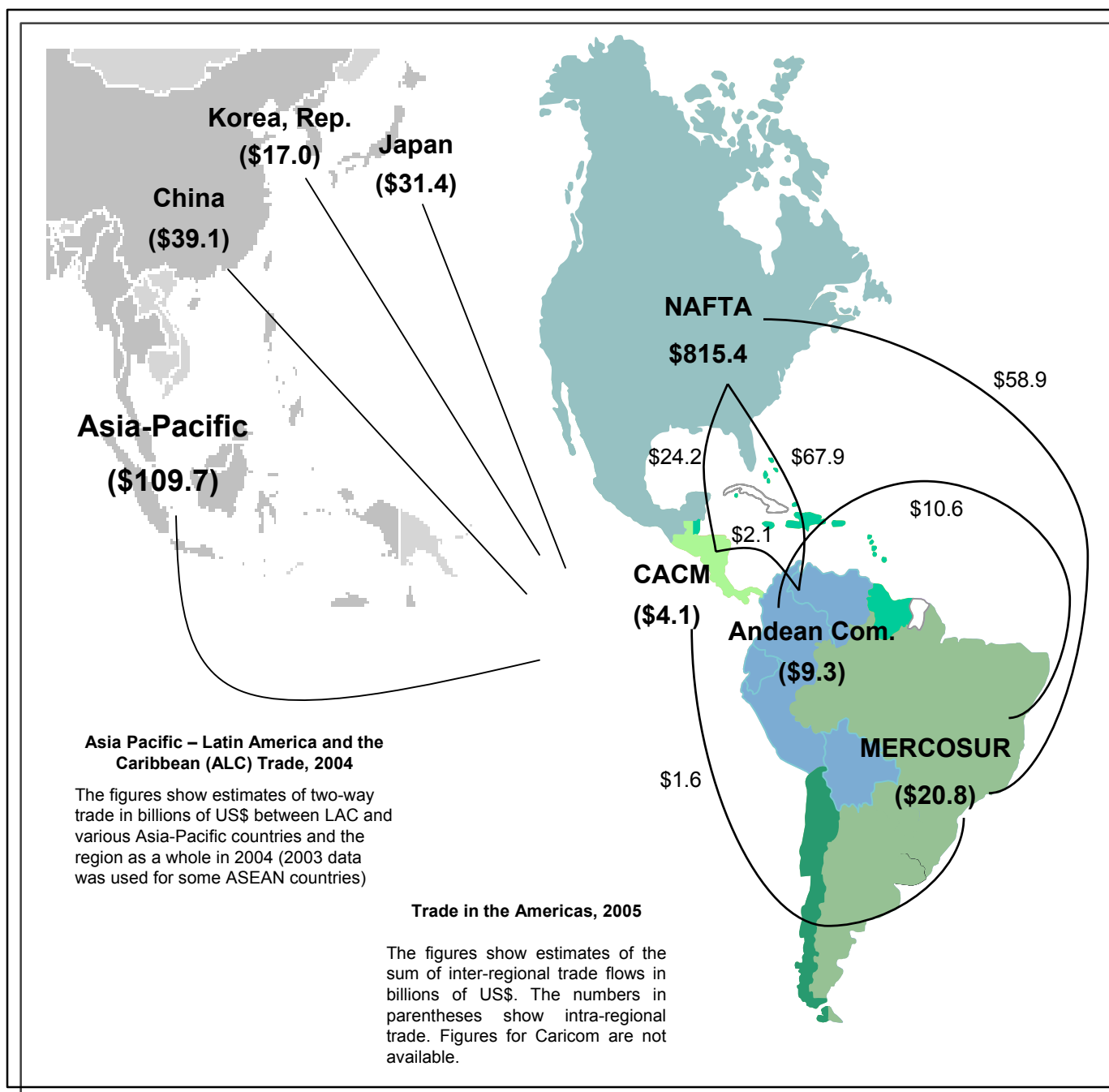


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INTEGRATION AND TRADE IN THE AMERICAS

Special Issue on Latin America and Caribbean Economic Relations with Asia-Pacific



PERIODIC NOTE ON INTEGRATION AND TRADE IN THE AMERICAS

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The purpose of this document is to inform Bank staff and other interested parties about recent developments in integration and trade among the countries of the Western Hemisphere and between these and other countries and world regions.

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The opinions expressed herein are those of the authors and do not necessarily reflect the official position of the Bank or its member countries.

Note: The map displayed on the cover is included for illustrative purposes only. It does not constitute an official representation of the area covered.

ABBREVIATIONS

ABAC	APEC Business Advisory Council
ABF	Asian Bond Fund
ABMI	Asian Bond Market Initiative
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Agreement
AMF	Asian Monetary Fund
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
APEC	Asia-Pacific Economic Cooperation
ASA	ASEAN Swap Arrangement
ASP	ASEAN Surveillance Process
ASEAN	Association of South East Asian Nations
ASEAN+3	ASEAN Plus Three
BSA	Bilateral Swap Arrangement
CARICOM	Caribbean Community
EAc	East Asian community
EAVG	East Asia Vision Group
ECLAC	UN Economic Commission for Latin America and the Caribbean
EMEAP	Executives' Meeting of East Asia Pacific Central Banks
FDI	Foreign Direct Investment
FEALAC	Forum for East Asia-Latin America Cooperation
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
GATT	General Agreement on Tariffs and Trade
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ISI	Import Substitution Industrialization
JCF	Japanese Trust Fund for Consultancy Services
JPO	Japan Special Fund Poverty Reduction Program
JSEPA	Japan-Singapore Economic Partnership Agreement
JSF	Japan Special Fund
JSP	Japan-IDB Scholarship Program
LAEBA	Latin America/Caribbean and Asia/Pacific Economics & Business Association
LAIA	Latin American Integration Agreement
MERCOSUR	Southern Common Market
MIF	Multilateral Investment Fund
MNC	Multinational Company
NAFTA	North American Free Trade Agreement
OAS	Organization of American States
ODA	Official Development Assistance

PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Conference
SAFTA	Singapore-Australia Free Trade Agreement
SICA	Central American Integration System (Sistema de la Integración Centroamericana)
SMEs	Small and Medium-sized Enterprises
SOM	Senior Official Meetings
TRIMs	Trade-Related Investment Measures
UN	United Nations
WTO	World Trade Organization

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LATIN AMERICA AND THE CARIBBEAN AND ASIA-PACIFIC: ECONOMIC TIES, COOPERATION AND DEVELOPMENT STRATEGIES

I. INTRODUCTION

Economic relations between Latin America and the Caribbean (hereafter, “Latin America”) and Asia-Pacific¹ epitomize the power of globalization to bring countries together. Latin America’s traditionally intricate relations with Europe and North America are today being complemented by increasingly dynamic trans-Pacific ties. Trade and capital flows between Latin America and Asia-Pacific are growing and diversifying amid the rise of new common economic and political cooperation initiatives. The two regions share a heightened appreciation for closer bi-regional integration to produce complementarities conducive to the growth, development, and global competitiveness of the national economies.

The purpose of this report is four-fold: (1) to assess the current state of economic relations between Latin America and Asia-Pacific; (2) to review the evolution of bi-regional cooperation initiatives; (3) to discuss the potential contributions of Asian development strategies to economic policymaking in Latin American countries; and (4) to explore future avenues for the bi-regional relationship.

The second section of this report focuses on Latin America and Asia-Pacific’s trade patterns, including the dynamics of the bi-regional trade flows. The third section reviews capital flows—foreign direct investment and remittances—from Asia-Pacific to Latin America. Section four explores the emerging trends in regional integration in the Pacific Rim, while section five discusses the broader cooperation schemes between Latin America and Asia-Pacific, including the initiatives channeled through the Inter-American Development Bank (IDB). The sixth section presents stylized facts about the “Asian style” development model, and strives to generate reflections on its potential for refining Latin American economies’ development strategies. The final section concludes by putting forth ideas for building an ever more robust and vibrant trans-Pacific community.

II. TRADE BETWEEN LATIN AMERICA AND ASIA-PACIFIC

Three contrasts between Latin America and Asia-Pacific are shaping their current trade relations:

- Factor endowments. Latin America is by and large natural resource-abundant, while Asia-Pacific is scarce in natural resources. Along with geography (distance), Asia’s generally greater supply of capital and knowledge (especially in Japan, Republic of Korea and Taiwan, Province

¹ Unless otherwise indicated, Asia-Pacific in this document refers to China, Hong Kong-China, Japan, South Korea, Taiwan, Province of China, and the ten members of the Association of South-East Asian Nations (ASEAN)—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

of China) and labor (China) are the key drivers of the bi-regional trade patterns.

- Trade policies and policy outcomes. Latin American countries liberalized their trade and investment regimes in the late 1980s, yet attained mixed results in expanding, diversifying, and upgrading their exports. Meanwhile, Asia-Pacific economies have succeeded in diversifying their exports and boosting the global competitiveness of the manufacturing sector, in particular, while also sustaining relatively marked protection of their domestic markets. Instruments such as tariffs, non-tariff barriers, trade-related investment measures (TRIMs), and barriers to domestic distribution still play an important role in Asia-Pacific—even though there is substantial cross-country variation in terms of their timing, scope, and relevance.²
- Economic dynamism. Latin America has yet to replicate the relatively strong growth of the early post-war era, while most Asia-Pacific countries—and China, in particular—have been growing at a breakneck speed. Some of the potential explanations for the growth gaps between the two regions include Asia-Pacific’s higher export dynamism, educational attainment, and saving and investment rates.

Trade patterns between Latin America and Asia-Pacific reflect these three factors. Latin America’s imports from Asia-Pacific have grown faster than exports, and bi-regional trade tends to be of inter-industry kind, with Latin America exporting primarily raw materials and commodities to Asia-Pacific and importing largely manufactured goods. However, there are important intra-regional variations: while South America’s Asia-bound exports are dominated by raw materials, Mexico and Central America are increasingly exchanging manufactured goods with their Asian partners. This may mark an incipient intra-industry dimension in the bi-regional trade flows.

Trade from the Latin American Perspective

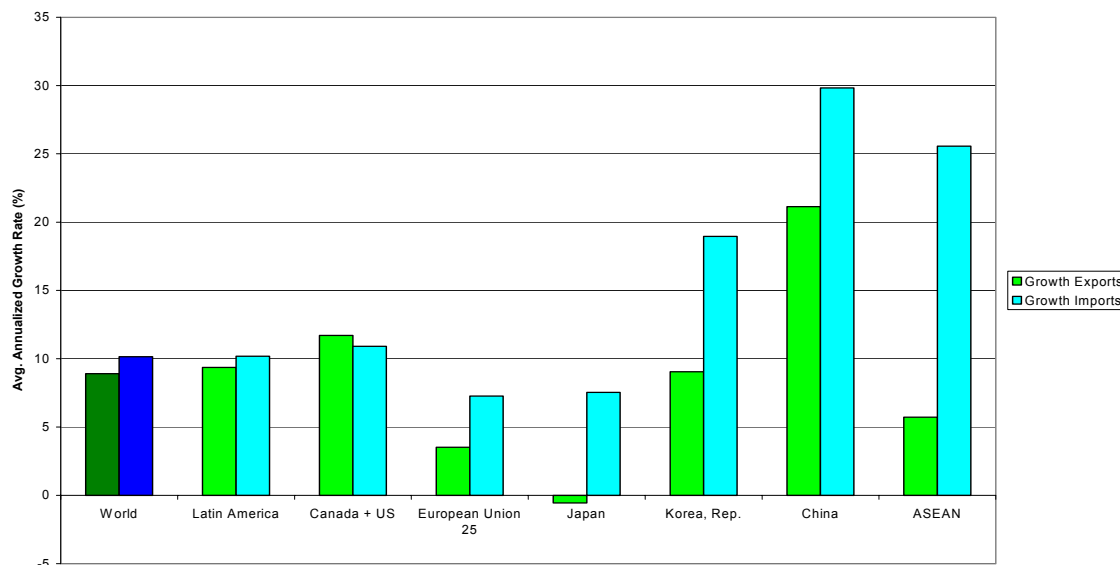
Latin America’s total exports grew by an annual average of 8.9 percent between 1990 and 2003 (Graph 1). With the region’s export growth surpassing the growth of world exports, Latin America increased its share of world exports from 3 to 5.4 percent.³ Mexico has been the indisputable engine of Latin America’s export growth. Its share of the regional total surged from a fifth in the early 1980s to 45 percent in 2003. Not surprisingly, four big Latin American countries—Mexico, Brazil, Argentina, and Venezuela—today generate more than three-fourths of the region’s exports. Despite Latin America’s anemic economic growth, its imports grew faster than exports, or at an annual average of 10.1 percent, in 1990-2003. In part this reflects the region’s rather aggressive

² China still has a relatively protected market; however, China’s accession in the World Trade Organization (WTO) in 2001 has placed it on a path of liberalization. In many other countries of the region, agricultural products have particularly high trade barriers.

³ Some of the regional generalizations in this section do not necessarily reflect patterns in each Latin American or Asia-Pacific country.

trade liberalization, relatively low rates of savings, and episodes of exchange rate appreciation in the 1990s.

Graph 1. Growth of Latin America’s Trade in 1990-2003, by Partner



Source: UNSD, Comtrade

While Latin America’s trade flows have grown with most regions of the world over the past decade, its trade with Asia-Pacific has shown particular dynamism. Except for a decline in exports to Japan, Latin American exports grew by an annual average of 9.1 percent to Republic of Korea, 21.1 percent to China, and 5.7 percent to the Association of South East Asian Nations (ASEAN) in 1990-2003. Imports grew even faster, shooting up by a 29.8 percent annual average from China, 25.6 percent from ASEAN, 19 percent from Republic of Korea, and 7.5 percent from Japan.

Each Latin American sub-region mirrors the aggregate regional import patterns (Statistical Annex Graphs 1-4).⁴ On the export front, Mercosur and the Andean countries have experienced particularly strong growth in flows bound for Korea and China, while Central America’s exports have grown significantly to Korea, China, and ASEAN.

Their dynamism notwithstanding, the volume of Latin American exports to Asia-Pacific starts from a relatively low base and is well below the region’s exports to North America, the European Union, and intra-regional trade. In fact, while increasing substantially up to 1991, the importance of Asia-Pacific as a market to Latin America has declined over the past decade (Graph 2). Latin America’s exports to Asia-Pacific stood at \$27.2 billion in 2003, with Asia-Pacific accounting for some 7.5 percent of Latin America’s total exports to the world—a drop from 10.1 percent in 1990. The share of Asia-Pacific did, however, increase in Mercosur’s (including Chile) and Central America’s export baskets in 1990-

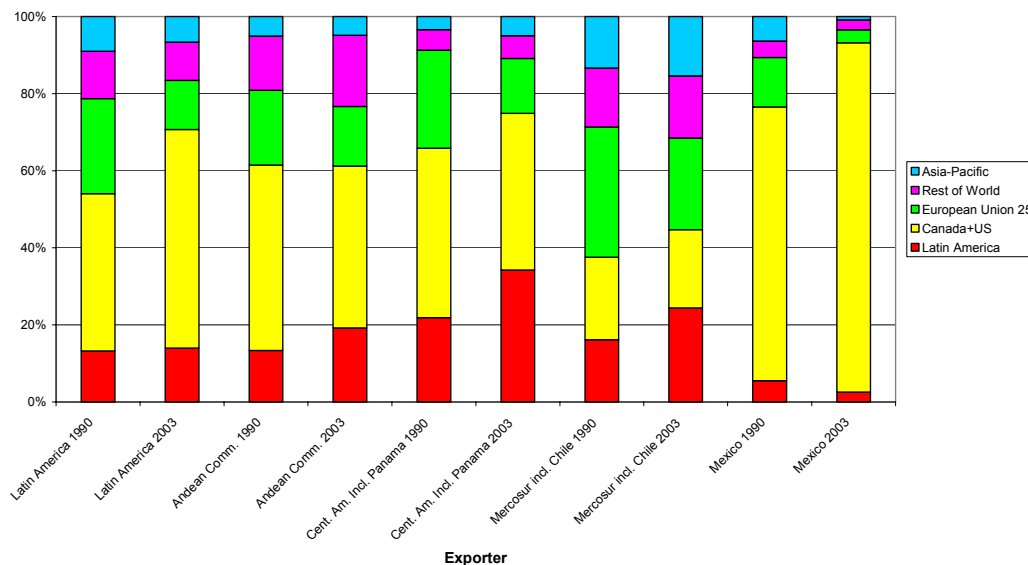
⁴ Regional figures for the Caribbean are not available due to the lack of comprehensive country-level data.

2003 (Statistical Annex Tables 1-2). Of the individual countries, Argentina, Barbados, Bolivia, Chile, Costa Rica, Ecuador, El Salvador, Panama, Paraguay, St. Lucia, and Uruguay also saw a rise in the share of Asia-Pacific in their total exports during the period. The importance of Asia-Pacific is most pronounced for Chile, which sent 29.5 percent of its exports to this region in 2003, Peru (17.3 percent), Argentina (15.5 percent), and Brazil (14.9 percent).

The declining importance of Asia-Pacific as an export market for Latin America reflects in part the drop in exports to that region in the wake of the Asian financial crisis: Latin America was the world region for which Asia-bound exports suffered the most. However, a more fundamental explanation for Asia's reduced relevance for Latin America is the growth of exports to North American and intra-regional markets. The share of the region's exports going to Canada and the United States surged from 41 percent to 57 percent in 1990-2003. This trend is driven by the growing concentration of Mexico's export basket in the US market particularly after the entry into force of the North American Free Trade Agreement (NAFTA) in 1994. Indeed, it is Mexico that has experienced a particularly precipitous decline in the share of Asia-Pacific as an export market. The share of the region in Mexico's export basket plunged from 6.5 percent to 1.1 percent in 1990-2003.

For the other Latin American economies, the share of exports to North America has remained relatively stagnant; however, the share of intra-regional exports has shot up. A major explanation for this outcome is the region's trade liberalization and closer economic integration in the 1990s in the context of New Regionalism.⁵

Graph 2. Geographic Distribution of Latin American Exports in 1990-2003, by Subregion

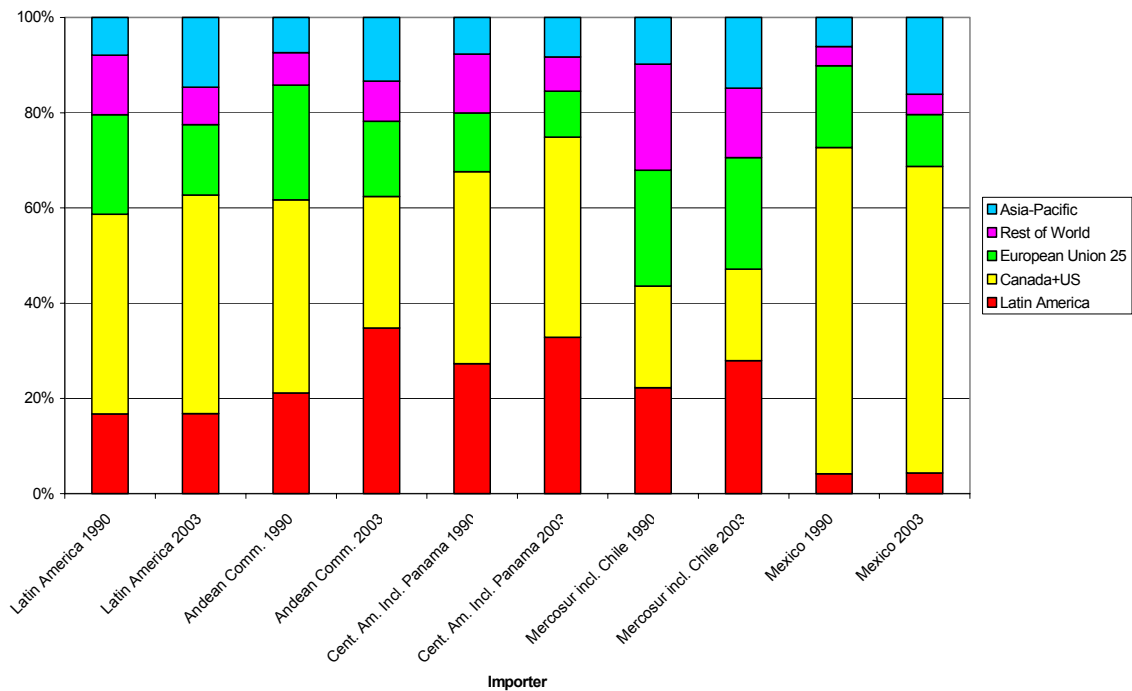


Source: IDB-INT Calculations based on UN/COMTRADE data.

⁵ See Inter-American Development Bank, *Beyond Borders: The New Regionalism in Latin America*, Washington, DC, 2002.

The significance of Asia-Pacific as Latin America’s trade partner is more marked on the side of imports. In fact, Latin America registered an increasingly large trade deficit with Asia-Pacific during the 1990s. With imports from Asia-Pacific growing at an annual average of 15.5 percent in 1990-2003, the share of the region of Latin America’s total imports rose from 9.1 percent to 16.2 percent. The importance of Asia-Pacific imports grew for El Salvador and Panama in Central America, Barbados and Trinidad and Tobago in the Caribbean, as well as for all South American countries, with Brazil, Ecuador, and Peru leading the way (Statistical Annex tables 3-4). For its part, Mexico registered a particularly strong 11 percentage point surge in the share of its imports originating from the Asia-Pacific region during the period; this is suggestive of Mexico’s growing immersion in the global production networks. However, despite the rise of Asia-Pacific on Latin America’s import map, the United States still holds the predominant position in the region’s imports.

Graph 3. Geographic Distribution of Latin American Imports in 1990-2003, by Subregion

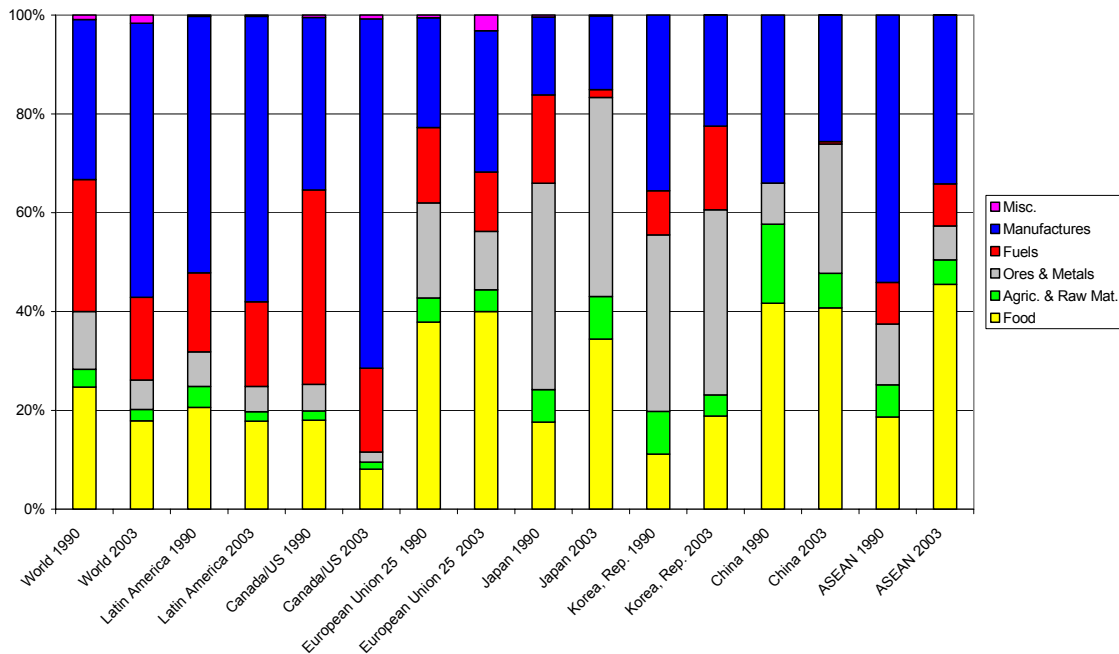


Source: IDB-INT Calculations based on UN/COMTRADE data.

