite for everything from soy to copper to oil, receiving relatively low-cost manufactured goods in return. While trade with China has, understandably given the scale and potential geopolitical impact, attracted the most attention, the growth in commercial ties with other Asian countries has also been striking—not just Japan and South Korea, which have well established economic relationships in the region, but also newer players like India. In that case, trade has gone from a mere \$2 billion in 2002 to more than sixteen times that today. India's diplomatic presence has also grown, with the number of embassies more than doubling since 2003.

Observers in both the United States and Latin America have recognized that these commercial relationships have been a major boon to the region's economies, particularly at a time of diminished demand from traditional markets. Coupled with relatively sound macroeconomic management in much of the region, they helped it weather the global financial crisis much better than many would have expected a decade ago and drove growth rates that in some cases have approached those of China itself. Looking forward, many also see growing potential beyond trade and investment. As the Inter-American Development Bank (IDB) and Asian Development Bank (ADB) noted in a recent joint report, "There are reasons to believe that the two regions are particularly well suited for cooperation."² And that potential extends to a range of Asian countries beyond the traditional partners. A senior IDB trade and investment official points out that Indonesia, the Philippines, Thailand, and Vietnam all offer increasingly attractive investment and trade opportunities for Latin American countries—thanks in part to their "middle class that will demand value-added products."³

Along with this recognition of advantages, however, have come a variety of anxieties and concerns. In part this relates to the particular make-up of trade flows—the high proportion of the commodities heading west across the Pacific (70 percent of all Latin American exports, by the IDB’s estimate, is made up of a handful of primary goods) and value-added manufactured goods heading east. The country-by-country figures reinforce this concern: copper has accounted for 55 percent of Chile’s exports to China, soy for 53 percent of Argentina’s, oil for 78 percent of Venezuela’s. These sorts of figures have led to persistent complaints about everything from Chinese monetary policy—with Brazil leading a campaign to convince the World Trade Organization to examine China’s alleged currency manipulation—to lack of market access for Latin America’s value-added exports. In some economies, there have been additional complaints about the use of Chinese laborers, the nature of Chinese investment, and, in many cases, the lack of significant Chinese investment. (As one top Central American official put it, “The limits of China’s presence are becoming increasingly apparent...The very big hopes we had in terms of investment flows and that kind of thing have not been realized in the least.”⁴) Meanwhile, critics turning their gaze on Latin American policy have warned of the risks of reliance on commodity prices and the associated fears of what might happen as they fall, and about the slow progress of developing more competitive export sectors and investing in new industries.

For policy analysts observing these dynamics from a U.S. perspective, part of the challenge has been the wide range of reactions within the region itself. R. Evan Ellis of the Center for Hemispheric Defense Studies has noted, “The most important differences among the states of Latin America and the Caribbean today with regard to China are about economics, not politics.”⁵ In his useful typology, the balance of costs and benefits for any particular country depends on whether it is a “pure resource exporter,” an “industrialized exporter,” a “non-exporter, or a “small-state capital recipient.” But even across these categories, responses have reflected a range of approaches, some proactive and some reactive and defensive. Chile has taken on an active role in both multilateral economic engagement (for example, in Asia-Pacific Economic Cooperation [APEC] and in helping launch Trans-Pacific Partnership [TPP] negotiations) and in bilateral trade talks, negotiating

the first trade agreement with China. Mexico, meanwhile, sees Chinese involvement more through the eyes of a manufacturer than those of a commodity exporter, but has worked both to attract Chinese investment and use Chinese inputs to strengthen its U.S.-focused export sector while challenging some Chinese practices viewed as anti-competitive. Brazil has taken advantage of commodity demand while looking warily on certain kinds of investment and sharply denouncing China's monetary policy (and also, at times, that of the United States).

On the economic side of the ledger, there has been a profusion of free trade agreements (FTAs) and other preferential agreements between the two regions. According to the recent joint report by the IDB and ADB, "Since Asia and the Pacific-LAC FTAs first emerged in 2004, an average of two FTAs has taken effect every two years between economies of the two regions."⁶ There are eighteen currently in effect, with another dozen signed or under negotiation and a dozen or so beyond that have been proposed. Diplomatically, Latin American governments have increased both bilateral and multilateral engagement with Asia. For example, the recently formed Community of Latin American and Caribbean States (known by its Spanish acronym, CELAC) has made an early effort to hold regular dialogues with Asian powers, starting with India and China.