Product Composition of Latin American Exports to Asia-Pacific

Manufactures constitute a growing and dominant share of Latin America’s export basket. Their participation in the region’s total exports increased from 32 percent in 1990 to 55 percent in 2003 (Graph 4). Meanwhile, the respective shares of all other product categories (food, non-food agriculture, metals and minerals, and fuels) decreased. The growing importance of manufactures in Latin America’s export basket is most notable in the region’s exports to the North American market. Mexico and Central America, beneficiaries of extensive trade preferences in the United States and Canada, scored particularly strong growth in manufactures of their total North America-bound exports (Statistical Annex Graphs 6 and 8). This outcome is mirrored in the increase of the share of manufactures in Mexican and Central American global exports. By contrast, the Southern Common Market (Mercosur) and the Andean and Caribbean regions have seen a much less pronounced growth of manufactures in their export baskets.

Graph 4. Latin America’s Export Structure in 1990 and 2003, by Destination and Commodity Group



Source: UN/COMTRADE data.

Notably, while Latin America has increased the share of manufactures in its overall exports to North America and Europe and in intra-regional trade, the opposite has occurred in the region’s exports to Asia-Pacific. The share of manufactured exports to Japan, Republic of Korea, China, and ASEAN alike actually declined in Latin America’s export basket in 1990-2003. In 2003, manufactures made up 14.9 percent of Latin American exports to Japan, 22.4 to Korea, 25.6 to China, and 34.1 percent to ASEAN. Meanwhile, the share of food products, fuels, metals and minerals grew to represent some two-thirds of total Latin American exports to Asia-Pacific. Metals and minerals increased particularly in Latin America’s China-bound exports—although food exports still dominate Latin American exports to China.

There is marked intra-regional variation in Latin America in the product composition of exports (Statistical Annex Graphs 5-8). The driver of the regional downward trend in the share of manufactures in Asia-bound exports is the Mercosur region. Central America and Mexico stand out for marked increases in manufacture exports to the world, Japan, Republic of Korea, China, and ASEAN alike. For Mexico, manufactures have surged from 43.3 percent to 81.4 percent of exports to the world during 1990-2003, and also constitute an overwhelming majority of the Mexican exports to the Asia-Pacific economies. As for Central America, although manufactures have come to dominate exports to China and ASEAN, food products continue central in exports to Republic of Korea and Japan. Meanwhile, the Andean region has seen a strong growth in food exports to Japan, fuel exports to Republic of Korea, and metal and mineral exports to China and ASEAN. Similar patterns hold for Mercosur's exports to Japan, Korea, and China; however, the group's ASEAN-bound exports feature a marked rise in food products. Indeed, the Andean region and Mercosur reflect the patterns of Latin America as a whole: growing share of manufactures in exports to the world, North America, Europe, and intra-regional trade accompanied by a declining share of manufactures in the Asia-Pacific-bound export basket.

Importantly, although Latin American exports to Asia-Pacific still largely consist of raw materials and commodities, the Asian market could in the future start absorbing greater quantities of Latin America's manufactured goods. With incomes, and, subsequently, consumption rising in the Pacific basin, the region's consumers and industries will likely demand more imports in general, and imports of increasingly sophisticated products as well as a greater variety of goods, in particular.

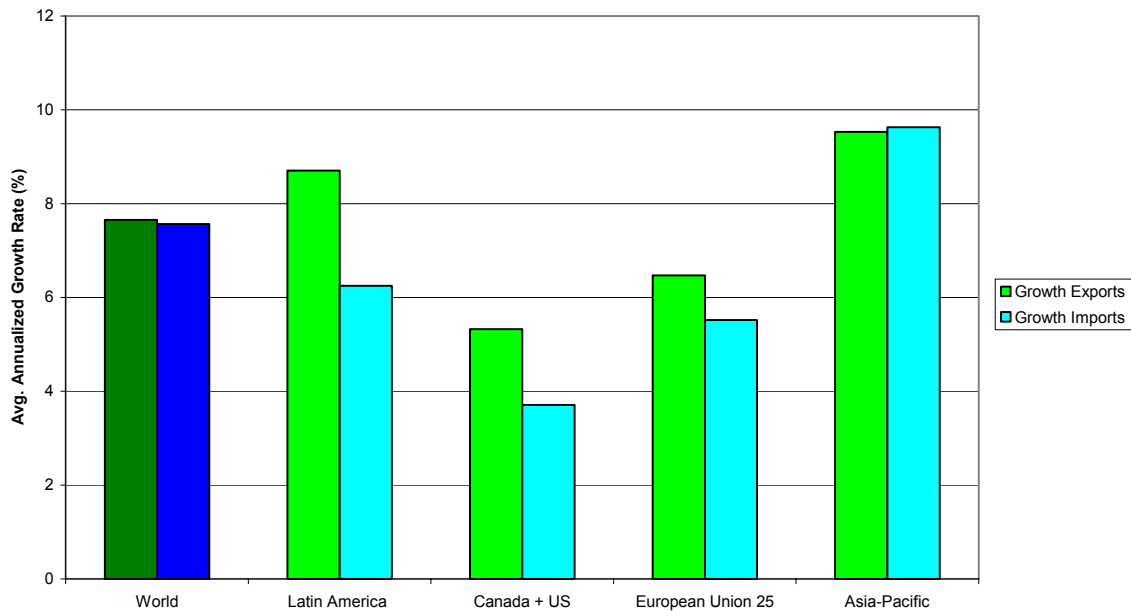
Trade from the Asia-Pacific Perspective

Asia-Pacific's total exports to the world grew by an annual average of 7.7 percent between 1990 and 2003 (Graph 5).⁶ Among the regional economies, China's export growth to the world was particularly strong, averaging 16.2 percent for this period. In 2003, China accounted for nearly 26 percent of the Asia-Pacific region's total exports to the world. ASEAN increased its total exports to the world by an annual average of 9 percent and Korea by 8.8 percent, while Japanese exports grew by 3.9 percent (Statistical Annex Graphs 9-12).

The growth in Asia-Pacific exports to Latin America has been particularly pronounced, reaching an annual average of 8.7 percent in 1990-2003. China increased its exports to Latin America at an annual rate of 27 percent, ASEAN by 12.2 percent, Republic of Korea by 11.4 percent, and Japan by 3.9 percent.

⁶ When ASEAN is the reporter, the definition of ASEAN is limited to Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand due to data constraints ("ASEAN 6"). The definition of Asia-Pacific as a reporter is limited to these six economies, plus China, Hong Kong-China, Japan, South Korea, and Taiwan, Province of China. When ASEAN and/or Asia-Pacific are partners rather than reporters, they also include the four further ASEAN members—Cambodia, Laos, Myanmar, and Vietnam.

Graph 5. Growth of Asia-Pacific Trade in 1990-2003, by Partner



Source: UNSD COMTRADE

Asia-Pacific imports from Latin America also increased in the 1990-2003 period. However, at 6.3 percent annual rate, the region’s import growth from Latin America was more modest than the annual 7.6 percent growth of the region’s imports from the world. China is a notable exception: China’s imports from Latin America surged at an annual average of 21.2 percent during the period, well above the 17 percent growth of Chinese imports from the world.

The share of Asia-Pacific exports destined for Latin America in the region’s total exports increased somewhat between 1990 and 2003 (Statistical Annex Tables 5-6). However, Latin America accounts for only 2.6 percent of Asia-Pacific exports to the world. The increase in the share of exports to Latin America is most marked for China, Republic of Korea, Indonesia, and Singapore. Korea is the Asia-Pacific economy with the greatest share of exports going to Latin America (4.3 percent).

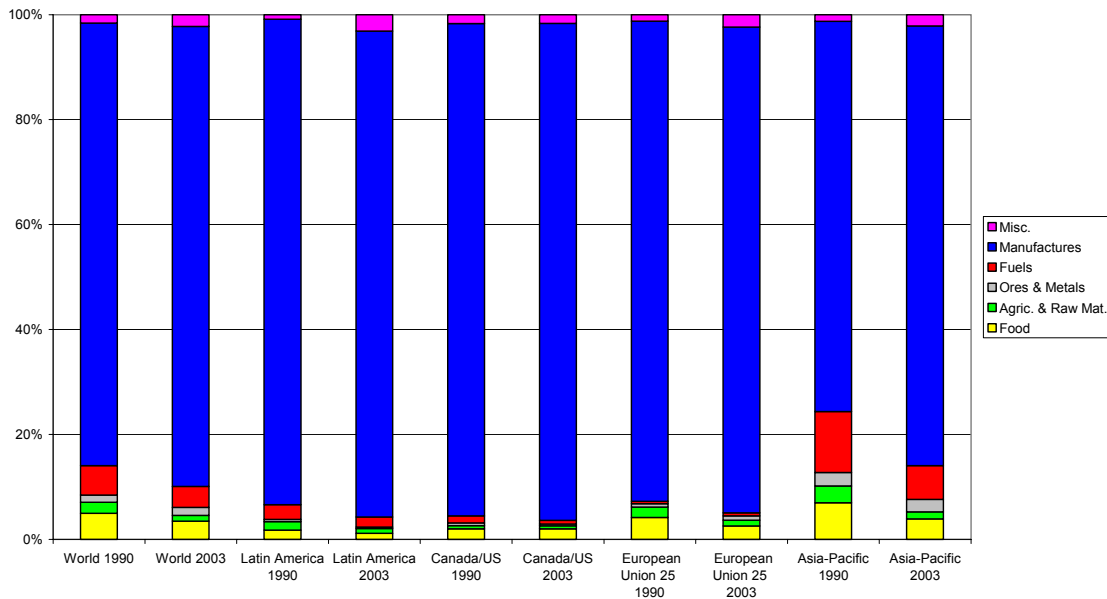
Asia-Pacific imports from Latin America are less significant than exports both in absolute terms and as a share of total imports from the world. The share of Asia-Pacific imports originating from Latin America has declined from 2.6 percent to 2.2 percent in 1990-2003 (Statistical Annex Tables 7-8). Again, China is the exception: it increased the share of imports from Latin America of its total imports from 2.3 percent to 3.6 percent during the period.

Product Composition of Asia-Pacific Exports to Latin America

The composition of Asia-Pacific exports is markedly distinct from that of Latin American exports (Graph 6). The region's export basket to all world regions is overwhelmingly based on manufactured goods. In 2003, manufactures made up 87.7 percent of Asia-Pacific's exports to the world, and more than 90 percent of the region's exports to Latin America, North America, and the European Union. They are also key in Asia-Pacific's intra-regional trade, accounting for some 83.8 percent of the total. Fuels and food products are the other key products circulating in intra-regional commerce.

Japanese and Korean export baskets to the world and Latin America alike have long been nearly entirely made up of manufactures (Statistical Annex Graphs 13-16). China and ASEAN are catching up fast: between 1990 and 2003, China expanded the share of manufactures in its global exports from 71.4 percent to 90.6 percent, and ASEAN from 56.7 percent to 75.8 percent. Analogous patterns hold for Chinese and ASEAN exports to Latin America.

Graph 6. Asia-Pacific Export Structure in 1990 and 2003, by Destination and Commodity Group



Source: UNSD, Comtrade

Note: Taiwan's 2002 export data was used in the absence of 2003 export data disaggregated by product.

Do Latin American and Asia-Pacific Countries Compete in Global Markets?

Overall, unlike Latin American economies, Asia-Pacific countries are strong players in the global technology-intensive goods markets. However, many of them also compete directly with Latin America in world markets in several product categories and sectors, such as textiles and apparel, footwear, certain electric and electronics products, vehicles, coal, and natural rubber.

China has become a major competitor to Latin America's apparel and other labor-intensive manufacture exports. This, along with China's increasing share of the world market in more sophisticated manufactures, is of particular concern to those Latin American countries that are seeking to diversify their exports away from basic commodities and manufactures. Some 21 percent of the composition of Latin America's US-bound export basket coincided with that of China in 2001, up from 7 percent in 1981.⁷ This so-called export similarity index (ESI) is most pronounced in the case of Mexico (22 percent in 2001). However, while China does pose a challenge to many Latin American economies, China's neighbors are under much greater pressure: Asia's ESI with China surged from 25 percent in 1981 to 60 percent in 2001. Moreover, China's movement toward skilled and semi-skilled manufacturing production has actually decreased the export similarity between China and Latin America's major commodity producers, such as Argentina and Chile.

Fostering Services Trade in Latin America-Asia Pacific Relations: The Untapped Potential of Inter-Regional Tourism

Commercial services trade accounts for a fifth of global trade in goods and services. According to the World Trade Organization, Latin America's commercial services exports totaled \$61 billion (or 3.4 percent of global service exports) and imports \$68 billion (3.8 percent) in 2003.⁸ The significance of services to Latin American economies is hardly trivial: in total, services are estimated to account for some 68 percent of Latin America's gross domestic product. For their part, Asia-Pacific countries exported \$306 billion (17.4 percent of global service exports) and imported \$359 billion (20.2 percent) worth of services in 2003.⁹

Services trade will likely receive a boost in Latin America-Asia-Pacific economic relations both with the expansion of bilateral business contacts and the formation of bi-regional integration agreements (see Section IV), which usually include provisions for trade in services. Tourism is one promising sector for inter-regional services trade. Indeed, current international trends suggest that inter-regional travel will rise more rapidly than intra-regional travel in global tourism (from 18 percent in 1995 to 24 percent by 2020), and that Asia-Pacific will be a particularly strong generator of international

⁷ See Inter-American Development Bank, *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*, Washington, DC, 2005.

⁸ World Trade Organization, *International Trade Statistics 2004*, Geneva, November 2004.

⁹ Here, the definition of Asia-Pacific consists of China, Hong Kong-China, Japan, Korea, and Taiwan, Province of China, plus four ASEAN economies—Indonesia, Malaysia, Singapore, and Thailand.

tourism.¹⁰ Tourist flows from the region are expected to shoot up from less than 100 million in 2000 to 200 million in 2010 and further to 405 million in 2020, or a quarter of the expected total tourist arrivals in the world that year. Meanwhile, flows from the Americas (including Canada and the United States) are expected to grow from some 120 million in 2000 to 232 million in 2020.¹¹

The growth in global tourism in general and tourism originating in the Asia-Pacific, in particular, represent an opportunity for Latin America’s tourism industry to tap into new consumers and revenues. International tourism generates some \$36 billion in annual revenue for the region (Table 1);¹² however, Asia-Pacific is the source of less than 2 percent of international tourist arrivals in all the main sub-regions of Latin America.¹³ The bulk of tourism in each sub-region continues to originate in the Americas, particularly in the United States, Canada, and Mexico.¹⁴ The increasing purchasing power of Chinese consumers in particular presages the rise of a new, potentially extensive source for inbound tourist flows to Latin America.

Table 1. Revenue from International Tourism and International Tourist Arrivals in Latin America in 2002, by Sub-Region

Region	Revenue (\$ billion)	Arrivals (millions)	Share of Asia-Pacific of Total Arrivals (%) ¹⁵
Central America	3	5	1.9
South America	9	12	1.1
The Caribbean	17	16	0.3
Mexico	7	20	1.4
Total	36	53	1.2

Source: World Tourism Organization, *Tourism Market Trends 2003 - Americas*.

¹⁰ See World Tourism Organization, *Tourism 2020 Vision*, Madrid, 2001.

¹¹ This represents an annual growth rate of 3.1 percent in 1995-2020, lower than any other region and a percentage point below the expected global growth in outbound tourism (4.1 percent). The United States, Canada, and Mexico will remain the leading source countries.

¹² According to the World Trade Organization estimations, exports of travel services (which include goods and services acquired by business travelers as well as by personal travelers for health, education or other purposes) currently make up more than a half of Latin America’s services exports. This represents a higher ratio than encountered in any other region. See World Trade Organization, *op cit*.

¹³ See World Tourism Organization, *Tourism Market Trends 2003-Americas*, Madrid, 2004.

¹⁴ As of now, tourism to the Americas is expected to grow by an annual average of 3.9 percent in 1995-2020, slightly below the global annual average growth of 4.1 percent. In 2020, the region is expected to receive to 282.3 million tourists, or 18.1 percent of the total tourist inflows in the world. The highest growth rates for the period 1995-2020 are expected for Cuba, Brazil, Argentina, the Dominican Republic, and Chile. The United States, Canada, and Mexico will remain the leading destinations of tourists to the Americas in 2020.

¹⁵ On the basis of 2000 data. Asia-Pacific here includes North-East Asia, South-East Asia, Australasia, and Mela-, Micro-, and Polynesia. The figure for Mexico includes all non-resident arrivals not originating from the Americas and Europe.

In attracting tourists from Asia-Pacific, Latin America can draw lessons from the experiences of the Asian economies themselves. Asia-Pacific has been the world's fastest-growing region in inbound tourism flows for more than three decades, and the strong growth is expected to continue over the next several years.¹⁶ Asia-Pacific's rise to an important tourism market is attributed to the region's rapid economic development, improvements in local tourism products and infrastructures, innovative marketing, as well as upgraded international connections to the region.¹⁷

III. DYNAMICS OF BI-REGIONAL CAPITAL FLOWS: FOREIGN DIRECT INVESTMENT AND REMITTANCES

The Growing Role of FDI in Latin America

Trade and foreign direct investment (FDI) are complementary and play a central role in Latin America's integration in the world economy. Substantial across-the-board tariff cuts and advances in regional integration by Latin American countries in the recent years have paved the way for expanded markets, regional scale economies, and linkages with global production chains, which, in turn, have reduced tariff-jumping FDI and helped attract export-oriented efficiency- and market-seeking FDI to the region. Besides trade policy reforms, Latin America's wave of privatizations over the past decade has contributed to FDI inflows, particularly in the service sector.

Latin America experienced an unprecedented rise in FDI flows during the 1990s. In the first half of the decade (1990-1995), total inflows averaged \$22.3 billion a year. By 1999, FDI to the region reached a record level of \$108.3 billion. That year, FDI flows to Latin America equaled those to Asia and accounted for 47 percent of flows to all developing countries. However, in 2000, flows to Latin America declined to \$95.4 billion—while global FDI flows and flows to developing countries continued to rise. The decline continued in the context of a global downturn in FDI flows. FDI in the region fell to \$83.7 billion in 2001, \$56 billion in 2002, and to a nadir of \$42.3 billion in 2003—which represented 27 percent of global FDI flows to developing countries, less than half of the estimated \$99 billion going to Asia, and also less than the \$57 billion captured by China alone. However, after four consecutive years of contraction, FDI flows to Latin America are estimated to have rebounded to \$56.4 billion in 2004.¹⁸

¹⁶ Of the sub-regions, the Mekong region, propelled particularly by Thailand and Laos, is expected to grow fastest at a 7.7 percent annual average, or well above the expected global per annum industry growth rate of 4.1 percent. Of the individual countries, China will experience the fastest growth in inbound tourism, with inbound flows growing at a 12.3 percent annual average in 1995-2020 to 100 million by the end of the period. Japan, however, will remain the largest recipient, with expected inflows of 142 million arrivals in 2020.

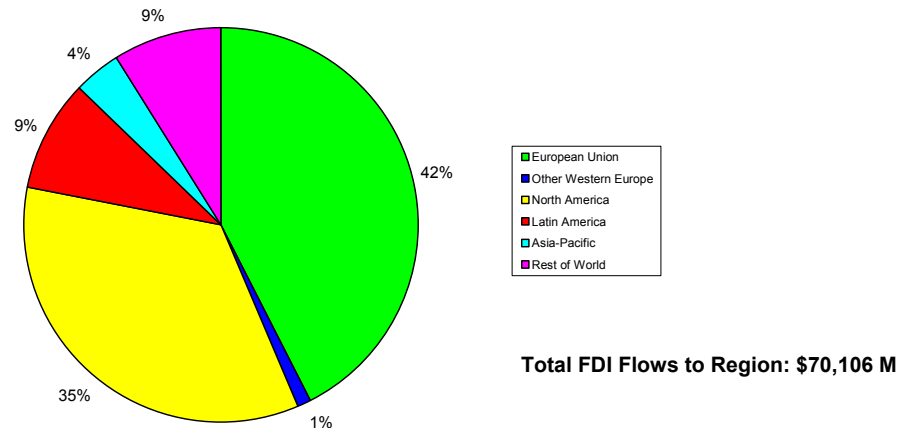
¹⁷ World Tourism Organization, *Tourism Market Trends 2003-Asia*, Madrid, 2004. Although the growth of the region's tourism inflows dipped to negative in 1998-1999 in the wake of the Asian financial crisis in 1997, positive growth rates resumed in 2000 thanks to the rapid recovery from the crisis and post-crisis regional recovery programs and use of new technologies.

¹⁸ The estimate is by the Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of International Monetary Fund statistics.

Asian Outward FDI to Latin America

While Latin America’s total FDI inflows spiked in the 1990s, FDI from Asia-Pacific remained relatively low. The region made up only some 4 percent of the total FDI inflows into Latin America in the period 1998-2002 (Graph 7).¹⁹ The European Union and North America are the main sources of investment in Latin America, followed by intra-regional flows. The pattern is by and large replicated in each Latin American sub-region as well as in Chile and Mexico (Statistical Annex Graphs 17-22). However, Asia-Pacific investment does play a more prominent role in Central America, constituting nearly a third of the regional total in 1998-2002. The share of Asia-Pacific FDI is also important in the Caribbean, at 7 percent of total.²⁰

**Graph 7. FDI Flows to Latin America in 1998-2002,
by Geographical Region (Period Average)**



Source: UNCTAD, FDI Country Profiles (on-line). Data come from national sources, and UNCTAD FDI/TNC database based on information provided by reporting partner countries.

One reason for the relatively low level of Asia-Pacific FDI to Latin America is the modest role of Asian investors in Latin America’s privatization processes. The services sector, the main target of Latin America’s privatizations in the 1990s, is protected in many parts of Asia-Pacific; consequently, Asian companies operating in the sector have tended to look more to their local markets for opportunities.²¹ Many Asian banks

¹⁹ Asia-Pacific here consists of Japan, China, Hong Kong-China, Republic of Korea, and Taiwan, Province of China. However, the source data for Latin America do not in all cases provide disaggregated figures by source country. Thus, in some cases Asia-Pacific source countries other than Japan could fall under the “rest of the world” or “unspecified” categories.

²⁰ For their part, the Andean countries stand out for a notable share of intra-regional inward investment, receiving a fifth of their FDI from Latin American countries during the period.

²¹ See Francisco L. Rivera-Batiz, “Foreign Direct Investment in Latin America: Current Trends and Future Prospects” in *Inter-regional Cooperation in Trade and Investment: Asia-Latin America*, UN Economic and Social Commission for Asia and the Pacific Studies in Trade and Investment No. 43, Bangkok, 2000.

remained at the margins of Latin America's privatization processes during the decade due to their serious balance sheet problems.

Of the individual FDI source countries, Japan has long been the most important Asian investor in Latin America. However, investment relations between Asia-Pacific and Latin America diversified in the 1990s. Republic of Korea, China, and Taiwan, Province of China have emerged as new Asian investors in the Latin American market.²²

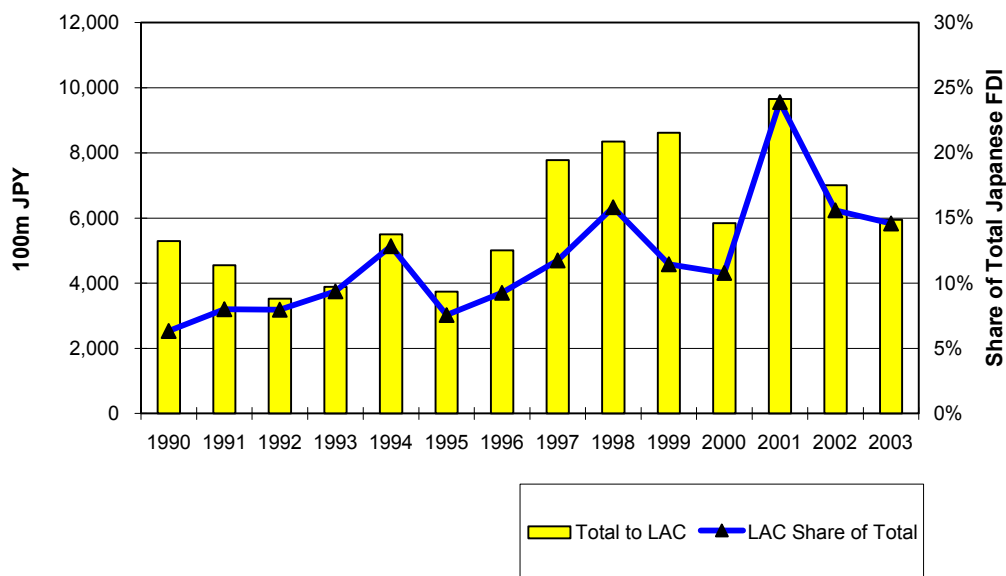
Japan

Pursuing a strategy aimed at securing a supply of primary materials for its industries, Japan became a significant investor in Latin America during the 1960s and 1970s. However, Japan is no longer a major investor in the region: its share of the total FDI inflows to Latin America decreased from 21.8 percent in 1992 to 9.7 percent in 1999, and further to some 2.3 percent in 2001. This reflects in part the reticence of Japanese investors to participate in the Latin American privatization processes. Japanese FDI is heavily oriented toward the Asia-Pacific region. The share of Latin America in total Japanese FDI has generally fluctuated between 7 and 15 percent over the past decade-and-a-half (Graph 8). However, in 2001, Latin America's share grew to 23 percent thanks to an important investment flow to the Cayman Islands, an international offshore financial center.

Japanese FDI flows to Latin America in fiscal year 2003 declined by 15 percent over the previous year. Most Japanese FDI to Latin America continues to go to Panama (shipping and distribution) and to the Caribbean tax havens, particularly into the financial and insurance sectors. To a lesser degree, Japanese FDI has gone into the manufacturing sectors in Brazil and Mexico. Historically, however, the Latin American manufacturing sector has been a minor recipient of Japanese FDI, capturing some 3-5 percent of total Japanese FDI in manufacturing worldwide. This contrasts with Asia, which receives nearly 40 percent of Japanese FDI going to manufacturing.

²² The figures for the individual source countries are not necessarily perfectly comparable given the different methodologies employed by the reporting governments.

Graph 8. Japan's Foreign Investment in Latin America in 1990-2003



Source: Ministry of Finance, Japan

Republic of Korea

Republic of Korea's direct investment to Latin America has been modest particularly when compared to flows to North America, Europe, and other newly emerging markets such as China and Southeast Asia (Table 2). Latin America's share of Republic of Korean FDI stock of 1980-2003 amounted to 7.9 percent. The main recipients were Mexico, Brazil, Peru and Argentina.

Table 2. Republic of Korea's Foreign Direct Investment in 1980-2003, by Region (thousands of US dollars)

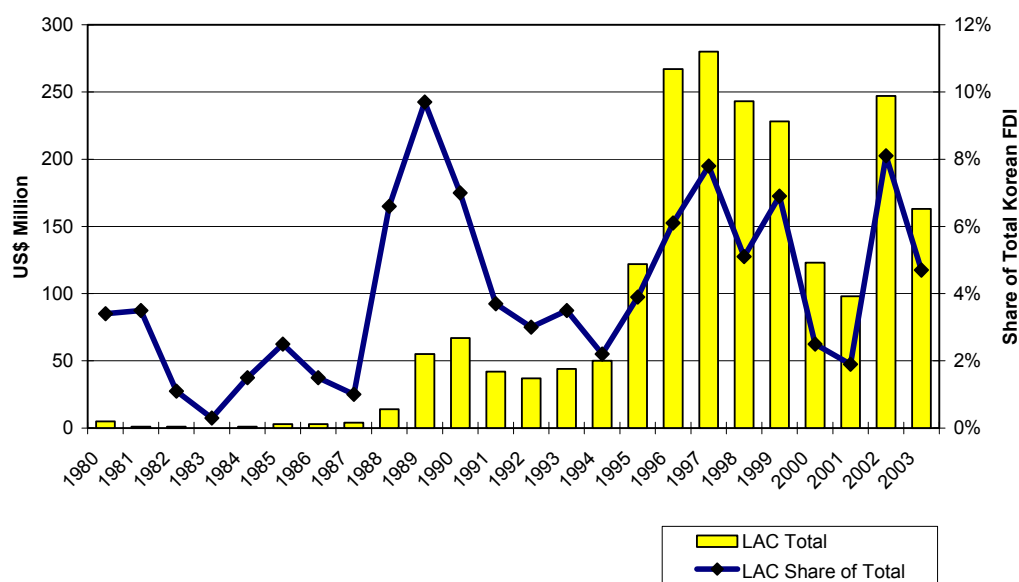
Region	Amount	% of Total
Asia	17,582,425	40.7
North America	12,440,981	28.8
Europe	7,274,999	16.8
Latin America	3,430,955	7.9
Oceania	965,430	2.2
Middle East	803,883	1.9
Africa	738,875	1.7
Total	43,237,548	100

Source: Ministry of Foreign Affairs and Trade, Eximbank of Republic of Korea.

In terms of flows, Republic of Korea became a significant source of FDI only in the mid 1980s. Improvements in the current account allowed it to liberalize policies regulating investing abroad; the benefits were felt in Latin America in the late 1980s and early 1990s (Graph 9). The first Korean investments were made in Mexico and Central America with an eye of penetrating the US market. The formation of regional integration schemes, perhaps most notably NAFTA and Mercosur, likely gave a further boost to Korean FDI in Latin America. The visit of Republic of Korea's President to Guatemala, Chile, Argentina, Brazil and Peru in 1996 and to Mexico in 1997 signaled an increasing interest in the region, and, indeed, Korean FDI flows grew through the second half of the 1990s, peaking in 1997.

This trend seems to have been interrupted by the Asian crisis in 1999. Data for 2002 do suggest a potentially strong recovery; however, the results for 2003 are again less encouraging. Latin America constituted 8.1 percent of total Korean FDI in 2002, but only 4.7 percent in 2003. The bulk of Republic of Korea's investment still goes to Asia and North America (57 and 29 percent, respectively, in 2003).²³

Graph 9. Republic of Korea's Foreign Investment in Latin America in 1980-2003



Source: Ministry of Foreign Affairs and Trade, Eximbank of Republic of Korea.

²³ It should be kept in mind that some South Korean FDI projects are not reflected in official statistics due to their being made through South Korean firms based in third countries. One such project is the \$420 million investment by Samsung Electronics Corporation's US subsidiary in a home electronics plant in Tijuana, Mexico in the 1990s. Samsung has employed similar channels to start producing computer monitors and mobile phones in Manaus, Brazil, as have Daewoo and LG for electronic appliances plants in Mexico.

From a Latin America-wide point of view, Republic of Korea's FDI represents only about a tenth of Japanese FDI in the region. However, albeit well behind the United States, Republic of Korea is among the very top investors in Central American apparel production. Moreover, Republic of Korean FDI in Latin America differs in composition from Japanese and Chinese investment. While investors from Japan and China concentrate on natural resource sectors, Republic of Korean FDI in Latin America is geared toward manufacturing, fisheries, and trading. Furthermore, Republic of Korean FDI in Latin America's manufacturing sector has gone not only into labor-intensive industries, but also technology-intensive ones. According to Republic of Korean analysts, the sectoral diversification of the country's FDI in Latin America has been stimulated first and foremost by the challenges and opportunities presented by the regional integration processes.

China and Taiwan, Province of China

Although China is an important destination for FDI, its role as a source of investment abroad has been less prominent. China's outward FDI stock was \$35 billion or 0.5 percent of the global total in 2002, and predominantly invested in Hong Kong and the United States.

Chinese investors tend to be motivated by a need to fill the gap between domestic consumption and the availability of natural resources, and to enhance competitiveness vis-à-vis large multinational firms both home and abroad. In Latin America, Chinese investment is geared particularly to establishing platforms for exporting primary products back to China. While primarily targeting sectors involved in the extraction and production of natural resources, Chinese enterprises have also invested in manufacturing, telecommunications, and textiles. The most important destinations of Chinese FDI in Latin America are Brazil, Mexico, Chile, Argentina, Peru and Venezuela. In 2004, while touring Latin America, the Chinese head of state declared that China could provide up to \$100 billion of FDI in Latin America over the next decade.

Taiwan, Province of China holds a relatively significant investment position in Latin America. In 1998, Taiwanese FDI flows to the region peaked at \$2.6 billion, which represented an impressive 80 percent of all Taiwanese FDI outside mainland China. The bulk of Taiwan's total FDI to Latin America has flowed into the financial and insurance industries in Panama and the English-speaking Caribbean. However, Taiwanese investors have also become involved in manufacturing operations particularly in the Central American free trade zones in such industries as apparel, footwear, bicycles, and auto parts.

Remittance Flows from Asia to Latin America

Latin America is the world's leading recipient of remittances, and remittance revenues play a major role in several Latin American economies. At some \$38.5 billion in 2003 and an estimated \$45 billion in 2004, remittances to Latin America exceeded the combined flows of all FDI and net Official Development Assistance (ODA) to the region.

Remittances accounted for more than 10 percent of the GDPs of six countries (Ecuador, El Salvador, Haiti, Honduras, Jamaica, and Nicaragua). In absolute terms, the largest Latin American recipients of remittances are Mexico (\$16 billion in 2004), Brazil (\$5.6 billion), and Colombia (\$3.9 billion).²⁴

Remittances are an increasingly important component in capital flows between Asia and Latin America. Japan is Asia's key source of remittances to Latin America, accounting for nearly a tenth of the region's total inflows in 2003 (table 3). In the case of Brazil, by far the most important recipient of Latin America-bound remittances from Japan, this figure is nearly 20 percent.²⁵ While remittances to Latin America from Japan pale next to flows from the United States, they do exceed Latin Americans' remittances from Europe. Moreover, although there are fewer Latin Americans living in Japan (an estimated 435,000, of whom 70 percent remit) than in the United States or Europe, they tend to send at least twice as much per transaction as Latin American migrants in other countries.²⁶ According to a survey commissioned by the IDB in 2005,²⁷ Latin American remitters in Japan send money home some 14.5 times a year, with each transfer averaging \$600. As a result, in absolute terms, Latin America's remittance revenue from Japan is hardly trivial: in 2003, remittances from Japan totaled \$3 billion, which represents nearly 50 percent of Latin America's exports to Japan that year. Overall, the number of separate annual financial transactions between Japan and Latin America that involve remittances are estimated at 4.5 million.

²⁴ See Inter-American Development Bank and Multilateral Investment Fund, *Remittances 2004: Transforming Labor Markets And Promoting Financial Democracy*, March 2005.

²⁵ See Bendixen & Associates and Multilateral Investment Fund, *Estudo Sobre os Destinatários de Remessas no Brasil*, presentation prepared for a conference Remittances as a Development Tool in Brazil, Inter-American Development Bank, Multilateral Investment Fund, and Fundação Getulio Vargas, Rio de Janeiro, 31 May 2004.

²⁶ Enrique Iglesias, *Migration and Remittances in the Context of Globalization*, remarks at session Migration and Remittances in the Context of Globalization: The Case of Japan and Latin America, Annual Meeting of the Governors of the Inter-American Development Bank, Okinawa, Japan, 6 April 2005.

²⁷ See Bendixen & Associates and Multilateral Investment Fund, *Remittances From Japan to Latin America: Study of Latin American Immigrants Living and Working in Japan*, presentation prepared for session Migration and Remittances in the Context of Globalization: The Case of Japan and Latin America, Annual Meeting of the Governors of the Inter-American Development Bank, Okinawa, Japan, 6 April 2005. The survey consists of 1,070 interviews with Latin Americans in Japan. Forty-five percent of the respondents had resided in Japan for fewer than five years, 29 percent five to ten years, 25 percent ten or more years, and only one percent for their entire lives. Three-quarters have a high school degree or some college or technical school, while 12 percent are college graduates (or higher). The vast majority is less than 50 years old and works in manufacturing or service industries. Only 4 percent hold skilled professional jobs.

Table 3. Remittance Flows to Latin America in 2002-2003, by Origin

Source	2002		2003	
	\$ billion	% of Total	\$ billion	% of Total
Japan	2.5	7.8	3	7.8
US and Canada	26	81.3	32	83.1
Europe	2	6.3	2	5.2
Latin America	1.5	4.7	1.5	3.9
Total	32	100	38.5	100

Source: IDB, Multilateral Investment Fund.

IV. REGIONAL INTEGRATION

New Trends in Pacific Rim Regionalism

Asian Regionalism: Toward Genuine Preferential Trade

In contrast to their Latin American counterparts, Asian countries have traditionally had little taste for formal regional integration. However, since the mid 1980s, the Asia-Pacific region has made strides to embrace free trade and economic regionalism. The Asia-Pacific Economic Cooperation (APEC) forum represented the first formal step toward a more tightly integrated region. Founded in 1989 among 12 regional economies and also incorporating Canada, the United States, Chile, Mexico, and Peru, APEC has been an important instrument for trade and economic cooperation in the Pacific basin.²⁸ Based on consensual and non-binding policy cooperation, it has been politically well-equipped to bridge the distrust and differences in development levels in the heterogeneous region. APEC's key goal, announced at the 1994 Summit in Bogor, Indonesia, is free trade and investment in Asia-Pacific by 2010 for industrialized economies and 2020 for developing ones.

Responding to concerns about being overshadowed by the largest APEC economies, in 1992 the ASEAN members agreed to a schedule for establishing the ASEAN Free Trade Agreement (AFTA). AFTA's main objective is to foster the ASEAN region's competitive advantage as a single production unit. The Fifth ASEAN Summit held in Bangkok in 1995 adopted the Agenda for Greater Economic Integration, which included the acceleration of the timetable for the realization of AFTA from the original 15-year timeframe to ten years. In 1997, ASEAN leaders adopted the ASEAN Vision 2020 aimed at establishing the ASEAN Partnership in Dynamic Development, which advocates closer intra-regional economic integration.

²⁸ The APEC Member Economies are Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong-China, Indonesia, Japan, Republic of South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Province of China, Thailand, United States, and Vietnam.

Based on the concept of open regionalism, APEC has helped overcome the reluctance of many Asia-Pacific countries to enter preferential trade agreements. Today, many Asian countries—first and foremost Singapore, Republic of Korea, Japan, and China—have set out to pursue bilateral free trade agreements (FTAs) with their neighbors (Appendix Table 9). Indeed, the recent proliferation of FTAs in the Pacific basin can be seen as the most notable development in the region’s trading panorama in recent years.²⁹ Some analysts attribute this more aggressive strategy of market opening to changes in the regional production capabilities: bargains for market access have become strategic following the blurring of economic hierarchies, the intensification of competition, and the rise of economic rivalries in the region.³⁰

There have also been proposals for plurilateral FTAs in the Asia-Pacific region. Some advocates envision such arrangements as building blocks for an integrated Asia-Pacific region. The formation of the “ASEAN Plus Three” group (the ten ASEAN members and China, Japan, and Republic of Korea), purported to explore possibilities for monetary cooperation within East Asia, has been viewed as a potential basis for an East Asian FTA. However, the decision to proceed with this arrangement has yet to be made. Meanwhile, both China and Japan have explored separate FTAs with ASEAN. It is not clear whether these agreements would constitute genuine plurilateral FTAs between China and Japan, respectively, and ASEAN as a whole—or whether a series of bilateral agreements would be signed between the individual ASEAN economies and China and Japan. The China-Thailand FTA might represent the first step in the latter direction. Further ASEAN plurilateral initiatives include a proposal for an ASEAN-India economic partnership, and a recent decision to convert the long-running trade cooperation between ASEAN and Australia and New Zealand into a genuine FTA.

Parallel to the spread of bilateral agreements, the idea of an Asia-Pacific-wide regional agreement has gained ground. The most ambitious proposal has come from the APEC Business Advisory Council (ABAC), which has called for the creation of a Free Trade Area of the Asia-Pacific (FTAAP). Envisaged as a free trade agreement incorporating all APEC members, the FTAAP would represent a move from the original APEC concept of non-discriminatory liberalization into a binding, reciprocal preferential arrangement. However, the future of the FTAAP remains unclear: in their early 2005 meeting, APEC leaders did not follow ABAC’s recommendation to commission a study on the initiative.

²⁹ The main intra-regional bilateral agreements in force today include the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), Singapore-Australia FTA (SAFTA), Japan-Singapore Economic Partnership Agreement (JSEPA), and the Australia-Thailand, New Zealand-Singapore, China-Thailand, and China-Hong Kong FTAs. Various negotiations are in progress, including for Japan-South Korea, Japan-Indonesia, and Japan-Thailand FTAs. China and Australia are working on a feasibility study for an FTA, while China and New Zealand recently concluded such a study.

³⁰ See, for instance, Robert Scollay, *Regional Trade Liberalisation in East Asia and the Asia-Pacific: The Role of China*, paper presented at conference The Emergence of China: Challenges and Opportunities for Latin America and Asia, First Annual Conference of the Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBA), Beijing, China, 3-4 December 2004; and Andrew MacIntyre and Barry Naughton, “The Decline of the Japan-Led Model of East Asian Development” in Pempel, T.J. (ed.), *Remapping East Asia: the Construction of a Region*, Ithaca, Cornell University Press, 2005.

Toward Trans-Continentalism: Integration between Latin America and Asia-Pacific

Until recently, FTAs were signed chiefly between geographically proximate countries. Today, however, FTAs are becoming trans-continental. In Latin America, Mexico and Chile's respective FTAs with the European Union stand out. Also Asian economies have pursued extra-regional arrangements. Some examples include the Singapore-EFTA, Singapore-Jordan, Singapore-US, and Australia-US FTAs. Latin America-Asia-Pacific relations have not been exempt from the trans-continental drive. In 2003, Chile and Republic of Korea signed the first comprehensive FTA between an Asian and Latin American country; the agreement went into effect in April 2004. Together with Brunei, New Zealand, and Singapore, Chile concluded the negotiations for another trans-Pacific FTA in June 2005; six months later, Chile became one of the first countries to sign an FTA with China³¹. Also Panama and Singapore concluded FTA talks in 2005, as did Peru and Thailand. And notably, an FTA between Mexico and Japan entered into force in April 2005.

Asia-Pacific countries—and Singapore in particular—are planning or negotiating several further inter-regional FTAs. These include a number of trans-Pacific agreements with Latin American economies, such as the Chile-Japan, Mexico-Singapore, Mexico-Republic of Korea, and Peru-Singapore FTAs. There have also been some expressions of interest in agreements between Mercosur and China, and Mexico and New Zealand. Notably, Latin America-Asia trans-continentalism goes beyond the Asia-Pacific basin, with both Chile and Mercosur forging closer economic ties with India, for example.

V. STRENGTHENING BI-REGIONAL COOPERATION

Asia-Pacific: Toward Broader Economic Cooperation

Asia-Pacific countries have broadened their economic cooperation to monetary and financial areas in the aftermath of the 1997-98 Asian financial crisis. ASEAN+3 has set out to pursue cooperation on issues ranging from macroeconomic risk management to monitoring of regional capital flows, fostering the banking and financial systems, and reforming the international financial architecture.³² May 2000 marked a milestone for the group with the signing of an ASEAN Currency Swap Agreement in Chiang Mai, Thailand. The Chiang Mai Initiative aims to expand the existing ASEAN Swap Arrangement (ASA) in both financing and membership, and to create a new network of bilateral swap arrangements (BSAs) among the ASEAN+3 members.³³

³¹ The FTA is termed Trans-Pacific Strategic Economic Partnership Agreement, or “Trans-Pacific SEP”.

³² The first document in this direction was the Terms of Understanding on the Establishment of the ASEAN Surveillance Process (ASP) signed in New York in October 1998.

³³ The total amount of financial resources available through the ASA framework is estimated to have expanded from \$200 million in 1997 to \$50 billion today. See Malmur Keliat, “Part 1 of 2: Lessons from E. Asian Financial Cooperation,” *Jakarta Post*, 26 February 2005.

Further key efforts toward regional financial cooperation involve economic surveillance—carried out particularly through the ASEAN+3 Economic Review and Policy Dialogue introduced in May 2000—and the development of Asian bond markets. In 2003, ASEAN+3 established the Asian Bond Market Initiative (ABMI) to develop local currency denominated bonds. The same year, the Executives’ Meeting of East Asia Pacific Central Banks (EMEAP) announced the launch of the Asian Bond Fund (ABF).³⁴ With an initial total of \$1 billion, the ABF strives to expand bond markets through the purchase of dollar denominated sovereign and semi-sovereign bonds issued in eight of the EMEAP economies.³⁵ In December 2004, the EMEAP group announced the launch of the second stage of the ABF (ABF2) aimed at investment in sovereign and quasi-sovereign domestic currency bonds issued in the eight EMEAP markets.