This diversity of response in the region presents a conceptual challenge for U.S. policymakers. But it also represents a diplomatic opportunity. Latin American governments have recognized the central role that events in the Broader Pacific will have in their future development, and are actively seeking and refining tools, individual and collective, to shape those events. But their approaches are still evolving and unsettled—and sustained high-level U.S. engagement on these questions can bring benefits both to U.S. relationships in the region and to shared interests in the Pacific.

NEW GEOMETRIES OF ENGAGEMENT

In the emerging trans-Pacific architecture, Latin America represents both an important piece and an active player. So far, U.S.-Latin American engagement on Pacific issues has been centered around two signature initiatives,

both of them focused on economics: the Trans-Pacific Partnership and the Pacific Alliance. The former counts Washington as an early adopter and its leading advocate; the latter grew up without the prodding or active involvement of Washington and counts the United States as just one of more than two dozen “observers,” even as U.S. rhetorical support has become frequent and enthusiastic. Together, they point to both the potential benefits of U.S.-Latin American engagement and the further steps needed to take full advantage of them.

The Pacific Alliance

In June 2014, when President Barack Obama “congratulated” Chile on its work as part of the Pacific Alliance—efforts that “will not only enhance each member country but are also pointing the way for a model of economic development and growth throughout the region that I think a lot of people are paying attention to”⁷—it was the culmination of months of glowing praise of the Alliance. Founded by Chile, Colombia, Mexico, and Peru, the Alliance represents a clear alternative in terms of how Latin America reacts to the challenges of Chinese commerce and investment. So far, its strength has been its prioritization of unglamorous substance over grandiose rhetoric. But as external interest has intensified, the grandiose rhetoric has surged; the challenge now will be making sure that this does not detract attention or divert effort from the substance.

While MERCOSUR has anxiously thrown up barriers, the Alliance countries are trying to meet, rather than to shut out, the challenge of Asian competition. Already there are stark differences between their postures toward integration; Mexico, for example, allows in some two thirds of its imports without major tariffs, whereas for Brazil the figure is only a quarter. The four founding countries claim a total population of more than 200 million and a more than a third of Latin America’s total economy, a combined GDP of nearly \$1.5 trillion; their per capita incomes put them solidly in the middle-income category—averaging, according to Colombia’s Ministry of Commerce, some \$11,000 in per capita GDP. All four countries have a growing record of economic engagement with East Asia—current or imminent FTAs with China (Chile and Peru), with

Japan (Chile, Mexico, and Colombia), and with South Korea (Chile, Peru, and Colombia).

The Alliance countries already punch above their weight in terms of trade: they account for more than half of the region's external trade but just over a third of its GDP.⁸ But they talk about their effort in terms beyond trade and emphasize the purpose is not just "deep integration," but also, as Chile's former president Sebastián Piñera put it, "to combine forces to project ourselves toward the Asia-Pacific."⁹ The Colombian government has called it "a platform for economic and commercial integration and for outreach to the world, with special emphasis on the Asia Pacific." It has also emphasized that the Alliance's progress serves as "an important signal to Latin America, in the sense that regional integration and the opening of markets is the right path to secure greater quantities of investment, of commercial exchange, and growth."¹⁰

The Alliance was originally a Peruvian idea, backed by President Alan García. As Pedro Pablo Kuczynski, a former Peruvian finance minister, has said, "We set out to create the Pacific Alliance because we wanted to set ourselves apart from the populists. We wanted a thinking man's axis."¹¹ The four countries, each of which had existing trade agreements with the other countries involved, formally launched the Alliance in Paran , Chile, in June 2012, and were quickly at work on an agenda that included everything from free movement of goods and people to regulatory harmonization and infrastructure development. Just under a year later at the May 23, 2013 summit in Cali, Colombia, the leaders could announce the elimination of 90 percent of tariffs on merchandise trade and commitments to eliminate those tariffs entirely while creating other mechanisms to increase investment and trade in services. In 2011, Chile, Colombia, and Peru formed a common stock market, the Mercado Integrado Latinoamericano (MILA), which Mexico is slated to join by the end of 2014.

At first, the message from Alliance leaders to Washington was that the United States should keep its distance and let the Alliance gather its own momentum and develop its own substance. But more recently, as the grouping has taken off, that message has changed (with some remaining reservations, especially, ironically enough, from Colombia), and explicit U.S. support is seen as a way to reinforce momentum. Much of the U.S. bureaucracy

has become convinced as well, despite some early skepticism; now the commercial and strategic cases are basically convergent.