These efforts provide a concrete basis for discussions on the potential formation of an Asian Monetary Fund (AMF). The AMF is envisaged as a surveillance and supervisory mechanism and a potential supplementary source of support to the funds disbursed by the International Monetary Fund (IMF). An even more ambitious goal that has received broad-based support is the creation of a common unit of account, the Asian Currency Unit, possibly through the establishment of a basket of regional currencies.³⁶ Further, more long-term cooperation initiatives include the East Asia Vision Group (EAVG) established in 1998 to promote the creation of the East Asian community (EAc) and the East Asian Summit process.³⁷

Latin America and Asia-Pacific: Intensifying Bi-Regional Collaboration

The widening of Asia-Pacific’s intra-regional economic cooperation has been accompanied by an intensification of the Latin America-Asia cooperation agenda. In terms of membership, the most comprehensive initiative is the Forum for East Asia-Latin America Cooperation (FEALAC) launched at a Ministerial Meeting in March 2001 in Santiago, Chile. Comprising of 17 Latin American and 15 Asia-Pacific economies, FEALAC is an informal mechanism for dialogue and cooperation among the countries of the two regions to meet political, cultural, social, economic and international issues of common concern.³⁸

³⁴ EMEAP is a forum of central banks and monetary authorities in the East Asia and Pacific region. Its purpose is to strengthen cooperation among the eleven members—the Reserve Bank of Australia, People’s Bank of China, Hong Kong Monetary Authority, Bank of Indonesia, Bank of Japan, Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, and Bank of Thailand.

³⁵ The eight economies are EMEAP members other than Japan, Australia, and New Zealand.

³⁶ See Keliat, *op. cit.*; and Masahiro Kawai, *Regional Financial Stability as Regional Public Good*, paper prepared for the ADB-IDB Forum on the Operational Dimensions of Supplying Regional Public Goods through Regional Development Assistance, 12 October 2004.

³⁷ See Eric Teo Chu Cheow, “After the Tsunami, Human Security Is Key,” *Asia Times*, 25 January 2005.

³⁸ The Forum promotes intellectual and cultural exchanges to facilitate trade, investment, tourism, education, science and technology development, and environmental protection. FEALAC’s Senior Official Meetings (SOM) are held annually, while the Ministers of Foreign Affairs meet every two years. The Sixth SOM and the second Ministerial were held in Manila in January 2004.

Two further major venues of trans-Pacific cooperation are the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Conference (PECC). Each has five Latin American partners—Colombia, Chile, Ecuador, Mexico and Peru. PBEC groups senior business leaders from more than 1,100 major corporations in 20 economies around the Pacific basin to explore ways to open markets and expand trade and investment flows. Its current agenda focuses on the role of the region in the next stages of globalization, including in the Doha Development Round. For its part, the 25-member PECC promotes trade, investment, financial stability, and development in the Pacific Rim. Comprised of senior representatives from business, government, and the academia, PECC has recently focused on the proliferation of regional integration agreements as a potential means for reaching APEC's Bogor Goals.

Cooperation between Latin America and Japan, Republic of Korea, and China

Japan—Cooperation between Japan and Latin America is deep-seated. Japan is one of Latin America's main sources of ODA. Its economic and technical cooperation in the region has focused particularly on economic reforms, poverty reduction, and the protection of the environment. Japan was also one of the key actors helping Latin America weather the debt crisis of the early 1980s, and buttressing the Central American peace processes. More recently, Japan has supported electoral processes in Latin America, including joining the dispatch of election observers from the Organization of American States (OAS). It has also pursued active cooperation with the Caribbean through the Japan-Caribbean Community (CARICOM) Consultation, which centers on fostering bilateral relations and economic cooperation, cultural exchanges, and collaboration in international fora.

In September 2004, Prime Minister Junichiro Koizumi traveled to Brazil and Mexico, becoming the first Japanese head of state in eight years to visit Latin America. The trip reflects the growing importance of the two Latin American countries on the Japanese foreign policy agenda. There were a number of concrete results. Japan and Brazil pledged to pursue cooperation in areas such as regional infrastructure development and the reform of the United Nations Security Council. Meanwhile, Japan and Mexico pledged to strengthen their Strategic Partnership in a broad range of areas including cultural exchanges, assistance to Latin America and the Caribbean, and UN reform. The trip also included the presentation of Japan's *Vision for a New Japan-Latin America and Caribbean Partnership*.

Republic of Korea—The Republic of Korea maintains important institutional ties with Latin America. It was one of the first Asian countries to join the OAS as a permanent observer, and has made efforts to contribute to Latin America's economic and social development through ODA and technical cooperation. The Republic of Korea has recently sought to deepen its economic ties with Latin America. Besides entering into an FTA with Chile, in 2003 it staged the Republic of Korea-Latin America and Caribbean Business Forum with various countries of the region. The event drew a host of government officials and analysts. In June 2004, Republic of Korea's Minister for Trade visited Paraguay, Argentina and Brazil to discuss the prospects for stepping up economic

relations between Republic of Korea and the Southern Cone. And in March 2005, Republic of Korea joined the Inter-American Development Bank as its twenty-first non-borrowing member, acquiring another avenue through which to pursue cooperation with the region. Further cooperation mechanisms between Republic of Korea and Latin America include the 21st Century Commission, a private-level consultation forum between Republic of Korea and Mexico that seeks to explore possibilities for longer-term bilateral collaboration; and the Republic of Korea-Central America Dialogue and Cooperation Forum that brings together Republic of Korea, the Dominican Republic, and the seven countries of the Central American isthmus—Guatemala, Honduras, Costa Rica, Nicaragua, El Salvador, Belize, Panama—to discuss political, economic, and trade issues.

China—China and Latin America have strengthened cooperation ties markedly over the past decade. China and the Rio Group launched a political dialogue in 1990,³⁹ and in 1994 China became the first foreign country to be admitted as an observer to the Latin American Integration Agreement (LAIA). In 1997, China was admitted to the Caribbean Development Bank. It has also held official talks with Mercosur following the establishment of a bilateral dialogue mechanism. Furthermore, much like Japan and Republic of Korea, China collaborates with various Latin American countries in APEC and FEALAC. In April 2002, it became an external observer to the Central American Integration System (SICA). China has recently expressed interest in becoming a non-borrowing member in the Inter-American Development Bank.

Trans-Pacific Initiatives at the IDB

Japan and the IDB

The IDB manages various trust funds from member countries that support a wide range of financial and technical assistance activities in the Latin American region. The government of Japan has established three main initiatives managed through the Bank: the Japan Special Fund, Japan Program, and Japan-IDB Scholarship Program.

The Japan Special Fund (JSF)—Since its establishment in 1988, the JSF has acquired major importance as a source of untied resources for the IDB’s technical cooperation activities. JSF is one of the oldest and largest Technical Cooperation funds administered by the Bank. In 2004, six JSF projects were approved for a total of \$2.1 million, of which 61 percent was directed to social sector development. Japan placed some \$2.6 million of new resources in the Fund in the course of the year, raising the aggregate level of contributions to about \$208.3 million.

In 2001, Japan set aside \$30 million from the JSF facility to create the Japan Special Fund Poverty Reduction Program (JPO). The program applies innovative methods to

³⁹ The Rio Group initially incorporated Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Venezuela, Uruguay and a representative from the Caribbean Community. Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua entered the group as full members in 2000.

provide direct assistance to poor and vulnerable groups, and to enhance the activities carried out under Bank loans.

The other window of the JSF, the Japanese Trust Fund for Consultancy Services (JCF), was created in 1995. In 2004, the Bank approved six JCF projects worth \$3 million. JCF funding is tied and requires at least 50 percent of project resources to be used for Japanese consultants or consulting firms. Any sectors with substantial Japanese expertise—such as infrastructure and environmental projects—are eligible for financing. In 2004, Japan contributed approximately \$2.1 million to the fund, bringing the cumulative contributions to \$30.1 million.

Japan Program—Japan and IDB founded the Bank’s Japan Program in 1999. Essentially a regional technical assistance initiative, the program has various components, such as the improvement of educational systems, social inclusion, trade liberalization, environmental protection, and the promotion of micro and small and medium-sized enterprises. The key aim of the program is to exchange information on best practices in Asian development experiences, and to strengthen ties between Latin America and East and South-East Asia. The Japan Program is administered by the IDB’s Integration and Regional Programs Department.

Japan-IDB Scholarship Program (JSP)—JSP was established in 1991. Supporting Master’s degree studies in development-related fields for students from IDB borrowing member countries, the program seeks to further Japan’s long-standing goal to foster human resource development in Latin America. JSP consists of three sub-programs: Northern Hemisphere Program (carried out at universities located in North America, Central America and Europe), Southern Hemisphere Program (at universities located in South America), and the Special Program for Studies at Japanese Universities (a Master’s program taught at an English-language university located in Japan). A total of 480 students received scholarships under the program in 1991-2004.⁴⁰

Republic of Korea and the IDB

Republic of Korea’s Ministry of Foreign Affairs established the Korean Technical Cooperation Trust Fund in December 2000 with the purpose of assisting the Central American countries hit by Hurricane Mitch. The fund was subsequently renewed. To date, contributions to the fund total \$1,028,000, and five projects have been approved. A second fund, the Korean Trust Fund for Technical Cooperation to the Republic of Colombia, was established in May 2002 to support technical cooperation activities in the areas of reconstruction, poverty alleviation, and equitable social and economic development. Contributions to the fund amount to \$822,000; four projects have been approved.

The two trust funds will be replaced with a \$50 million contribution that was negotiated as part of Republic of Korea’s membership in the IDB. The Korean Ministry of Finance

⁴⁰ Of these, 299 obtained their degrees from universities in the Northern Hemisphere, 113 from Southern Hemisphere universities, and 68 from universities in Japan.

has been supporting the creation of two \$50 million untied trust funds for grant financing of technology innovation and poverty alleviation activities, respectively.

IDB-ADB Partnership Agreement

In recognition of the benefits of inter-regional exchange of ideas, the IDB and the Asian Development Bank (ADB) have forged a close inter-institutional relationship over the past four years. The two institutions signed a Partnership Agreement at the IDB's March 2001 Annual Meetings in Santiago, Chile. The agreement, organized under the umbrella of the Japan Program, calls for cooperation between the two institutions in the pursuit of activities related to regional development issues of common interest. It was renewed at the IDB's April 2005 Annual Meetings in Okinawa, Japan.

The IDB-ADB Partnership Agreements consists of two main initiatives. The first involves joint efforts to identify mechanisms for supplying regional public goods. The work program has centered particularly on a number of high level conferences organized in collaboration with other international and bilateral donor agencies. The second major initiative is the Latin American/Caribbean and Asia/Pacific Economics and Business Association (LAEBA). Supported by the IDB and the ADB Institute, LAEBA strives to encourage comparative research in several economic issues, such as development policy, regional integration, trade and investment, and financial markets. It also promotes cross-regional policy analysis and dialogue through interaction among regional experts, academics, business leaders, government officials, and civil society representatives.

VI. THE ASIAN DEVELOPMENT MODEL: ANY RELEVANCE TO LATIN AMERICA?

Growth and Poverty Reduction

Latin America was an important point of reference in the discussions on economic growth and development in the inter-war period and the years immediately following World War II. The region's import substitution industrialization (ISI) strategy contributed to growth and the rise of manufacturing, inspiring development theorists around the world as well as policymakers in many Asian and African countries, which set out to mimic aspects of ISI.

Latin America's average per capita growth was somewhat inferior to that of East Asia in 1950s. However, the war-torn Asia-Pacific region featured countries with very modest income levels; for instance, Latin America's per capita income was some 50 percent higher than that of Republic of Korea. In the late 1960s, Latin America's average growth began to flag, while Asia-Pacific economies entered a period of remarkable acceleration. The growth spurt started with Taiwan, Province of China, Republic of Korea, Hong Kong, and Singapore. A second wave emerged in the 1970s with Malaysia and Thailand, followed by the third wave carrying Indonesia, China, and the Philippines. Ever since,

Asia-Pacific has repeatedly leapfrogged Latin America in terms of economic growth. The region's rapid and sustained growth has also paved the way to impressive reductions in poverty rates. The number of poor declined from 85 percent of the population in the early 1980s to 47 percent by the beginning of the 21st century. Latin America, in contrast, has seen relatively little progress: at 25 percent, poverty levels today are not much different than they were at the beginning of the 1980s, and inequality remains endemic in most countries of the region.⁴¹

Is There an “Asian Style” Development Model?

The differences in the economic policy outcomes between Latin America and Asia-Pacific can to an important degree be attributed to divergent development strategies pursued in the two regions. Much like Latin America, the Asia-Pacific region contains marked cross-country differences in policy frameworks. However, there also are common threads that suggest an “Asian style” of development.

Japan serves as a harbinger for the model. Its post-war penetration of the ranks of the world's most industrialized and wealthiest economies came through a multifaceted set of policies, such as the development of markets, financial deepening, fiscal discipline, macroeconomic stability, good governance, and human resource development. However, Japan's starting point was also important. The Japanese economy had undergone a series of transformations since the 1868 Meiji Restoration, which brought the feudal era to an end. The country went through an industrial revolution, which implied the expansion of infrastructure, electrification, modernization of the state, and agricultural reforms. The formation of powerful industrial and financial groups in old and new sectors (the so-called “zaibatsu”, precursor of the “keiretsu” in the post-war era) facilitated the industrial expansion. Japan also developed a social infrastructure for sustained pro-growth policies through such instruments as efficient government institutions, professional bureaucracy, and land reforms. Compensatory policies between the rural and urban areas contributed to relative income equality, while an extensive compulsory public education system produced a well-educated workforce capable of absorbing foreign technology.

Japan's post-war success imparted demonstration effects and inspired development policymaking throughout East Asia.⁴² The Japanese approach also spread through Japan's official cooperation assistance and the extensive trade and investment links engendered by Japanese multinational companies (MNCs) throughout East Asia. Some of the main

⁴¹ These poverty figures are taken from the World Bank's World Development Indicators and reflect the percent of the population living on less than \$2 a day, adjusting for purchasing power parity. World Bank figures allow comparisons between countries and regions around the world. However, they are markedly different from those published by the UN Economic Commission for Latin America and the Caribbean (ECLAC). ECLAC uses national poverty lines defined as the minimum amount necessary to afford a basket of consumption of basic needs. Under ECLAC's definition, 44 percent of the population of Latin America lived in poverty in 2002.

⁴² There are important differences between today and the time of Japan's rise. The General Agreement on Tariffs and Trade (GATT), which Japan joined in 1955, carried a lighter set of regulations on export promotion and investment policies than the WTO does today. Meanwhile, commercial links with the West were facilitated by the Cold War security concerns.

features of the Japanese development strategy that were adopted in the region include the following:

- *A long-term perspective-cum-gradualism.* Many of the key objectives—skilled labor force, bureaucracy with international acumen, export development, industrial upgrading, infrastructure, and strong institutions and regulatory frameworks—take a long time to develop. As such, the various strategies were formulated with a long-term perspective. Specific, short-term steps were established to facilitate the achievement of the long-term goals.
- *High rates of fixed investment.* This was one of the key engines of rapid growth and led by high domestic savings rates.
- *Selective external opening.* The approach relied on selective import substitution policies in tandem with aggressive export orientation.
- *Proactive government.* Although the strategies were in general based on the operation of market forces, the government played an important role in promoting selected activities. Some of the measures included:
 - a) Close collaboration (both formal and informal) with the private sector in coordinating and developing strategic directions through joint reports, committees, and cooperation projects. The government gave signals about emerging opportunities for innovation and upgrading. The Ministry of International Trade and Industry (MITI) played a very important role, particularly in the earlier periods.
 - b) The government provided administrative guidance, financial incentives, technical support, and regulatory frameworks to promote activities and sectors that were considered to be of strategic importance and that produced positive externalities. Price incentives involved low interest rates for investments, subsidies, and the maintenance of competitive exchange rates for export activities. Certain import competing sectors were protected, while domestic consumer prices were kept high to encourage savings.
 - c) Support of dedicated promotional institutions such as development banks, saving institutes, and private trading companies.
 - d) Strong support for public goods, especially public education and infrastructure.

- *Emphasis on the exporting manufacturing sectors.* Internationally-oriented manufacturing firms were expected to generate knowledge spillovers for the entire economy. Their exports were encouraged through subsidies and the provision of information and improved services.
- *Small and medium-sized enterprises (SMEs).* SMEs operated alongside large Japanese MNCs and received special attention not only because of their employment effects, but also as sources of greater depth for sub-contracting.
- *Employment security.* Hiring implied a social contract for stable and secure employment, which, in turn, contributed to social cohesion and gave firms incentives to invest in training and upgrading their human resources.
- *National self-reliance.* The strategy relied largely on domestic savings, investment, and human capital development with a relatively small role for FDI and foreign debt.

Japan's approach served as the most direct point of reference for Republic of Korea and Taiwan, Province of China. However, there were also some notable differences. Republic of Korea placed a greater emphasis on large conglomerates and assumed more external debt, while Taiwan, Province of China gave more weight to the development of SMEs. China and the ASEAN economies added further variations to the Japanese approach, in part due to their lower level of human capital, weaker institutions, and greater receptivity to FDI. They relied heavily on foreign investment for import substitution and for the creation of exporting industry networks, and, like Taiwan, Province of China, stressed the role of SMEs. Singapore strongly reduced external barriers, yet maintained a set of sturdy behind-the-border regulations. In the case of China, financial institutions played a major developmental role. Notably, most East Asian countries were slow to follow Japan's footsteps in adopting democratic processes and institutions.

Besides national policies, Asia-Pacific's "flying geese" phenomenon has contributed to the region's industrialization, growth, and development. Much like a flock of geese, the regional economies one-by-one upgraded their industrial capabilities from low-tech to high-tech. With the movement of the region's more developed economies to produce increasingly sophisticated goods, the less developed ones linked into production chains at the labor-intensive level. The formation of industrial tiers occurred chiefly through FDI, particularly from Japan, which spearheaded the flock. The second tier consisted of Taiwan, Province of China and Korea, and the third of Singapore and Hong Kong. Malaysia and Thailand came next, followed by China and Indonesia. The rest of the South-East Asian economies followed. Market pressures from both above and below pushed countries to constantly improve their capabilities. As a result, the Asia-Pacific economies collectively proceeded up the ladder of technological sophistication.

The Asian style development has not gone without problems. Republic of Korea was early on plagued by episodes of crises with external debt, while Japan's domestic financial bubble of the early 1990s sent the country into a protracted period of economic recession. In 1997, a surge of short-term capital inflows, along with poor domestic financial regulation, deficient corporate governance, and overvalued exchange rates, led to forced devaluations and the regional financial crisis. Only China, a country with a closed capital account, escaped the crisis. However, most of the Asian economies proved resilient in the face of the turmoil—an indication of their underlying structural strength. The crisis episode nonetheless reveals that certain aspects of today's successful public policies and institutions can be tomorrow's liabilities if their evolution lags behind the demands of increasingly sophisticated market structures.

Relevance of the Asian Model to Latin America

While Asia-Pacific economies enjoyed rapid export-led growth, Latin American countries continued facing the persistent problems of low growth, lackluster export performance, and high levels of poverty and income inequality. In the 1980s and early 1990s, most Latin American economies undertook far-reaching macroeconomic and structural reforms involving, for example, social security systems, trade policies, and tax and financial sectors.

The reforms notwithstanding, the 1990s yielded disappointing results in Latin America. Although inflation was by and large tamed, most countries grew at rates that were too slow to reduce poverty; many also struggled with capital account and currency crises.⁴³ On the fiscal front, several Latin American economies suffered from foreign debt burdens and weak financial markets.

Against this backdrop, the repeated developmental advances of the Asian countries—and perhaps most particularly the rise of China—do provide reasons for Latin American countries to reflect on features of the Asian style of development that may pave the way to growth and development. Some broader considerations for discussion include the following:

- Why has Latin America had modest returns to its recent development policy as compared to Asia?
- Are the defining characteristics of the Asian style development—including the features that make it different from the Washington Consensus applied in Latin America—so region-specific that they bear scant relevance to Latin America?

⁴³ See Anoop Singh, Agnès Belaisch, Charles Collyns, Paula De Masi, Reva Krieger, Guy Meredith, and Robert Rennhack, *Stabilization and Reform in Latin America: A Macroeconomic Perspective on the Experience Since the Early 1990s*, International Monetary Fund Occasional Paper 238. February 2005.

- Can the aspects of the Asian model that might be relevant for Latin America be successfully adapted and sequenced into the region’s long-standing structural transformations and reforms?

Some more specific questions might also be raised:

- Should the Latin American governments, in tandem with private sector actors, take a more proactive role in designing a forward-looking, long-term strategy for international competitiveness, diversification, and upgrading?
- In a world where Latin America’s competitors often obtain extensive strategic support from their governments, is there a need for public incentives to foster specific economic activities and sectors? How could Latin American governments’ readiness for taking on such activities be improved?
- How important are policies to promote social cohesion in Latin America? Are there mechanisms for efficient “social contracts” to sustain long-term strategies for modernization and growth? Are there lessons, for instance, in Asian countries’ policies toward SMEs and labor markets?
- Does the Asian experience point to institutional lessons for increasing domestic savings and investment in Latin America?
- Some reputable economists—including in the United States⁴⁴—have expressed concerns about the loss of potentially important externalities for growth should manufacturing industries migrate to Asia. How important is it for the Latin American economies to develop competitive strengths in the production and export of manufactured goods with high knowledge content? Does Asia’s increasing demand for raw materials from Latin America risk producing a case of “Dutch Disease” and, subsequently, undermining diversification and industrial upgrading?
- Can services and/or natural resources geared for exports generate similar dynamic externalities for development as have been yielded by manufacturing sectors?
- How can the sizable remittance flows to Latin America be best harnessed for productive investments and other developmental purposes? How could the cost of financial intermediation in remittances be lowered?

⁴⁴ See, for example, R. Mckinnon, 2004. “Government Deficits and the Deindustrialization of America.” *The Economists’ Voice*, Vol. 1, No. 3.

- How can Latin America better penetrate Asian markets? Can it link up with Asia-Pacific's production chains? How can the intra-industry dimension be expanded in Latin America-Asia-Pacific trade flows? What is the role of inter-regional trade and cooperation agreements in achieving these objectives?
- Can Latin America's long-standing regional integration strategies provide it with a potential competitive edge? Is Latin American integration deepening rapidly enough—and will extra-regional free trade areas help it compete with Asia? Is the FTAA a strategic tool for competitiveness in the face of Asian competition?

VII. CONCLUSION: TOWARD A SYNERGISTIC TRANS-PACIFIC COMMUNITY

Latin America and Asia-Pacific compete with each other in the global economy, just as they do with any region of the world. However, the competition is ultimately beneficial: it forces both regions to sharpen their respective competitive advantages, and to work harder to identify appropriate niches in the global markets. But even more importantly, Latin America and Asia-Pacific complement each other. The complementarities provide important opportunities for the two regions: Latin America and Asia-Pacific not only make natural trading partners, but can step up their global competitiveness through closer bi-regional economic ties. The rise of increasingly sophisticated manufacturing sectors in many Latin American and Asia-Pacific countries has potential for boosting bi-regional intra-industry trade, which, in turn, can enhance the quality and increase the variety of goods produced in—and exported from—the two regions. There is room for taking better advantage from the existing bi-regional channels in order to form trans-Pacific production chains, expand export-oriented investments, and tap into future opportunities in trade in services.

In their future cooperation, Latin America and Asia-Pacific are confronting new challenges. The evolution of the bi-regional relationship depends on several external forces that are beyond the control of either region, such as the state of the global economy, the behavior of exchange rates, the outcome of the Doha Trade Round, and economic and geo-political developments throughout the world. However, the trans-Pacific relationship also faces unprecedented opportunities that work in favor of closer and increasingly diversified bi-regional ties. The positive economic and policy trends include the reduction in the cost of international communications and transportation, the liberalization of trade and investment regimes across Latin America and Asia-Pacific, growth of purchasing power in the two regions, and the forceful drive for trans-Pacific free trade agreements. The strengthening of the various bilateral cooperation fora is also encouraging. What could be called the “scale economies of regional knowledge”—the vast issue-specific expertise carried by the diverse set of countries surrounding the Pacific basin—provides rich reflections on the best ways to harness the new bilateral opportunities as well as to respond to the pressing external challenges.

Trade provides perhaps the most immediate and tangible benefits from closer trans-Pacific cooperation. The new and planned trans-Pacific FTAs are indicative of the trust that has been built across the Pacific basin, and will allow Latin America and Asia to explore and realize the benefits of closer and deeper integration of their economies. In forming new agreements, countries in both regions will be well-served to adopt commitments that are fully consistent with and contribute to the multilateral trade regime—and, by extension, further the principle of open regionalism. A potential way of helping the regional economies to accomplish this is by using an overarching bi-regional forum, such as FEALAC, as an organizing umbrella for the various integration schemes. More generally, the proliferation of FTAs within the Pacific basin may attest to the difficulties facing the global trade talks; however, smartly designed, the regional agreements can also energize the multilateral liberalization process.

Bringing trade and investment barriers down is necessary but not sufficient for promoting trade and capital flows and guaranteeing shared economic prosperity. Successful integration requires attention to many other issue areas—first and foremost to the reduction of trade costs through improved transportation networks, transparent customs operations, paperless trading, and fluid cross-border communications and information flows. One trans-Pacific forum, APEC, has made great progress in all these areas and can provide examples of best practices: Latin America and Asia can build on past successes in deepening their common agenda. In the longer-run, there is also room for sharing experiences in the construction of region-wide free trade agreements; here, the FTAA process can offer some particularly valuable lessons to the advocates of the FTAA.

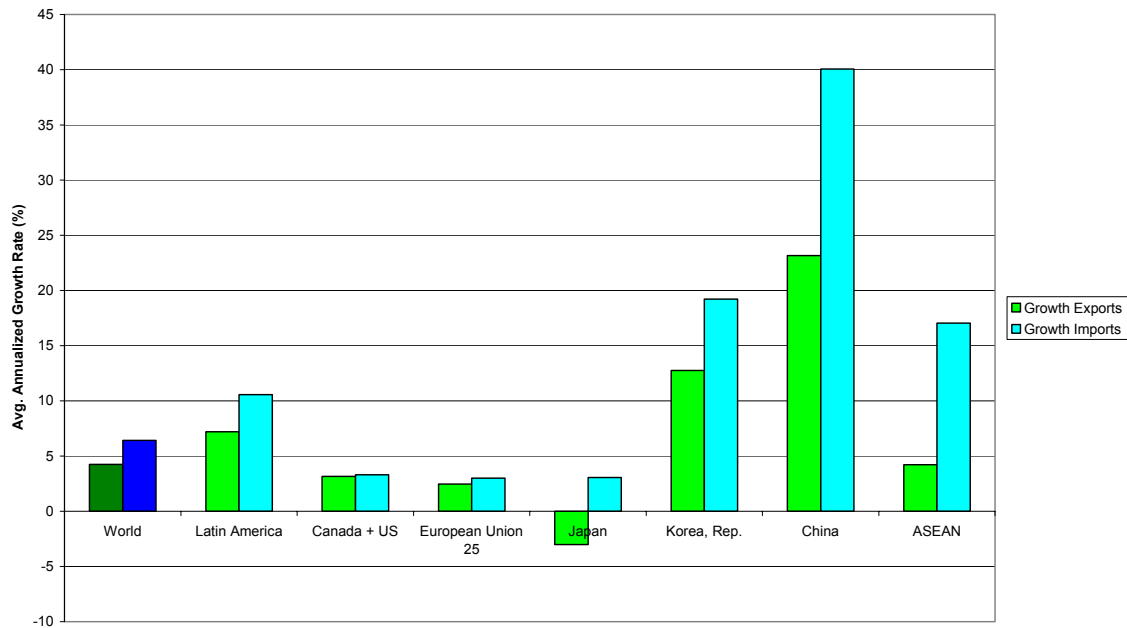
The trans-Pacific space consists of economies of varying levels of development, divergent historical paths, and an immense assortment of cultural and institutional combinations. That diversity is an asset. It allows for building further complementarities between the two regions, and lends to devising multifaceted approaches to common management of the challenges and opportunities engendered by globalization. A particularly promising agenda for Latin America and Asia-Pacific would be to develop a synergistic approach to bi-regional cooperation—integrate the mutual objectives of trade and investment liberalization, financial and macroeconomic stability, and broader, non-economic cooperation. Such a range of shared policy interventions will enhance the supply of various bi-regional public goods, as well as help combat common public “bads”, such as environmental pollution, financial crises, and communicable diseases. Today’s opportunities for pooling bi-regional resources for the benefit of all are there waiting to be tapped.

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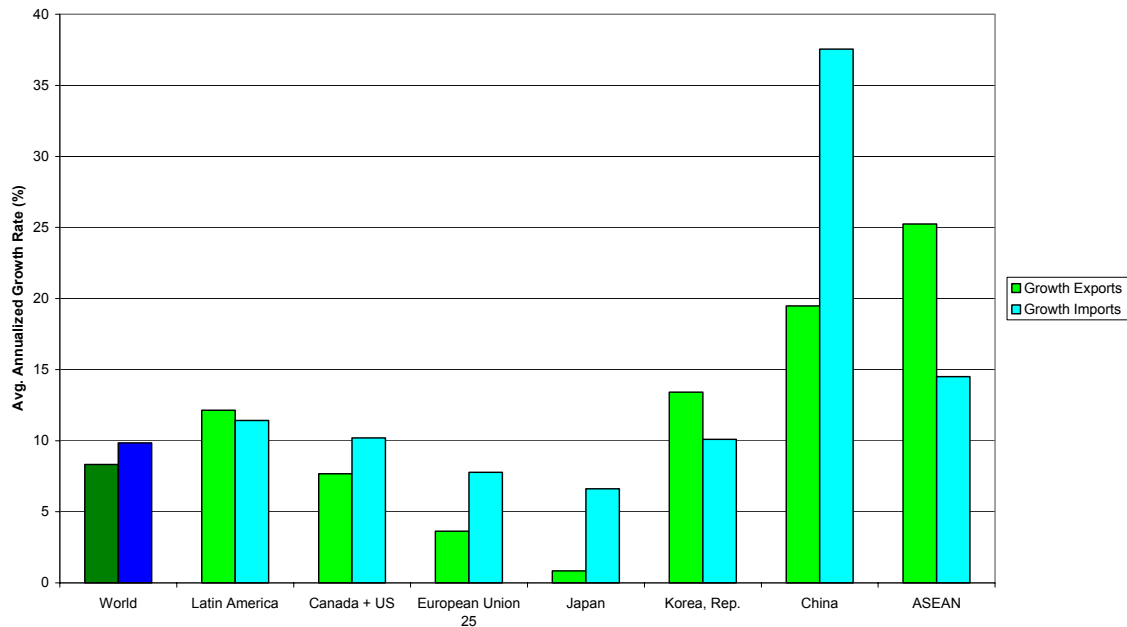
Table 9. Selected Trade and Economic Partnership Agreements in Force, under Negotiation, and Planned or Proposed among the Asia-Pacific Countries and between Asia-Pacific and Latin America

Graph 1. Growth of Andean Trade 1990-2003, by Partner



Source: UNSD, Comtrade

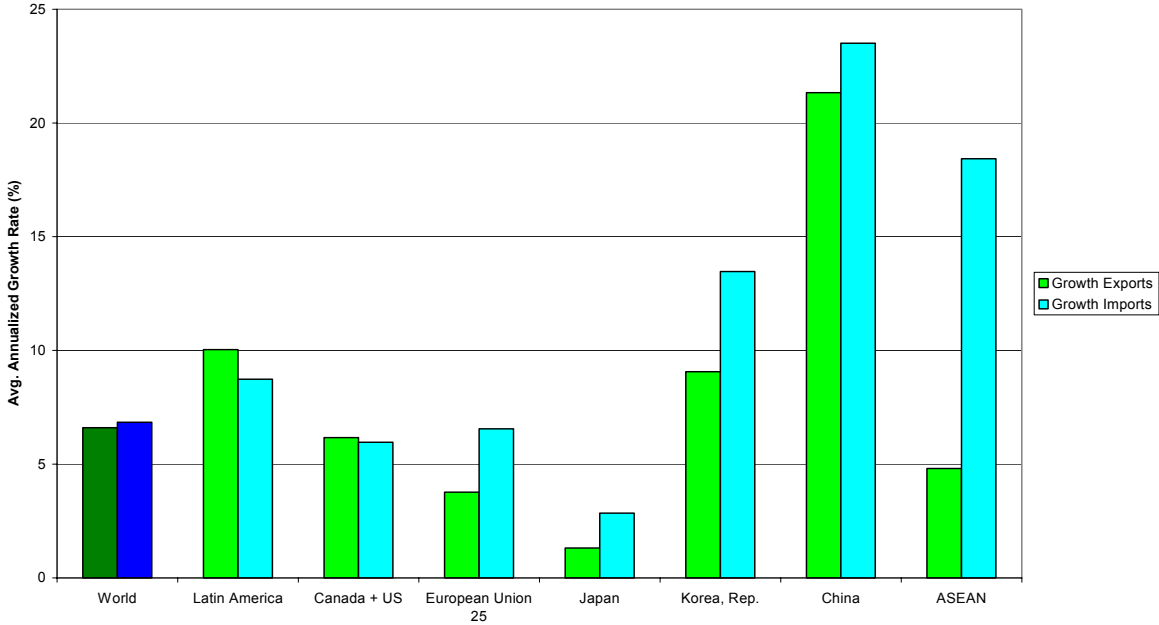
Graph 2. Growth of Central America's* Trade 1990-2003, by Partner



Source: UNSD, Comtrade

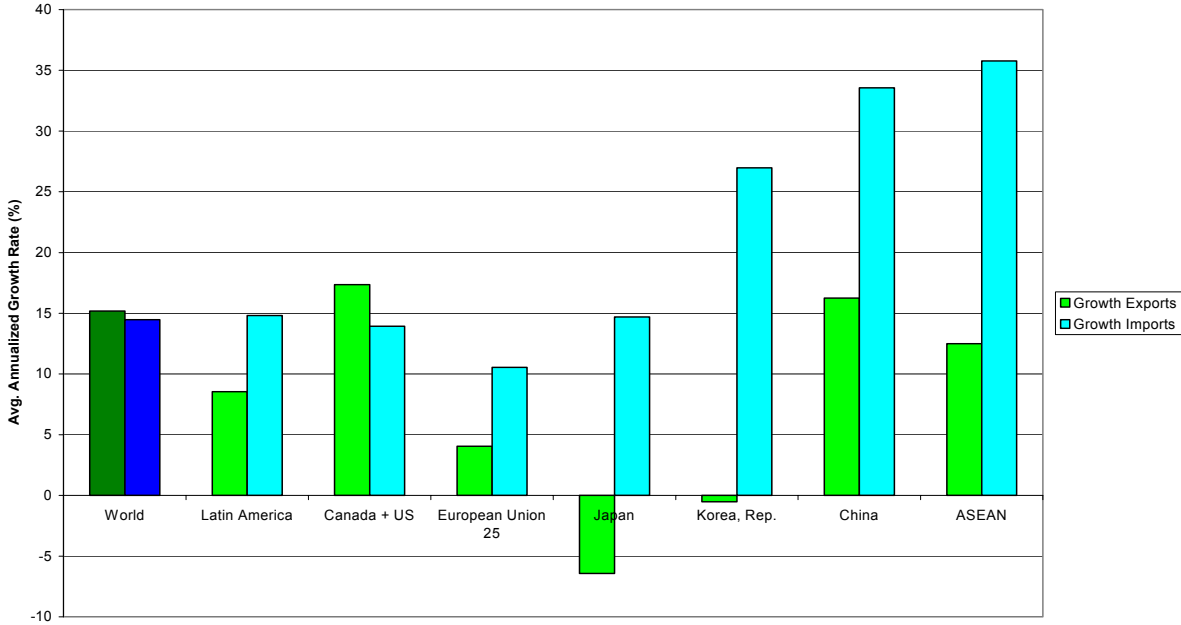
* Includes Panama

Graph 3. Growth of Mercosur's* Trade 1990-2003, by Partner



Source: UNSD, Comtrade
 *Includes Chile

Graph 4. Growth of Mexico's Trade 1990-2003, by Partner



Source: UNSD, Comtrade

Table 1. Latin American Exports to Asia-Pacific, 2003 (US\$ millions)

	Japan	Korea, Rep.	China	Hong Kong	Taiwan, Province of China	Singapore	ASEAN (excl. Singapore)	Asia-Pacific (A)	World (B)	A/B
<i>MERCOSUR plus Chile</i>	4,915	2,670	8,940	815	1,394	390	2,536	21,661	126,166	17.2%
Argentina	344	434	2,478	98	126	10	1,098	4,588	29,566	15.5%
Brazil	2,311	1,223	4,533	694	689	338	1,113	10,900	73,084	14.9%
Paraguay	5	0	17	9	12	1	9	53	1,242	4.3%
Uruguay	12	6	95	14	5	2	63	197	2,198	9.0%
Chile	2,243	1,006	1,817	0	563	39	254	5,922	20,077	29.5%
<i>Andean Community</i>	831	525	948	63	240	229	118	2,954	54,505	5.4%
Bolivia	19	17	12	3	0	0	12	63	1,651	3.8%
Colombia	202	76	82	16	52	11	18	456	13,092	3.5%
Ecuador	86	242	14	3	4	1	3	353	6,038	5.8%
Peru	390	176	675	30	147	16	76	1,511	8,749	17.3%
Venezuela	135	15	165	11	37	201	9	571	24,974	2.3%
Mexico	607	95	463	258	106	183	91	1,803	165,395	1.1%
<i>Central America incl. Panama</i>	114	76	115	142	46	29	269	791	12,066	6.6%
Costa Rica	58	11	89	132	39	24	244	596	5,800	10.3%
Guatemala	20	60	4	1	0	6	17	108	2,635	4.1%
Honduras	16	4	3	1	0	0	8	32	992	3.2%
Nicaragua	4	0	0	1	0	0	0	6	585	1.0%
El Salvador	9	1	7	2	0	0	0	19	1,255	1.5%
Panama	6	0	12	5	7	0	0	30	799	3.8%
<i>Caribbean</i>	5	0	4	0	1	0	14	25	5,575	0.5%
Belize	4	0	0	0	0	0	0	4	191	2.3%
Barbados	0	0	0	0	1	0	0	1	165	0.8%
Dominica	0	0	0	0	0	0	0	0	38	0.0%
Grenada	0	0	0	0	0	0	0	0	25	0.7%
Jamaica	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
St. Lucia	0	0	0	0	0	0	0	0	39	0.1%
Trinidad and Tobago	1	0	4	0	0	0	14	19	5,118	0.4%
Latin America	6,473	3,367	10,470	1,278	1,786	832	3,029	27,234	363,707	7.5%

Source: IDB-INT calculations based on UN/COMTRADE data.

Note: Data for Jamaica are not available for 2003.

Table 2. Latin American Exports to Asia-Pacific, 1990 (US\$ millions)

	Japan	Korea, Rep.	China	Hong Kong	Taiwan, Province of China	Singapore	ASEAN (excl. Singapore)	Asia-Pacific (A)	World (B)	A/B
<i>Mercosur Plus Chile</i>	4,151	864	724	392	780	330	1,260	8,500	54,952	15.5%
Argentina	395	51	241	60	48	40	329	1,164	12,352	9.4%
Brazil	2,349	543	382	271	432	250	790	5,016	31,412	16.0%
Paraguay	3	6	0	3	18	2	4	36	959	3.8%
Uruguay	21	6	67	17	3	5	5	123	1,708	7.2%
Chile	1,384	258	34	41	279	33	132	2,162	8,522	25.4%
<i>Andean Community</i>	1,238	110	63	71	173	128	74	1,857	31,759	5.8%
Bolivia	3	2	0	1	0	0	1	7	923	0.8%
Colombia	259	13	2	16	1	3	9	303	6,765	4.5%
Ecuador	51	23	0	0	65	0	2	142	2,714	5.2%
Peru	420	65	55	19	50	0	18	628	3,313	19.0%
Venezuela	505	6	6	34	57	125	44	777	18,044	4.3%
Mexico	1,442	102	65	42	0	33	26	1,711	26,345	6.5%
<i>Central America incl. Panama</i>	102	15	11	3	10	4	12	156	4,263	3.7%
Costa Rica	15	5	0	2	6	1	5	34	1,456	2.4%
Guatemala	35	3	0	0	3	3	7	50	1,163	4.3%
Honduras	28	6	0	0	0	0	0	34	555	6.2%
Nicaragua	17	0	11	0	1	0	0	30	340	8.7%
El Salvador	4	0	0	0	0	0	0	4	409	1.1%
Panama	2	0	0	1	0	0	0	3	341	0.9%
<i>Caribbean</i>	25	0	3	0	4	0	3	36	3,597	1.0%
Belize	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Barbados	1	0	0	0	0	0	0	1	213	0.3%
Dominica	0	0	0	0	0	0	0	0	53	0.0%
Grenada	1	0	0	0	0	0	0	1	21	3.2%
Jamaica	8	0	0	0	1	0	0	9	1,108	0.8%
St. Lucia	0	0	0	0	0	0	0	0	120	0.0%
Trinidad and Tobago	16	0	2	0	4	0	3	25	2,080	1.2%
Latin America	6,958	1,091	866	507	967	495	1,376	12,261	120,916	10.1%

Source: IDB-INT calculations based on UN/COMTRADE data.

Note: Data for Belize are not available for 1990.

Table 3. Latin American Imports from Asia-Pacific, 2003 (US\$ millions)

	Japan	Korea, Rep.	China	Hong Kong	Taiwan, Province of	Singapore	ASEAN (excl. Singapore)	Asia-Pacific (A)	World (B)	A/B
<i>Mercosur Plus Chile</i>										
Argentina	3,701	1,940	4,427	299	1,030	488	1,878	13,762	84,224	16.3%
Brazil	396	212	721	22	131	39	229	1,750	13,833	12.6%
Paraguay	2,634	1,150	2,331	270	682	427	1,352	8,847	50,824	17.4%
Uruguay	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chile	28	37	86	7	20	3	11	192	2,190	8.8%
	643	540	1,289	0	196	19	285	2,974	17,376	17.1%
<i>Andean Community</i>										
Bolivia	1,601	966	2,071	108	444	76	487	5,752	38,871	14.8%
Colombia	83	17	85	1	7	1	8	202	1,684	12.0%
Ecuador	643	338	689	38	164	34	187	2,092	13,881	15.1%
Peru	311	252	482	22	84	8	99	1,259	6,534	19.3%
Venezuela	369	276	640	15	133	22	140	1,595	8,414	19.0%
	195	83	176	31	55	11	53	603	8,358	7.2%
Mexico	7,623	4,113	9,401	517	2,509	1,338	5,106	30,606	171,291	17.9%
<i>Central America incl. Panama</i>										
Costa Rica	1,092	332	648	154	106	20	131	2,484	26,765	9.3%
Guatemala	308	102	159	49	65	10	33	724	7,388	9.8%
Honduras	249	85	154	47	0	3	14	552	6,719	8.2%
Nicaragua	128	22	38	14	21	0	25	248	3,316	7.5%
El Salvador	82	0	101	4	0	1	24	212	1,836	11.5%
Panama	133	59	148	23	0	5	25	393	4,382	9.0%
	193	64	48	18	19	1	10	354	3,124	11.3%
<i>Caribbean</i>										
Belize	253	36	147	10	29	9	50	534	6,306	8.5%
Barbados	10	2	5	1	2	0	2	22	396	5.6%
Dominica	53	6	31	3	6	1	9	110	1,195	9.2%
Grenada	5	0	1	0	1	0	0	8	127	6.2%
Jamaica	11	1	3	0	1	0	1	17	253	6.9%
St. Lucia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Trinidad and Tobago	12	2	8	1	1	0	3	27	393	6.9%
	162	24	98	4	19	7	34	349	3,942	8.8%
Latin America	14,270	7,387	16,694	1,087	4,118	1,930	7,653	53,138	327,457	16.2%

Source: IDB-INT calculations based on UN/COMTRADE data.

Note: Data for Paraguay imports and for Jamaica are not available for 2003.