The first meeting between a senior U.S. official and the Pacific Alliance took place in April 2012 in Colombia, on the sidelines of the Summit of the Americas, when Secretary of State Hillary Clinton met with the foreign ministers of the four Alliance countries. It sent a strong signal of U.S. support, and also offered a stark contrast to the bulk of the proceedings in Cartagena: while the final discussions were mostly consumed with issues that are relics of very different times (Cuba, the Falklands/Malvinas), the Alliance was focused on pragmatic and meaningful work. Secretary Clinton reiterated U.S. support and interest in subsequent meetings with the Foreign Ministers.

Following this meeting, and a surge of interest from senior U.S. officials, there remained concern that Washington's attention could, in the words of one, "capsize the boat."¹² The salience of this concern diminished as the number of other observers rose well into the double digits—and especially after Beijing began to seek observer status in the first half of 2013. In July of that year, the State Department lauded the Alliance as a model for Latin America and announced, "We intend to use our observer status to recognize and support these achievements and to advance the values we share with the member states, including to expanding free markets, reducing inequality, opening trade, and welcoming foreign investment."¹³ Secretary of State John Kerry met with the Pacific Alliance foreign ministers a few months later, at the United Nations General Assembly in New York, setting a precedent of regular gatherings with the group. Administration officials continue to emphasize that they are intent on letting the Alliance members themselves set the pace, terms, and objectives of engagement, while noting that the Alliance is still working out just what it wants from its many interested observers. But Washington has, when interest is clear, found ways to offer concrete technical and working-level assistance—for example, on the development of the common stock market.

As the political profile of the Alliance has expanded, so have some of the political complications—particularly with the change of administration in Chile, where President Michelle Bachelet has been focused on ensuring that the Alliance is not seen or used as an anti-Brazil axis. That has caused all

members to reiterate their emphasis, there from the beginning, that the Alliance is not directed “against anyone”—a useful message, for the sake of the Alliance’s pragmatic focus and from a U.S. perspective. The Alliance, while in sync with Washington’s vision for the hemisphere, will make very clear that a broad alignment of interests does not mean a shared position on every question or perfect tactical convergence. Indeed, part of the rationale for the Alliance is the added leverage it will give its members in trade talks, which would surely prove frustrating to U.S. officials in any negotiation. Similarly, the Alliance has embraced a position held by many emerging economies (and other new groupings, like IBSA—India, Brazil, and South Africa—and the BRICS) and chided rich countries for the effects that “monetary expansion” have had. At a meeting of Alliance economic officials in Lima in 2013, Colombia’s finance minister spoke of the “tsunami of liquidity” breaking on its shores, while Chile’s noted that the monetary policies of the United States, Japan, and Europe were “putting pressure on our currencies and presenting an important challenge to the competitiveness of our export sector.”¹⁴ U.S. officials should view this occasional divergence as a strength, even if it is sometimes an irritant: as a node in the liberal system that is not explicitly American, the Alliance is especially well suited for a changing world.

Trade and the Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP)—a “high-quality” trade agreement, currently under negotiation, that includes the United States and eleven other Pacific Rim economies and would cover some 40 percent of global GDP—follows a string of more piecemeal accomplishments in the trade realm in Latin America, both building on those successes and taking a significant step beyond them. Since FTAs with Colombia and Panama went into effect in 2012, Washington has been able to claim a string of free-trade partners that run, as countless U.S. officials have noted, all the way down the Western Hemisphere’s Pacific Rim, from Canada to Chile. While this falls short of the Free Trade Area of the Americas, a goal first announced during the Clinton administration that met an untimely (if not necessarily final) end in 2005, this line of trade agreements is an important basis

for further progress. The TPP represents one mechanism for fostering that progress: the current round of negotiation includes, in addition to the United States, Mexico and Canada—crucially, U.S. partners in NAFTA—Peru and Chile.

The TPP has broad implications for U.S. engagement in the region, as well as for U.S. economic and political interests in the Broader Pacific. It serves as a way to bring the United States' closest partners in the Western Hemisphere into broader U.S. Pacific diplomacy; to create strong incentives for Brazil to approach economic discussions with more openness and flexibility; and to engage and reinforce the Pacific Alliance. It would also, as President Obama emphasized on a visit to Mexico City, “be another major step in integrating our two economies and positioning us to compete in the fastest-growing markets in the world, those in the Asia Pacific region. We want to be able to sell more goods from Mexico and the United States. And if we're partnering together, we can do even better.”¹⁵

As TPP negotiations remain at a delicate and highly uncertain stage, much of Washington's discussion with the Latin American countries involved has focused on reassurance that ‘we can get through the negotiation’ and then, most importantly, pass the final deal in the U.S. Congress (not an easy case to make, given continued resistance to administration requests on trade promotion authority). But even with that negative cast, the discussion itself has aided a number of other diplomatic priorities. In the North American context, for example, TPP has become a tool for updating NAFTA, currently the United States' most important trade agreement but one that needs considerable work twenty years after it came into force. In South America, Peru and Chile have been proactive in engaging Washington on TPP issues. One key question that would closely follow passage is whether Colombia could quickly become a part of TPP.

TRANS-PACIFIC POLICIES

The ultimate objectives of U.S. policy in the Broader Pacific in the context of “the pivot” have been subject to a wide range of interpretations and misinterpretations. Debate usually centers around the question of whether

Washington is attempting to “contain China,” using its military power, alliances and partnerships, multilateral diplomacy, and economic arrangements to impede China’s rise. There are, of course, people in Washington and in China’s neighborhood who would like that to be the objective of U.S. policy, and plenty in China who believe it is. But the real priority is strengthening the system that China is rising into, so that a powerful China can take its place, without undermining the basic economic, security, and geopolitical arrangements that sustain the system.

Along those lines, the core long-term goal for the United States should be to have a broad range of actors support a trans-Pacific order that protects fundamental shared interests in peace, stability, the free flow of goods, and maritime security. The Latin American countries with the growing capacity and willingness to play a proactive role in the Pacific have little inclination to toe an American line, but in most critical respects, they have interests, values, and visions of regional and global order that broadly align with or complement those of the United States. The more they are involved in shaping a new Pacific order, accordingly, the more likely it is that that order will be stable, broadly supported and sustained, and protective of the United States’ and their fundamental interests.

Since the end of the Cold War, despite significant economic gains and the relative success of a region that had long presented major headaches to U.S. security and foreign policy officials, the U.S.-Latin American relationship has lacked a clear and sustained strategic focus, leading to the persistent complaints of Washington’s lack of interest. By making key Latin American partners active players in this bigger agenda, the United States can start to infuse bilateral relationships and multilateral engagements in the Western Hemisphere with a strategic content that can keep them moving forward concertedly rather than succumbing to drift. One top State Department official said, in conjunction with one of President Obama’s trips to the region, that Washington “is looking to our partners in the Americas as a natural complement to our strategy in the 21st century Pacific.” More than a complement, U.S. officials should see them as active partners. But in order to do that, Latin American countries must become more than afterthoughts in the Pacific diplomacy of the United States, and Pacific diplomacy more than an afterthought in U.S. engagement with the Americas.

Multilateral Coordination

Latin American countries are part of a number of major Pacific multilateral groupings, including APEC. U.S. officials have generally considered Latin American participation a force for “a much better trans-Pacific dynamic,” as one put it,¹⁶ generally helping advance broad shared interests, even when countries are doing so for their own reasons and on their own terms. In the first term of the Obama administration, U.S. officials started holding intermittent, assistant secretary-level consultations with Latin American governments to discuss shared interests and agendas in Pacific multilateral forums. While it took some effort to give this new discussion momentum, it proved a worthwhile forum for sharing best practices, coordinating arguments, and discussing common agendas. These gatherings should become more regular and more formal, and backed by real interagency participation on the U.S. side, to ensure that Latin American partners are always kept aware of U.S. intentions before APEC and other gatherings and that there is coordination to advance a shared agenda wherever possible. As Alicia Bárcena of the UN’s Economic Commission for Latin America and the Caribbean wrote in 2012: “What’s lacking is a more coordinated strategy between countries or groups of countries to create links with China that strengthen trade and investment and foster a variety of business and technology partnerships, using Asia’s dynamism to advance the diversification of exports and close the gap in innovation and competitiveness.”¹⁷ Multilateral coordination can play a central role in catalyzing that strategy.

Diplomatic partnership

Washington’s bilateral engagement with key Latin American partners has become considerably more globalized in recent years, as these countries have increasingly salient global interests and agendas of their own, but the United States has yet to make forward-looking discussions of Asian issues a staple of bilateral diplomacy. There is a well-established dialogue with China on Latin America issues, one that has become institutionalized under the aegis of the U.S.-China Strategic and Economic Dialogue. There must be a similarly well-established dialogue with Latin American partners on China. Just as the U.S.-China dialogue must work against

fears that the two great powers are dividing up neo-imperial spheres of influence, a U.S.-Mexican, -Colombian, -Brazilian, or -Chilean dialogue on Asia must work against fears that it is part of an effort at neo-containment. In some cases, this interaction could be held in the context of a regular Global Dialogue. There is currently a Global Partnership Dialogue with Brazil, although Pacific issues have rarely played a central part in it. The sooner the United States can launch similar initiatives with others in the region, the sooner it will be possible to get in the habit of discussing geopolitical developments and of coordinating on them where interests and agendas intersect or overlap.