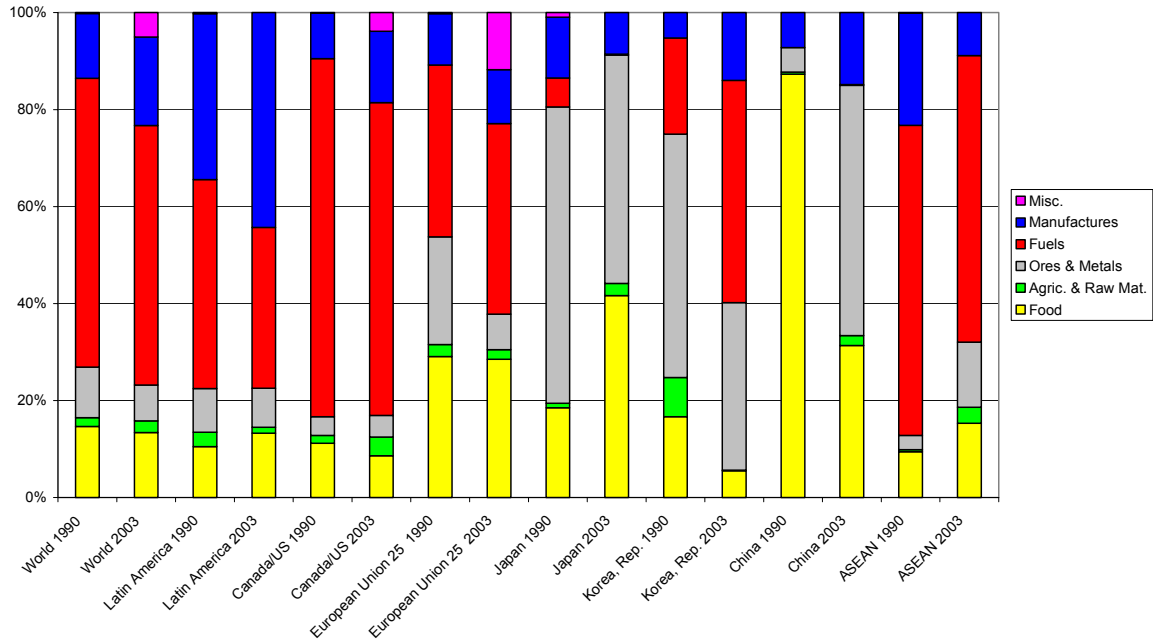
Table 4. Latin American Imports from Asia-Pacific, 1990 (US\$ millions)

	Japan	Korea, Rep.	China	Hong Kong	Taiwan, Province of	Singapore	ASEAN (excl. Singapore)	Asia-Pacific (A)	World (B)	A/B
<i>Mercosur Plus Chile</i>	2,615	379	298	198	312	61	205	4,067	36,322	11.2%
Argentina	181	88	32	9	26	15	33	383	4,077	9.4%
Brazil	1,612	96	203	86	109	22	134	2,262	22,460	10.1%
Paraguay	208	59	0	54	84	1	1	408	1,349	30.2%
Uruguay	45	13	6	8	12	6	3	93	1,415	6.6%
Chile	568	123	57	41	82	18	33	921	7,022	13.1%
<i>Andean Community</i>	1,081	98	26	45	133	27	45	1,455	17,330	8.4%
Bolivia	69	4	4	1	3	0	0	81	703	11.5%
Colombia	496	25	2	7	21	14	2	567	5,589	10.1%
Ecuador	171	13	1	5	35	0	3	228	1,804	12.6%
Peru	91	19	19	2	22	9	27	187	2,634	7.1%
Venezuela	254	37	0	30	52	5	14	392	6,601	5.9%
Mexico	1,283	185	218	220	0	45	76	2,027	29,560	6.9%
<i>Central America incl. Panama</i>	475	95	10	51	127	4	22	785	7,899	9.9%
Costa Rica	164	43	1	14	48	1	2	273	2,282	12.0%
Guatemala	98	18	2	7	27	2	6	159	1,649	9.6%
Honduras	66	4	4	10	11	0	1	97	942	10.3%
Nicaragua	45	1	1	3	14	0	11	73	635	11.6%
El Salvador	28	4	2	2	6	1	0	43	902	4.8%
Panama	74	25	1	15	22	0	2	140	1,489	9.4%
<i>Caribbean</i>	205	31	22	17	40	6	15	337	4,377	7.7%
Belize	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Barbados	37	6	3	2	7	1	3	58	698	8.3%
Dominica	7	2	1	1	1	0	0	12	118	10.0%
Grenada	8	1	1	1	1	0	1	12	109	11.4%
Jamaica	92	13	7	8	13	2	7	141	1,919	7.3%
St. Lucia	17	2	1	2	0	0	1	24	272	8.8%
Trinidad and Tobago	44	8	10	4	18	3	4	90	1,262	7.1%
Latin America	5,659	788	575	531	612	143	363	8,670	95,489	9.1%

Source: IDB-INT calculations based on UN/COMTRADE data.

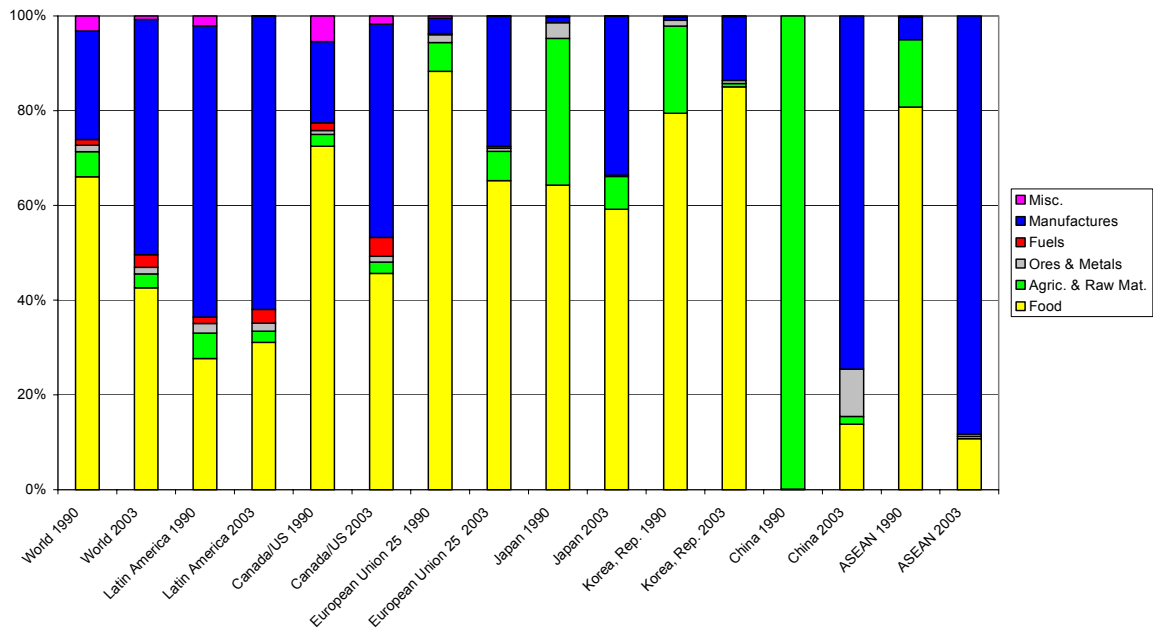
Note: Data for Belize are not available for 1990.

Graph 5. Andean Export Structure by Destination and Major Commodity Group, 1990 and 2003



Source: UNSD, Comtrade

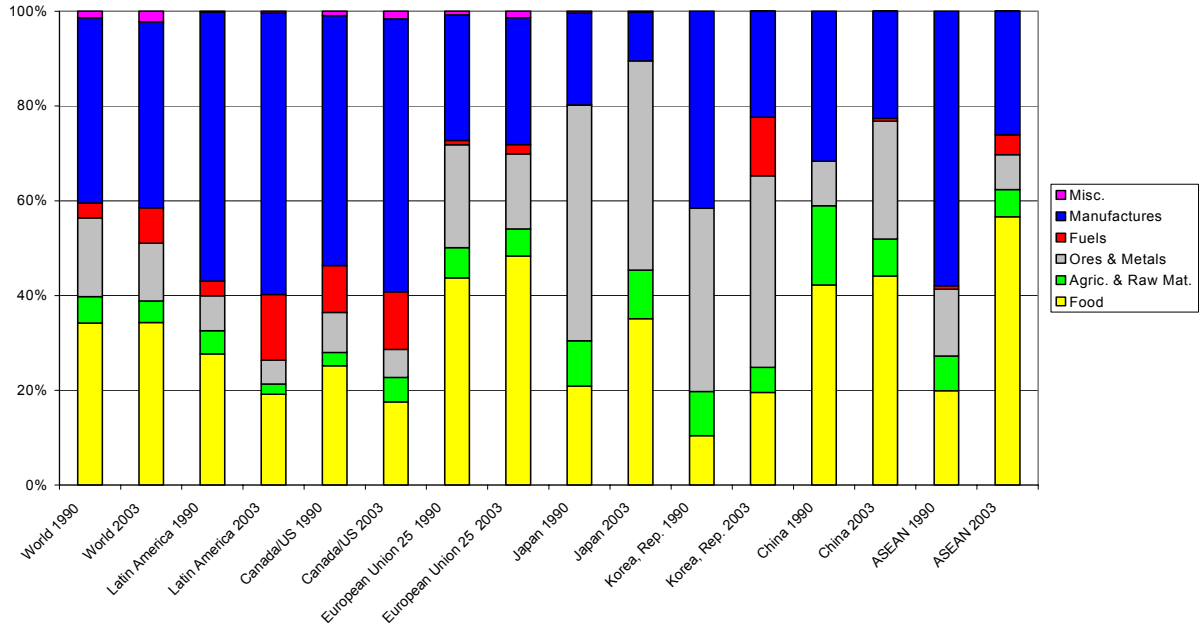
Graph 6. Central America's* Export Structure by Destination and Major Commodity Group, 1990 and 2003



Source: UNSD, Comtrade

*Includes Panama

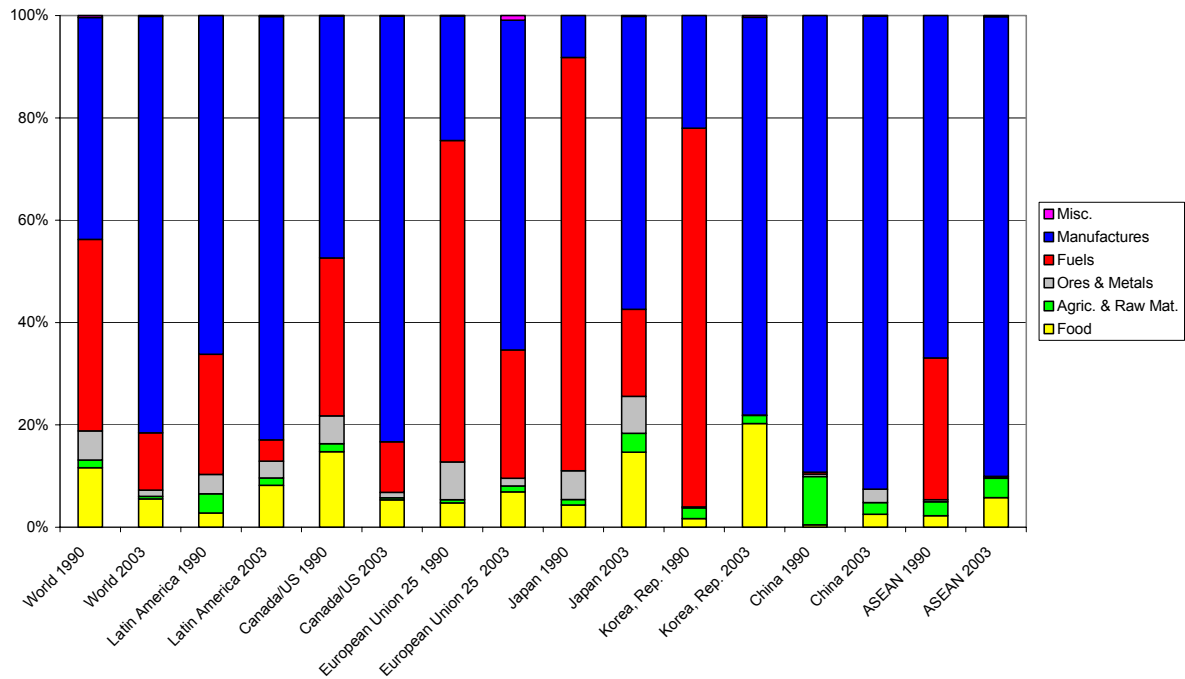
Graph 7. Mercosur's* Export Structure by Destination and Major Commodity Group, 1990 and 2003



Source: UNSD, Comtrade

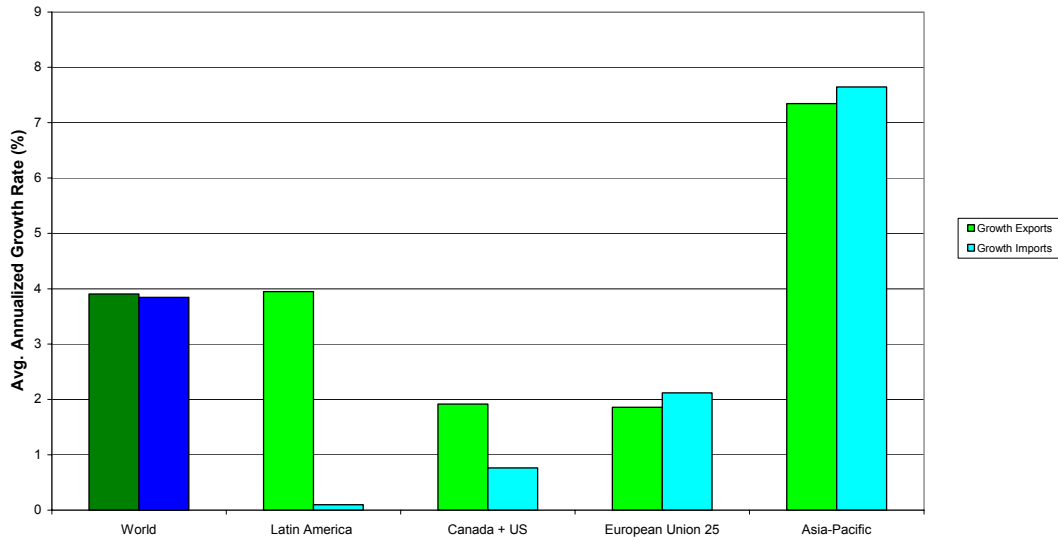
*Includes Chile

Graph 8. Mexico's Export Structure by Destination and Major Commodity Group, 1990 and 2003



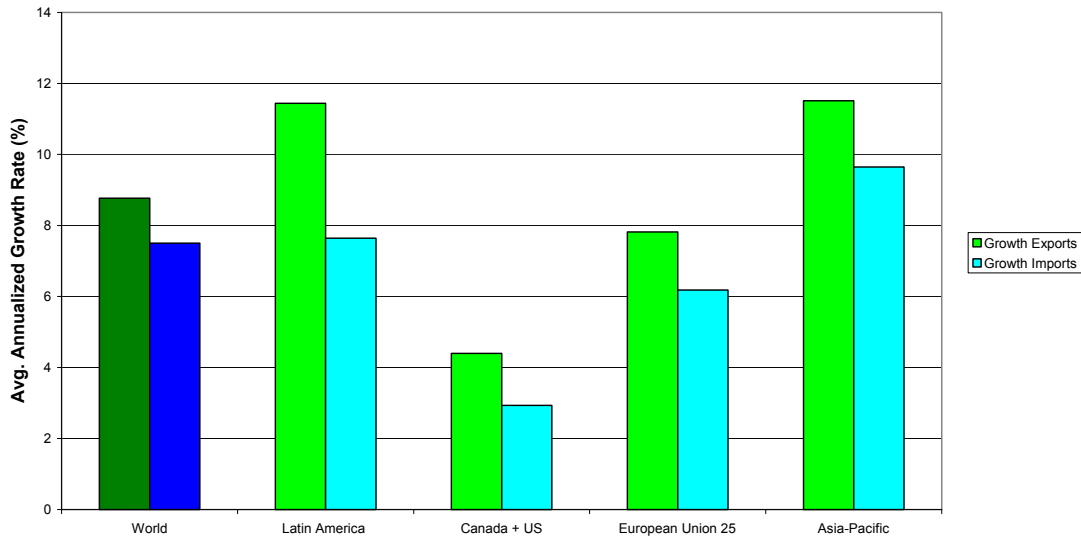
Source: UNSD, Comtrade

Graph 9. Growth of Japan's Trade 1990-2003, by Partner



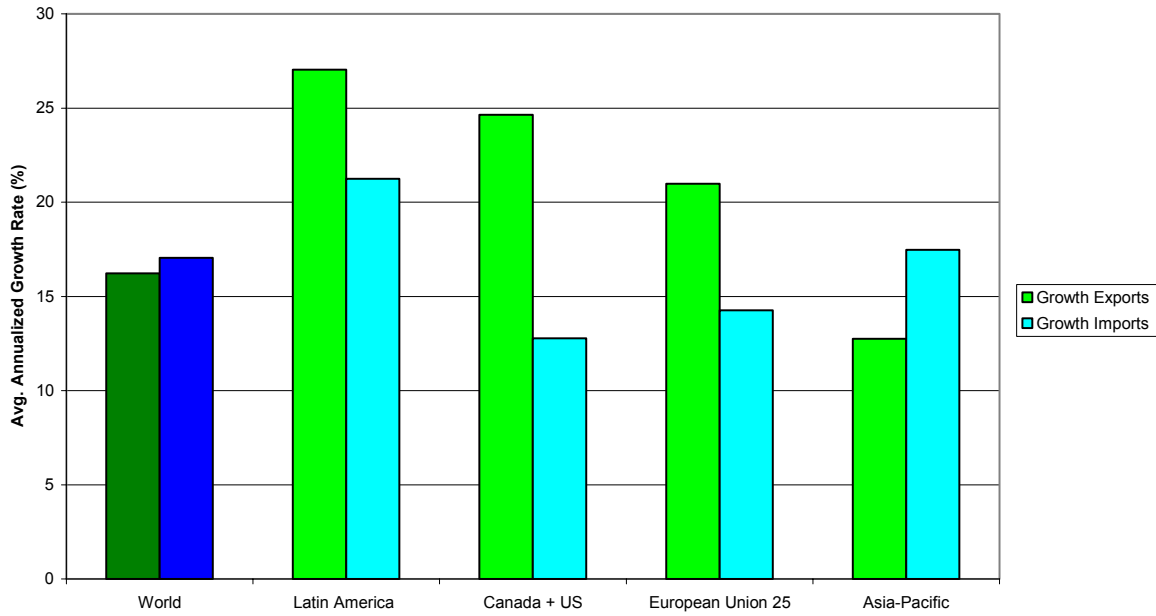
Source: UNSD, Comtrade

Graph 10. Growth of Republic of Korea's Trade 1990-2003, by Partner



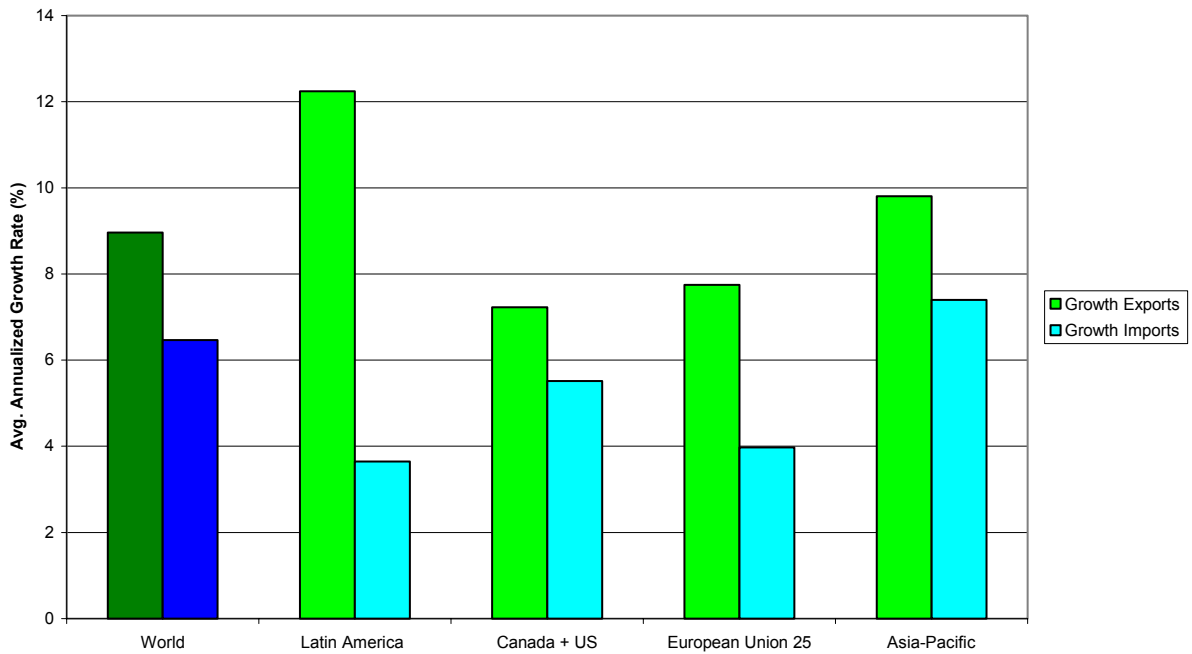
Source: UNSD, Comtrade

Graph 11. Growth of China's Trade 1990-2003, by Partner



Source: UNSD, Comtrade

Graph 12. Growth of ASEAN-6 Trade 1990-2003, by Partner



Source: UNSD, Comtrade

Table 5. Asia-Pacific Exports to Latin America, 2003 (US\$ millions)

	Andean Community	CARICOM (incl. Dom. Rep.)	Central Am. (incl. Panama)	Mercosur (incl. Chile)	Mexico	Latin America (A)	World (B)	A/B
China	1,202	561	2,189	4,128	3,267	11,347	438,228	2.6%
Hong Kong, China	5	5	18	16	167	212	19,587	1.1%
Japan	1,281	901	6,388	2,792	3,642	15,004	471,996	3.2%
Korea, Rep.	793	1,097	2,136	1,888	2,455	8,368	193,817	4.3%
Taiwan, Province of China	362	176	408	826	887	2,659	144,180	1.8%
<i>ASEAN-6</i>	327	413	1,540	1,485	2,005	5,770	430,633	1.3%
Brunei	0	0	0	0	0	0	3,849	0.0%
Indonesia	106	29	82	373	238	828	61,058	1.4%
Malaysia	57	40	98	314	524	1,032	104,969	1.0%
Philippines	10	11	42	40	111	214	36,231	0.6%
Singapore	51	268	1,189	304	719	2,530	144,195	1.8%
Thailand	104	64	130	454	413	1,165	80,331	1.4%
Asia-Pacific	3,970	3,153	12,680	11,134	12,423	43,359	1,698,441	2.6%

Source: IDB-INT calculations based on UN/COMTRADE data, supplemented with data from national statistical offices.

Table 6. Asia-Pacific Exports to Latin America, 1990 (US\$ millions)

	Andean Community	CARICOM (incl. Dom. Rep.)	Central Am. (incl. Panama)	Mercosur (incl. Chile)	Mexico	Latin America (A)	World (B)	A/B
China	53	21	115	201	111	500	62,091	0.8%
Hong Kong, China	22	42	134	168	76	441	29,002	1.5%
Japan	1,009	787	3,221	2,074	2,271	9,362	286,948	3.3%
Korea, Rep.	139	212	674	395	560	1,979	65,016	3.0%
Taiwan, Province of China	100	113	389	321	334	1,257	67,041	1.9%
<i>ASEAN-6</i>	79	92	566	275	263	1,276	141,101	0.9%
Brunei	0	0	0	0	0	0	2,148	0.0%
Indonesia	6	1	20	25	36	88	25,675	0.3%
Malaysia	14	29	28	69	60	199	29,453	0.7%
Philippines	1	2	38	8	8	58	8,091	0.7%
Singapore	38	50	319	157	78	642	52,730	1.2%
Thailand	21	11	160	15	82	289	23,004	1.3%
Asia-Pacific	1,402	1,268	5,098	3,433	3,614	14,815	651,199	2.3%

Source: IDB-INT calculations based on UN/COMTRADE data.

Table 7. Asia-Pacific Imports from Latin America, 2003 (US\$ millions)

	Andean Community	CARICOM (incl. Dom. Rep.)	Central Am. (incl. Panama)	Mercosur (incl. Chile)	Mexico	Latin America (A)	World (B)	A/B
China	1,409	139	597	10,908	1,677	14,730	412,760	3.6%
Hong Kong, China	78	13	370	1,156	178	1,795	233,194	0.8%
Japan	1,048	125	434	6,034	1,782	9,423	383,452	2.5%
Korea, Rep.	602	75	332	3,125	334	4,468	178,826	2.5%
Taiwan, Province of China	237	6	91	1,668	332	2,333	127,249	1.8%
ASEAN-6	192	83	494	3,025	648	4,442	359,819	1.2%
Brunei	0	0	0	1	0	1	1,244	0.1%
Indonesia	23	11	21	469	31	554	32,551	1.7%
Malaysia	17	9	268	491	135	920	82,741	1.1%
Philippines	18	1	26	469	20	534	39,544	1.4%
Singapore	80	52	103	410	289	934	127,935	0.7%
Thailand	54	10	77	1,184	174	1,498	75,805	2.0%
Asia-Pacific	3,566	442	2,317	25,916	4,950	37,190	1,695,299	2.2%

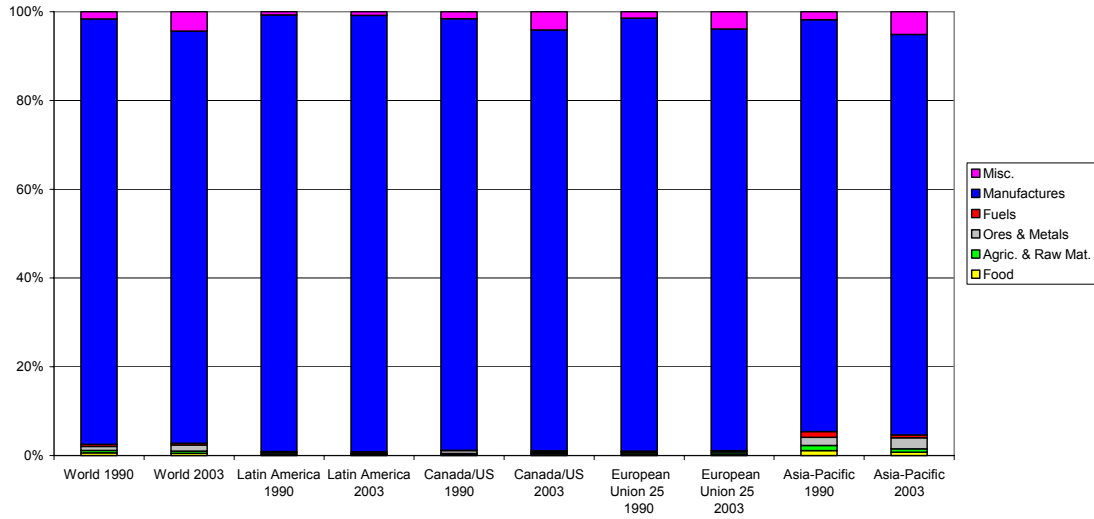
Source: IDB-INT calculations based on UN/COMTRADE data, supplemented with data from national statistical offices.

Table 8. Asia-Pacific Imports from Latin America, 1990 (US\$ millions)

	Andean Community	CARICOM (incl. Dom. Rep.)	Central Am. (incl. Panama)	Mercosur (incl. Chile)	Mexico	Latin America (A)	World (B)	A/B
China	120	4	13	966	100	1,203	53,345	2.3%
Hong Kong, China	80	3	11	464	65	624	84,725	0.7%
Japan	1,618	102	294	5,371	1,931	9,316	234,799	4.0%
Korea, Rep.	154	35	124	1,144	264	1,722	69,840	2.5%
Taiwan, Province of China	154	6	13	1,002	125	1,301	54,696	2.4%
ASEAN-6	230	26	138	2,166	199	2,759	159,287	1.7%
Brunei	0	0	0	3	0	3	1,001	0.3%
Indonesia	16	6	12	419	63	516	21,837	2.4%
Malaysia	16	8	15	464	10	513	29,246	1.8%
Philippines	21	0	1	314	12	348	13,042	2.7%
Singapore	99	4	106	454	53	716	60,790	1.2%
Thailand	77	7	6	513	62	664	33,371	2.0%
Asia-Pacific	2,356	177	592	11,114	2,685	16,924	656,691	2.6%

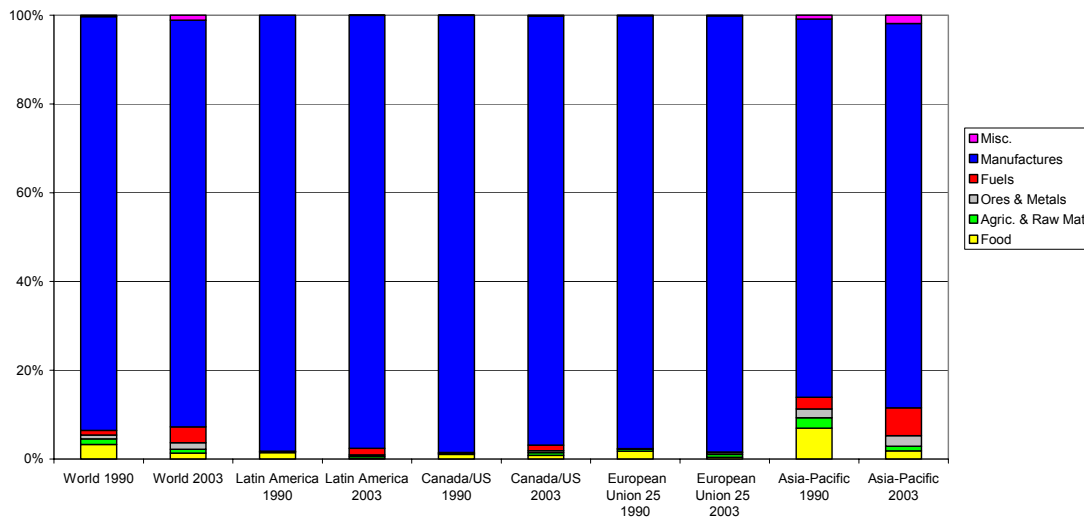
Source: IDB-INT calculations based on UN/COMTRADE data.

Graph 13. Japan's Export Structure by Destination and Major Commodity Group, 1990 and 2003



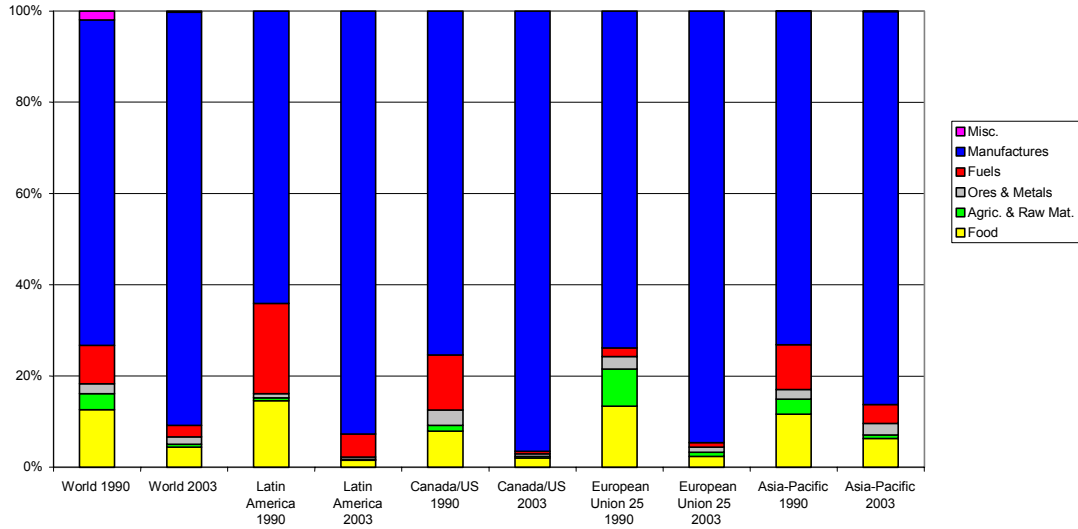
Source: UNSD, Comtrade

Graph 14. Korea's Export Structure by Destination and Major Commodity Group, 1990 and 2003



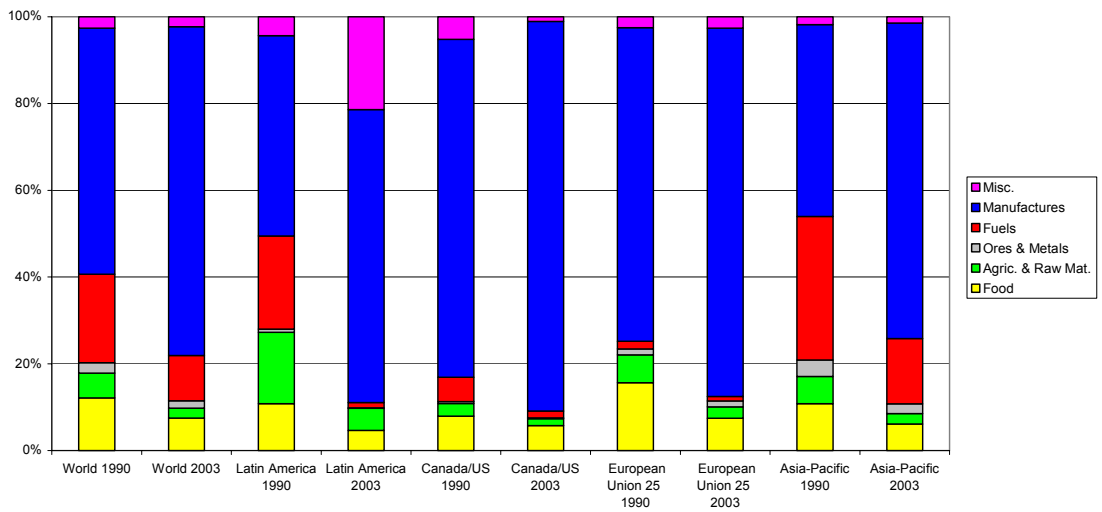
Source: UNSD, Comtrade

Graph 15. China's Export Structure by Destination and Major Commodity Group, 1990 and 2003



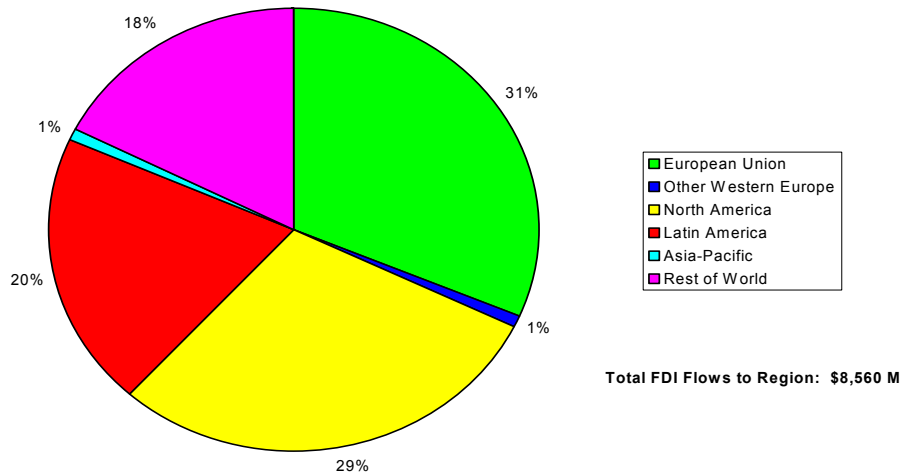
Source: UNSD, Comtrade

Graph 16. ASEAN-6 Export Structure by Destination and Major Commodity Group, 1990 and 2003



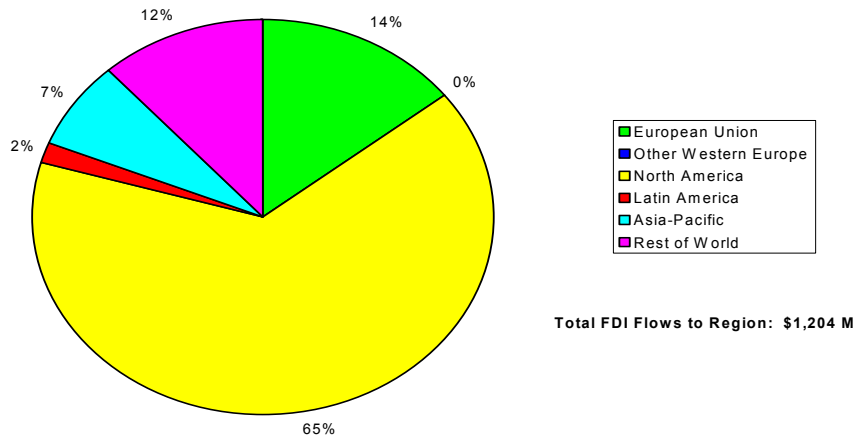
Source: UNSD, Comtrade

**Graph 17. FDI Flows in Andean Community:
% by Geographical Region, Period Average 1998-2002**



Source: UNCTAD, FDI Country Profiles (on-line). Data come from national sources.

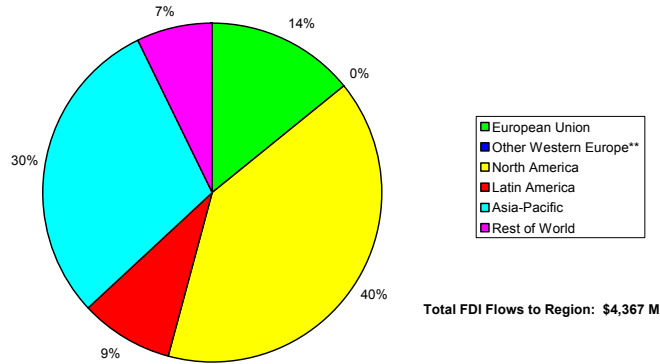
**Graph 18. FDI Flows in Selected Caribbean Countries:
% by Geographical Region, Period Average 1998-2002***



Source: UNCTAD, FDI Country Profiles (on-line). Data come from national sources and UNCTAD FDI/TNC database based on information provided by reporting partner countries.

*Includes Barbados, Bahamas, Guyana, Haiti, Jamaica, Suriname and Trinidad and Tobago. Due to data constraints, Trinidad and Tobago's values based on period average 1998-1999.

**Graph 19. FDI Flows in Central America*:
% by Geographical Region, Period Average 1998-2002**

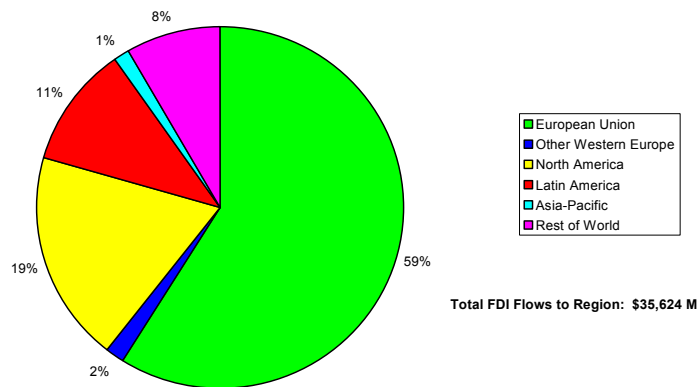


Source: UNCTAD, FDI Country Profiles (on-line). Data come from national sources and UNCTAD FDI/TNC database based on information provided by reporting partner countries.

*Includes Panama.

**Other Western Europe exhibited a small negative FDI value to Central America over this period.

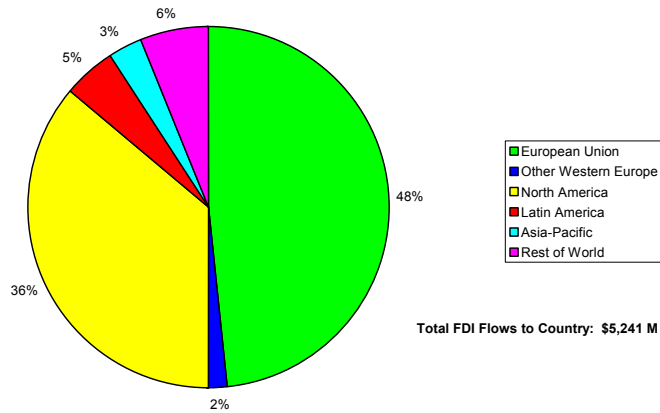
**Graph 20. FDI Flows in Mercosur:
% by Geographical Region, Period Average 1998-2002***



Source: UNCTAD, FDI Country Profiles (on-line). Data come from national sources and from UNCTAD FDI/TNC database based on information provided by reporting partner countries.

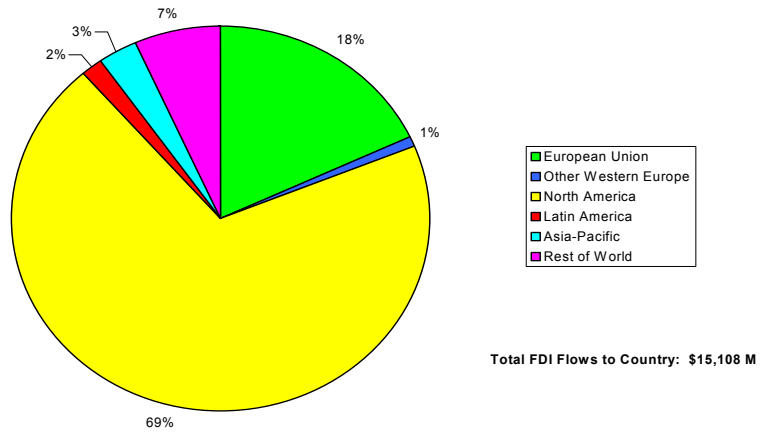
*Due to data constraints, Paraguay's values based on period average 1998-2001.

**Graph 21. FDI Flows in Chile:
% by Geographical Region, Period Average 1998-2002**



Source: UNCTAD, FDI Country Profiles (on-line). Data based on national sources.

**Graph 22. FDI Flows in Mexico:
% by Geographical Region, Period Average 1998-2002**



Source: UNCTAD, FDI Country Profiles (on-line). Data based on national sources.

Table 9. Selected Trade and Economic Partnership Agreements in Force, under Negotiation, and Planned or Proposed by the Asia-Pacific Countries and between Asia-Pacific and Latin America

Concluded	Entry Year
Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)	1983
Asia-Pacific Economic Cooperation (APEC)	1989
Laos-Thailand	1991
ASEAN FTA (AFTA)	1992
Melanesian Spearhead Group Trade Agreement (MSGTA)	1993
New Zealand-Singapore Closer Economic Partnership (NZSCEP)	2001
Japan-Singapore Economic Partnership Agreement (JSEPA)	2002
China-Thailand	2003
EFTA-Singapore	2003
Singapore-Australia FTA (SAFTA)	2003
Singapore-US FTA	2003
Pacific Island Countries Trade Agreement (PICTA)	2003
Republic of Korea-Chile	2003
China-Hong Kong CEPA	2004
China-Macao	2004
Australia-US	2004
Taiwan, Province of China-Panama	2004
Australia-Thailand	2005
New Zealand-Thailand Closer Economic Partnership Agreement	2005
Japan-Mexico	2005
Republic of Korea-Singapore FTA (KSFTA)	Negotiations concluded 2004
Singapore-Jordan	Negotiations concluded 2004
Japan-Philippines	Negotiations concluded 2004
(India-Mercosur)	Negotiations concluded 2005
Brunei-New Zealand-Singapore-Chile	Negotiations concluded 2005
China-Chile	Negotiations concluded 2005
Japan-Malaysia	Negotiations concluded 2005
Japan-Thailand Closer Economic Partnership (JTEP)	Negotiations concluded 2005
Singapore-Panama	Negotiations concluded 2005
Singapore-Republic of Korea	Negotiations concluded 2005
Singapore-India	Negotiations concluded 2005
Singapore-Pakistan	Negotiations concluded 2005
Republic of Korea-EFTA	Negotiations concluded 2005
Taiwan, Province of China-Guatemala	Negotiations concluded 2005
Thailand-Peru	Negotiations concluded 2005
Thailand-India	Negotiations concluded 2005

Under Negotiation

Asean-China
Asean-Australia-New Zealand
Asean-Japan
Asean-Republic of Korea
Asean-India
China-New Zealand
Hong Kong-New Zealand
Japan-Republic of Korea
Japan-Indonesia
Singapore-Bahrain
Malaysia-New Zealand
Singapore-Canada
Singapore-Egypt
Singapore-Kuwait
Singapore-Qatar
Singapore-Sri Lanka
Singapore-United Arab Emirates
Thailand-Bahrain
Thailand-US
(India-Chile)
Singapore-Mexico
Singapore-Peru

Planned/Proposed

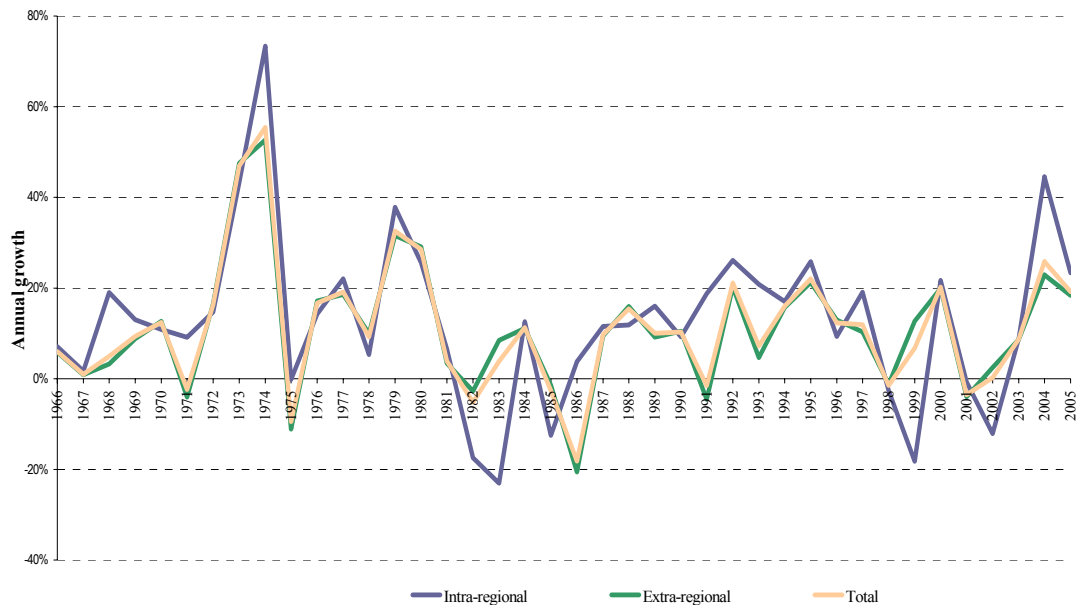
Asean-Korea
Asean-EU
China-Australia
China-India
Malaysia-Australia
Malaysia-US
Singapore-EU
Thailand-EFTA
China-Mercosur
Japan-Chile
New Zealand-Mexico
**Republic of Korea-
Mexico**
Thailand-Chile
(India-Chile)

Source: IDB, Integration and Regional Programs Department
Note: Agreements in bold include LAC partners.