There are also opportunities to coordinate on development issues, leveraging the success and unique experiences of some Latin American countries to advance both bilateral ties and the U.S. agenda in Asia. With some creativity and initiative, there are abundant areas for cooperation between the two regions. As India rapidly urbanizes, for example, it could use the expertise of city-planning officials and local governments in Latin America that have pioneered innovative approaches to urban transportation. South and Southeast Asian officials have expressed interest in Latin American success with conditional cash transfer programs. Washington could look for ways to work with countries like Mexico to develop joint develop programs, including through existing frameworks like the Lower Mekong Initiative.

A Pragmatic Pacific Alliance

One of the striking things about the Pacific Alliance from a U.S. perspective is that it advances the kind of progressive integration Washington has long tried to foster, but with Latin American initiative and without the complicating factor of central U.S. involvement. The United States should, by all means, support and engage what is the most meaningful integration initiative underway in the region, but remain careful not to smother it. Accordingly, it makes sense to keep U.S. engagement with the Pacific Alliance focused on pragmatism rather than symbolism and following the lead of the Alliance itself, especially given current Chilean sensitivities about bifurcating the continent and creating tensions with Brazil. But that should not restrain the United States from expanded

intensive engagement in areas where it can substantively contribute to the Alliance's goals or help the Alliance play a strong role in Broader Pacific diplomatic and economic discussions.

The continued rhetorical support and regular attendance at gatherings where observers are welcome is useful, as is regular bilateral discussion with the Alliance members on how the U.S. government can support their collective efforts. But perhaps more important is providing technical assistance in less glamorous areas like regulatory harmonization while shaping our own policy agenda around ways to further the Alliance's integration—by, for example, starting discussions about extending the visa waiver program recently announced in Chile to the entire Alliance. We should also coordinate closely with the Alliance as a group in the context of both hemispheric gatherings (like the Summit of the Americas and the OAS General Assembly) and Pacific gatherings (like APEC).

Beyond TPP

If TPP is passed, it will be a major boon for U.S. economic interests in Latin America, and for the interests of the three Latin American TPP signatories. But it will be only a starting point for the next phase of U.S. economic initiative in the region. As a first step, Washington should work closely with the other TPP members to bring Colombia into the agreement soon after the negotiation is finalized. As a free-trade partner, an eager participant in Pacific multilateralism, and a founding member of the Pacific Alliance, Colombia makes sense as a member of this new bloc. (Procedural issues related to APEC and India have kept it out so far, for reasons that have nothing to do with skepticism about Colombia itself.) To make Latin America a shared platform for competing in a Pacific economy, Washington will have to lead the way in further integration efforts, and in helping some of the Latin American economies foster diversified and innovative export sectors. One of the weaknesses of the region's external position is, in fact, internal. As a study by the Andean Development Corporation (CAF) noted, “compared with Asia, Latin America has very low levels of intraregional trade”—17 versus 37 percent—“suggesting that the region's value chains are weak and fragmented.”¹⁸ By beginning to

discuss the “cumulation” of U.S. trade agreements in the hemisphere, the United States could help drive further integration. The recent IDB and ADB study added that the key to Latin America’s long-term benefits from trade lie in innovation and value-added exports, another issue on which the United States is well positioned to help.

Brazil

While there is a degree of truth to the emerging conventional wisdom about “two Latin Americas,” split between Atlantic and Pacific blocs,¹⁹ U.S. policy should not over-emphasize this distinction. Brazil, given the size and makeup of its economy, will continue to anchor the region’s relationship with China and Asia more broadly, and so finding the right way to engage Brasília on these dynamics will be just as crucial as proactive cooperation with more like-minded partners in the Pacific Alliance.

In part, that will mean depicting initiatives like TPP and the Alliance not as punishment, but as an incentive, saying, in effect, ‘Washington is ready to work with you on efforts like this if and when you are ready.’ (Already, many in Brazil are convinced that the Pacific Alliance was a U.S. creation.) Some senior U.S. officials argue that this message is coming through. “They realize,” one said, “that the world is shifting under their feet and they’re being left behind. [TPP and the Alliance] are doing what they were intended to do, which was change dynamics with members and nonmembers.”²⁰ Brazilian anxieties about Chinese competition create a further opening for a productive conversation, as do concerns about innovation and commodity-dependence. Moreover, Brazil’s drive to play a prominent global role will increasingly draw it to geopolitical dynamics centered in the Pacific. While its interest in such issues has tended to be minimal in the past, Washington can engage Brasília on them early and regularly, in the hopes of creating a long-term habit of constructive discussion and cooperation.

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