ADDENDUM: Latin American Exports in 2005: Growth Continues

Latin American exports to the world grew by 19 percent in 2005, according to preliminary estimates by the IDB's Integration, Trade and Hemispheric Issues Division (See Table 1 and Figure 1). This builds upon two previous years of growth, including a remarkable 23 percent increase in 2004, which were preceded by two consecutive years of decline in exports earnings. Overall exports to the world are now projected to be a record \$530 billion. The growth in exports was generally shared by most of the countries of the region, and was reflected in intra as well as extra-regional exports, intra-regional growing 22 percent versus 19 percent extra-regional. Intra-regional trade has once again increased as a share of Latin America's total trade with the world, to an estimated 16.0 percent of the total, compared with 15.5 percent in 2004, although still below the historical high of 19.5 percent reached in 1997.

Figure 1: Annual Growth of Latin American Total, Intra and Extra-Regional Exports: 1966-2005, current US\$



Source: UN Comtrade except for 2004 and 2005, which are based on official country data and on data from DATAINTAL, ALADI, SIECA, and the Andean Community.

Overall hemispheric exports grew 13 percent, with similar results for trade between countries in the Western Hemisphere. These results reflect the aforementioned 19 percent increase in Latin American overall exports, as well as Canada and the U.S., which at 11.7 percent and 10.3 percent total growth respectively increased at a little more than half the Latin American rate.

The Andean Community and Mercosur made particularly strong showings this year. Andean Community exports increased 37 percent to the world, and increased 24 percent within the Community. Venezuela continues to benefit from high oil prices, contributing to

an estimated year-on-year growth in total exports of 44 percent, and Venezuelan exports to the United States have grown roughly 41 percent year-on-year. The other economies of the subregion posted strong results as well, with Bolivia, Colombia, Ecuador, and Peru increasing their total exports 22.8, 30.3, 23.9, and 35.4 percent, respectively (Table 2).

Mercosur experienced another year of growth in exports, despite the recovery in the value of the Brazilian Real. Intra-Mercosur trade is now at historic high levels of roughly \$20.8 billion, and Mercosur's exports to the world are at record highs as well. Overall and intra-regional exports grew by 21 and 22 percent, respectively. Brazil is a major contributor to the subregion's export growth this year, and with an increase of 22.1 percent will easily break the \$100 billion mark. Argentina at 18.7 percent and Uruguay at 17.2 percent both exhibited significant overall export growth, while Paraguay's total exports to the world grew only 1.0 percent.

Chile had another good year, with a 25 percent growth in exports, although not as strong as last year's 55 percent export growth over 2003. Demand for raw materials by China is making a significant contribution, and exports to China already represent roughly 12 percent of Chilean total exports to the world. Additionally, this year Chile and China signed a trade agreement that will enter into force in 2006, the first agreement between a Latin American country and China. Meanwhile, the recent free trade agreement between Chile and the United States appears to be paying benefits, and exports to the U.S. have grown 32 percent, while U.S. exports to Chile have grown 49 percent. However, it should be noted that the minerals sector is showing some of the strongest improvements in Chilean exports to the U.S., pointing towards possible price effects.

NAFTA exports grew 11 percent with the world, and 10 percent intra-NAFTA. Mexican exports grew 11.8 percent over the last year. Although exports to NAFTA grew at a lower rate of 10.0 percent, trade with Mexico's Central American Common Market neighbors to the south was more impressive, exhibiting a 38.5 percent increase.

Central American exports, apparently under pressure from the Chinese apparel industry, once again underperformed Latin America as a whole, with overall exports having grown 9.8 percent over 2004. Nicaragua posted the strongest gains this year with 13.2 percent export growth. Overall exports of other countries of the subregion, Costa Rica, El Salvador, Guatemala, and Honduras, grew 9.9, 5.7, 9.7, and 11.3 percent, respectively.

In sum, Latin America's export performance in 2005 built upon last year's gains, with most countries showing unambiguous growth. Venezuela, Peru, and Colombia led the way in total exports.

Although 2005 is another strong year for regional exports, challenges remain. The region faces a growing competitive pressure from China and elsewhere in Asia in one of its main markets, the U.S., particularly in labor-intensive goods, given the end of the Agreement on Textiles and Clothing at the start of 2005. Finally, high commodity prices have contributed significantly to the performance of the region, and any potential reversal of the current bull market could have significant repercussions (See Figure 2 and Table 4). Although metals currently show no sign of reversing their recent upward trend, prices of other commodities, such as soy, may have peaked.

Figure 2. Indices of Primary Commodity Prices
1994-2005* (1995=100)

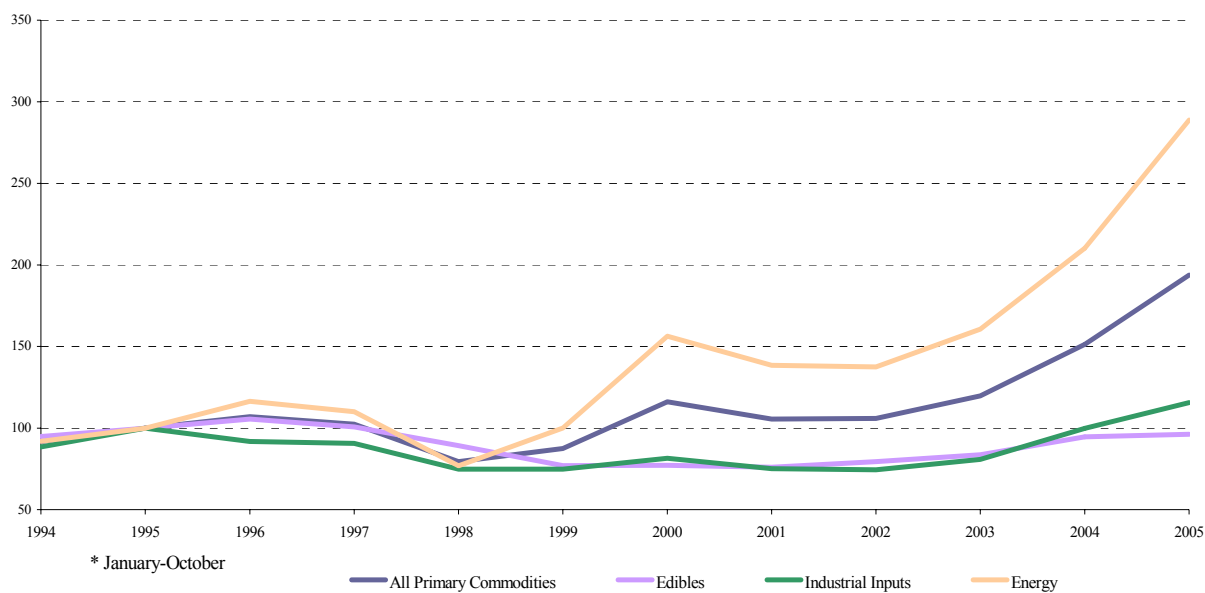


TABLE 1. EXPORTS BY INTEGRATION GROUP, 2005 Preliminary Estimates
(% change from 2004 to 2005)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3 ¹	ALADI ²	CACM	Latin America ³	NAFTA	Hemisphere	Total World
Mercosur	22	23	38	20	23	37	23	15	22	21
Andean Community	21	36	24	20	26	15	15	40	34	37
Group of Three	3	9	35	33	25	21	24	13	14	18
ALADI ²	22	25	34	25	26	26	23	15	18	20
CACM	(36)	(24)	10	1	3	12	10	3	5	10
Latin America ³	22	25	34	25	25	20	22	15	17	19
NAFTA	12	18	33	11	12	9	12	10	11	11
Total Hemisphere	17	22	32	12	15	11	14	12	13	13

EXPORTS BY INTEGRATION GROUP, 2005 Preliminary Estimates
(millions US\$)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3 ¹	ALADI ²	CACM	Latin America ³	NAFTA	Hemisphere	Total World
Mercosur	20,824	30,092	8,277	10,015	42,731	1,554	45,058	35,848	77,959	163,066
Andean Community	2,349	4,494	9,333	6,340	15,189	1,894	18,971	46,138	64,825	99,296
Group of Three	2,105	3,209	9,876	7,169	14,143	3,739	20,552	218,694	238,839	280,456
ALADI ²	27,263	39,546	23,008	21,461	69,685	6,168	79,761	275,451	350,697	510,265
CACM	17	38	162	609	714	4,050	5,326	9,609	14,664	18,556
Latin America ³	27,281	39,586	23,198	22,108	70,449	10,318	85,260	285,539	366,004	529,825
NAFTA	23,005	29,612	21,747	138,200	173,389	14,565	196,842	815,359	897,406	1,466,857
Total Hemisphere	48,606	66,856	41,468	157,545	238,057	22,515	272,903	916,074	1,069,132	1,786,585

STRUCTURE OF EXPORTS BY INTEGRATION GROUP, 2005 Preliminary Estimates
(% Distribution)

Exporting Region	DESTINATION									
	Mercosur	Mercosur+ Chile+Bolivia	Andean Community	G3 ¹	ALADI ²	CACM	Latin America ³	NAFTA	Hemisphere	Total World
Mercosur	13	18	5	6	26	1	28	22	48	100
Andean Community	2	5	9	6	15	2	19	46	65	100
Group of Three	1	1	4	3	5	1	7	78	85	100
ALADI ²	5	8	5	4	14	1	16	54	69	100
CACM	0	0	1	3	4	22	29	52	79	100
Latin America ³	5	7	4	4	13	2	16	54	69	100
NAFTA	2	2	1	9	12	1	13	56	61	100
Total Hemisphere	3	4	2	9	13	1	15	51	60	100

Source: IDB, Integration and Regional Programs Department, based on DataIntal, ALADI, SIECA, and Andean Community.

¹ Group of Three: Colombia, México y Venezuela.

² Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay y Venezuela. Cuba is not included.

³ Including Panamá and the countries of ALADI and CACM.

TABLE 2
EXPORT GROWTH BY WESTERN HEMISPHERE TRADE
GROUPS, 2005 Preliminary Estimates

Exporting Group/Member	Export Growth to Group	Export Growth to World
Mercosur	21.9	20.9
Argentina	12.8	18.7
Brazil	31.9	22.1
Paraguay	4.2	1.0
Uruguay	4.3	17.2
Chile (Mercosur)	26.1	24.9
Andean Community	24.0	36.8
Bolivia	-8.2	22.8
Colombia	36.5	30.3
Ecuador	35.2	23.9
Peru	39.0	35.4
Venezuela	0.0	44.4
NAFTA	10.4	10.9
Mexico	10.0	11.8
Canada	10.7	11.7
United States	10.3	10.3
CACM	11.8	9.8
Costa Rica	12.0	9.9
El Salvador	11.8	5.7
Guatemala	14.0	9.7
Honduras	n.a.	11.3
Nicaragua	16.8	13.2

Source: IDB, Integration and Regional Programs Department, based on DATAINTAL, ALADI, SIECA, Andean Community, and official country data.

Note: Estimates are based on January - October data for Bolivia, Brazil, Chile, Costa Rica, Ecuador, Paraguay; January - June for Venezuela; January-September for the remaining countries.

n.a.: not available

TABLE 3
WESTERN HEMISPHERE: TOTAL AND INTRA-REGIONAL EXPORTS, 1994-2004
(Millions of US dollars and percentages)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	AAGR 1994-2004 ⁴
Western Hemisphere^{1,2,3}												
Total Exports	858,456	994,328	1,071,955	1,179,833	1,161,673	1,216,398	1,308,489	1,234,953	1,192,998	1,289,255	1,490,117	
% growth	18.1	15.8	7.8	10.1	-1.5	4.7	7.6	-5.6	-3.4	8.1	15.6	5.7
Extra-hemispheric exports	392,278	471,910	496,479	521,552	484,536	488,397	508,778	478,327	459,310	513,532	592,897	
% growth	15.4	20.3	5.2	5.1	-7.1	0.8	4.2	-6.0	-4.0	11.8	15.5	4.2
Intra-hemispheric exports	466,178	522,419	575,475	658,280	677,138	728,001	799,711	756,626	733,688	775,723	897,220	
% growth	20.4	12.1	10.2	14.4	2.9	7.5	9.9	-5.4	-3.0	5.7	15.7	6.8
Intra/Total	54.3	52.5	53.7	55.8	58.3	59.8	61.1	61.3	61.5	60.2	60.2	
Latin America and the Caribbean (LAC)^{2,3}												
Total Exports	182,545	220,411	249,332	276,962	268,849	287,680	346,324	334,441	332,182	366,119	439,222	
% growth	18.1	20.7	13.1	11.1	-2.9	7.0	20.4	-3.4	-0.7	10.2	20.0	9.2
Extra-LAC exports	147,584	178,629	203,074	223,464	215,609	242,330	290,255	275,638	283,493	312,581	367,311	
% growth	18.0	21.0	13.7	10.0	-3.5	12.4	19.8	-5.0	2.8	10.3	17.5	9.5
Intra-LAC exports	34,961	41,782	46,257	53,498	53,240	45,349	56,069	58,803	48,689	53,539	71,911	
% growth	18.7	19.5	10.7	15.7	-0.5	-14.8	23.6	4.9	-17.2	10.0	34.3	7.5
Intra/Total	19.2	19.0	18.6	19.3	19.8	15.8	16.2	17.6	14.7	14.6	16.4	
Andean Community												
Total Exports	34,243	38,259	45,687	47,655	38,742	43,207	57,236	50,837	48,955	55,015	72,578	
% growth	17.5	11.7	19.4	4.3	-18.7	11.5	32.5	-11.2	-3.7	12.4	31.9	7.8
Extra-Andean exports	30,816	33,524	40,996	42,028	33,402	39,268	52,045	45,181	43,766	50,052	65,049	
% growth	17.3	8.8	22.3	2.5	-20.5	17.6	32.5	-13.2	-3.1	14.4	30.0	7.8
Intra-Andean exports	3,427	4,735	4,691	5,627	5,341	3,939	5,191	5,656	5,189	4,963	7,529	
% growth	19.8	38.2	-0.9	19.9	-5.1	-26.2	31.8	9.0	-8.3	-4.4	51.7	8.2
Intra/Total	10.0	12.4	10.3	11.8	13.8	9.1	9.1	11.1	10.6	9.0	10.4	
Caricom³												
Total Exports	5,069	5,531	5,439	6,008	5,543	5,933	7,754	8,393	5,480	7,108	---	
% growth	57.7	9.1	-1.7	10.4	-7.7	7.0	30.7	8.3	-34.7	29.7	---	3.8
Extra-Caricom exports	4,376	4,649	4,568	5,082	4,473	4,871	6,349	6,929	4,453	5,775	---	
% growth	64.2	6.2	-1.8	11.3	-12.0	8.9	30.3	9.1	-35.7	29.7	---	3.1
Intra-Caricom exports	693	882	872	925	1,070	1,062	1,404	1,464	1,027	1,334	---	
% growth	26.0	27.2	-1.1	6.1	15.6	-0.7	32.2	4.3	-29.9	29.9	---	7.5
Intra/Total	13.7	15.9	16.0	15.4	19.3	17.9	18.1	17.4	18.7	18.8	---	
CACM												
Total Exports	5,509	6,864	7,778	8,242	10,313	11,175	12,765	10,510	10,008	11,626	12,621	
% growth	12.4	24.6	13.3	6.0	25.1	8.4	14.2	-17.7	-4.8	16.2	8.6	8.6
Extra-CACM exports	4,280	5,408	6,192	6,417	8,125	8,886	10,194	7,693	7,198	8,498	9,060	
% growth	12.7	26.4	14.5	3.6	26.6	9.4	14.7	-24.5	-6.4	18.1	6.6	7.8
Intra-CACM exports	1,229	1,456	1,586	1,826	2,188	2,289	2,571	2,817	2,810	3,128	3,560	
% growth	11.5	18.5	8.9	15.1	19.9	4.6	12.3	9.6	-0.2	11.3	13.8	11.2
Intra/Total	22.3	21.2	20.4	22.1	21.2	20.5	20.1	26.8	28.1	26.9	28.2	
Mercosur												
Total Exports	62,113	70,402	74,998	82,342	81,323	74,320	84,659	87,876	88,880	106,086	134,865	
% growth	14.8	13.3	6.5	9.8	-1.2	-8.6	13.9	3.8	1.1	19.4	27.1	8.1
Extra-Mercosur exports	50,157	56,019	57,960	62,289	60,972	59,158	66,961	72,725	78,714	93,367	117,787	
% growth	13.7	11.7	3.5	7.5	-2.1	-3.0	13.2	8.6	8.2	18.6	26.2	8.9
Intra-Mercosur exports	11,957	14,384	17,038	20,053	20,351	15,163	17,698	15,151	10,166	12,719	17,078	
% growth	19.3	20.3	18.5	17.7	1.5	-25.5	16.7	-14.4	-32.9	25.1	34.3	3.6
Intra/Total	19.2	20.4	22.7	24.4	25.0	20.4	20.9	17.2	11.4	12.0	12.7	
Mercosur+Chile+Bolivia (MCB)												
Total Exports	74,790	87,977	91,700	100,632	97,197	91,355	104,120	106,839	107,675	127,795	167,386	
% growth	17.0	17.6	4.2	9.7	-3.4	-6.0	14.0	2.6	0.8	18.7	31.0	8.4
Extra-MCB exports	58,333	67,903	68,732	73,874	70,615	70,664	79,581	84,668	90,720	106,998	140,033	
% growth	16.5	16.4	1.2	7.5	-4.4	0.1	12.6	6.4	7.1	17.9	30.9	9.2
Intra-MCB exports	16,458	20,074	22,968	26,758	26,582	20,691	24,539	22,171	16,955	20,797	27,353	
% growth	18.6	22.0	14.4	16.5	-0.7	-22.2	18.6	-9.6	-23.5	22.7	31.5	5.2
Intra/Total	22.0	22.8	25.0	26.6	27.3	22.6	23.6	20.8	15.7	16.3	16.3	
NAFTA												
Total Exports	737,888	853,694	918,077	1,013,108	1,012,114	1,071,355	1,134,834	1,061,548	1,021,497	1,066,976	1,231,634	
% growth	18.2	15.7	7.5	10.4	-0.1	5.9	5.9	-6.5	-3.8	4.5	15.4	5.3
Extra-NAFTA exports	383,349	460,581	485,698	517,457	490,885	486,296	491,695	464,133	432,856	458,068	537,581	
% growth	15.1	20.1	5.5	6.5	-5.1	-0.9	1.1	-5.6	-6.7	5.8	17.4	3.4
Intra-NAFTA exports	354,539	393,113	432,379	495,651	521,229	585,059	643,140	597,415	588,641	608,908	694,053	
% growth	21.7	10.9	10.0	14.6	5.2	12.2	9.9	-7.1	-1.5	3.4	14.0	6.9
Intra/Total	48.0	46.0	47.1	48.9	51.5	54.6	56.7	56.3	57.6	57.1	56.4	

Source: IDB, Integration and Regional Programs Department, based on data from DataIntal, ALADI, SIECA, Hemispheric Database, UN Comtrade and official country data.
Note: There are periodic changes in data sources. This is especially pronounced between 2003 and 2004. Although the data are generally consistent, these changes in sources can affect results.

¹ Western Hemisphere includes Latin America, Canada, and the United States. There are gaps in some years for some Caribbean countries.

² Latin America and the Caribbean includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic (except 1998-2004), Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama (except 1994), Paraguay, Peru, Uruguay, Venezuela and Caricom (see note 3 for exceptions). Caricom data for 2004 are not available.

³ Caricom includes Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago, because of the unavailability of data for the other Caricom member states. Totals exclude Bahamas (1994-96, 2002-03), Guyana (1994-97, 2003), St Kitts and Nevis (1996) and Suriname (2002-03).

⁴ AAGR: Average Annual Growth Rate: Calculated using the formula $[(Y(t)/Y(s))^{(t-s)} - 1] * 100$, where Y(t) and Y(s) are the values in years "t" and "s", respectively, where t > s and n = t-s. For Caricom the formula is based on the 1994-2003 period.

TABLE 4: Prices of Principal Commodity Exports of Latin America

Product	2005										% Change 2004-2005			
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		10-month avg.	October	2005 10-month avg. vs. 2004
Aluminum, US\$ per metric tonne	1805.0	1506.8	1599.3	1357.6	1360.0	1551.5	1446.7	1351.1	1452.8	1718.5	1934.1	1849.8	12.5	7.6
Bananas, US\$ per metric tonne	445.1	469.6	522.6	492.2	373.9	422.3	584.7	527.6	375.2	524.8	489.3	588.2	-6.8	12.1
Coffee, Other Mild Arabicas, US cents per pound	149.4	120.2	185.0	132.4	101.7	85.0	61.9	60.4	64.0	80.1	106.1	116.0	32.5	44.9
Copper, grade A cathode, US\$ per metric tonne	2932.0	2293.4	2275.2	1653.7	1572.5	1814.5	1580.2	1560.3	1779.4	2863.5	4056.2	3526.3	41.7	23.1
Cotton, US cents per pound	98.3	80.5	79.2	65.5	53.1	59.0	48.0	46.3	63.4	62.0	58.2	54.9	-6.1	-11.5
Iron Ore, US cents per dry metric tonne unit	28.4	30.0	30.2	31.0	27.6	28.8	30.0	29.3	32.0	37.9	65.0	65.0	71.5	71.5
Maize (corn), US\$ per metric tonne	123.5	164.5	117.2	101.6	90.3	88.2	89.6	99.3	105.2	111.8	101.5	98.2	-9.2	-12.1
Crude Oil (petroleum), simple avg of 3 spot prices; US\$ per barrel	17.2	20.4	19.3	13.1	18.0	28.2	24.3	25.0	28.9	37.8	58.2	52.9	54.1	40.0
Soybeans, US\$ per metric tonne	224.0	277.5	280.6	223.3	174.9	183.1	168.8	188.9	233.2	276.7	211.2	225.0	-23.7	-18.7
Sugar, Free Market, US cents per pound	13.3	12.0	11.4	8.9	6.3	8.1	8.2	6.2	6.9	7.5	11.6	9.5	53.9	26.1
Tin, US\$ per metric tonne	6197.4	6158.9	5640.5	5536.2	5391.4	5435.9	4489.4	4061.0	4889.7	8480.9	6415.5	7568.7	-24.4	-10.8
Wheat, US\$ per metric tonne	177.0	207.1	159.7	126.1	112.0	114.0	126.8	148.5	146.1	156.9	167.8	150.4	7.0	-4.2
Wool, fine, US cents per kilogram	775.3	651.6	759.8	552.8	619.2	733.5	623.4	644.4	702.0	713.3	622.6	695.6	-12.7	-2.5

Source: IMF Primary Commodity Prices, Commodities Unit of the Research Department, International Monetary Fund
Annual averages performed by INI/ITD