



**The Insertion of LAC in GVCs
in the Context of the Asian-LAC
Relationship**

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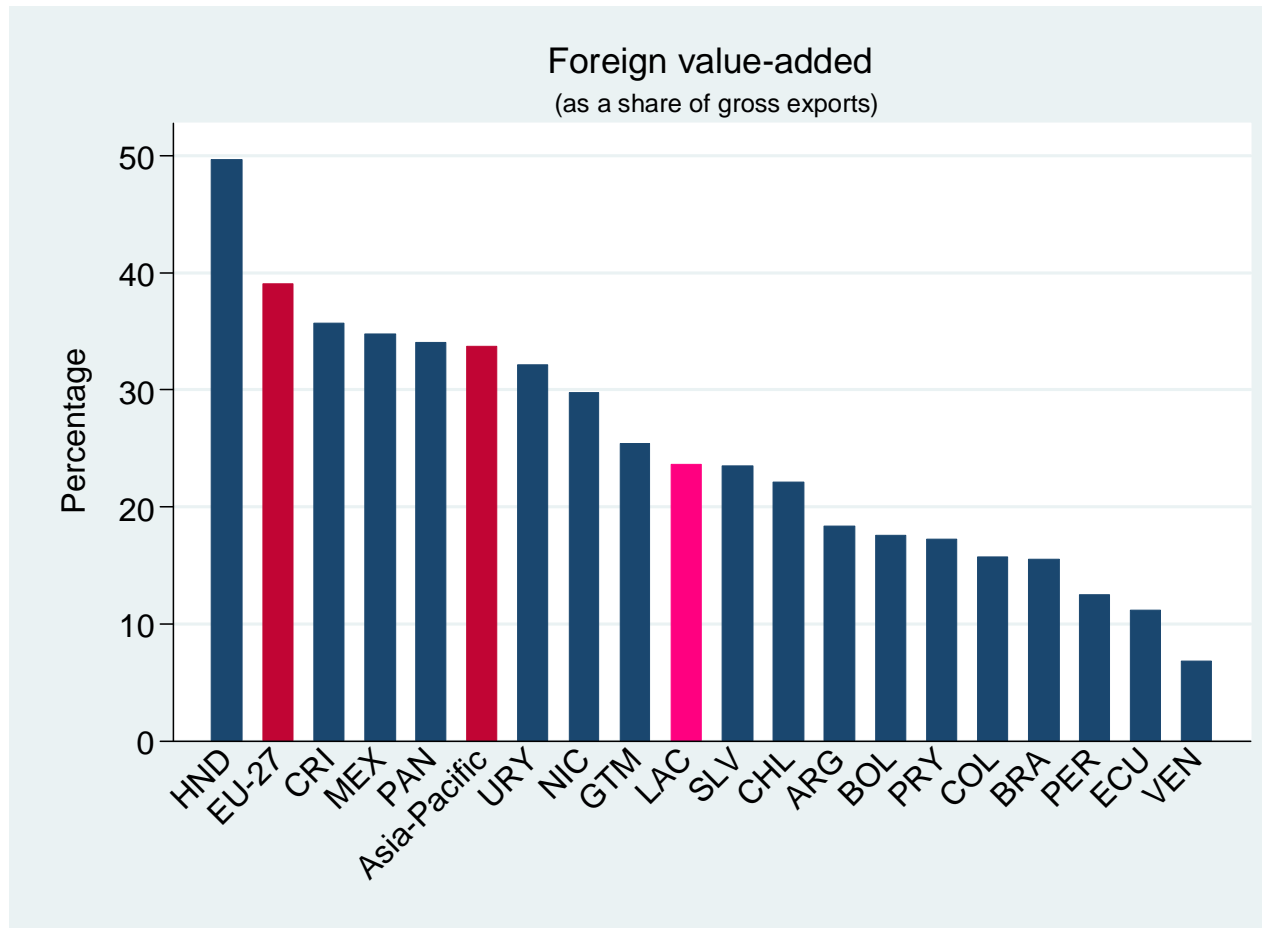
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The Emergence of GVCs

- Production processes have become increasingly fragmented worldwide giving rise to what is commonly known as global value chains (GVCs)
- GVCs are opening up new opportunities for developing countries to participate in a finer international division of labor and to diversify production and trade
- This is important for LAC, a region with production and trade patterns highly concentrated in natural-resource-intensive sectors
- The IDB is elaborating a report to improve our understanding of the challenges associated to this form of international insertion

GVC Participation

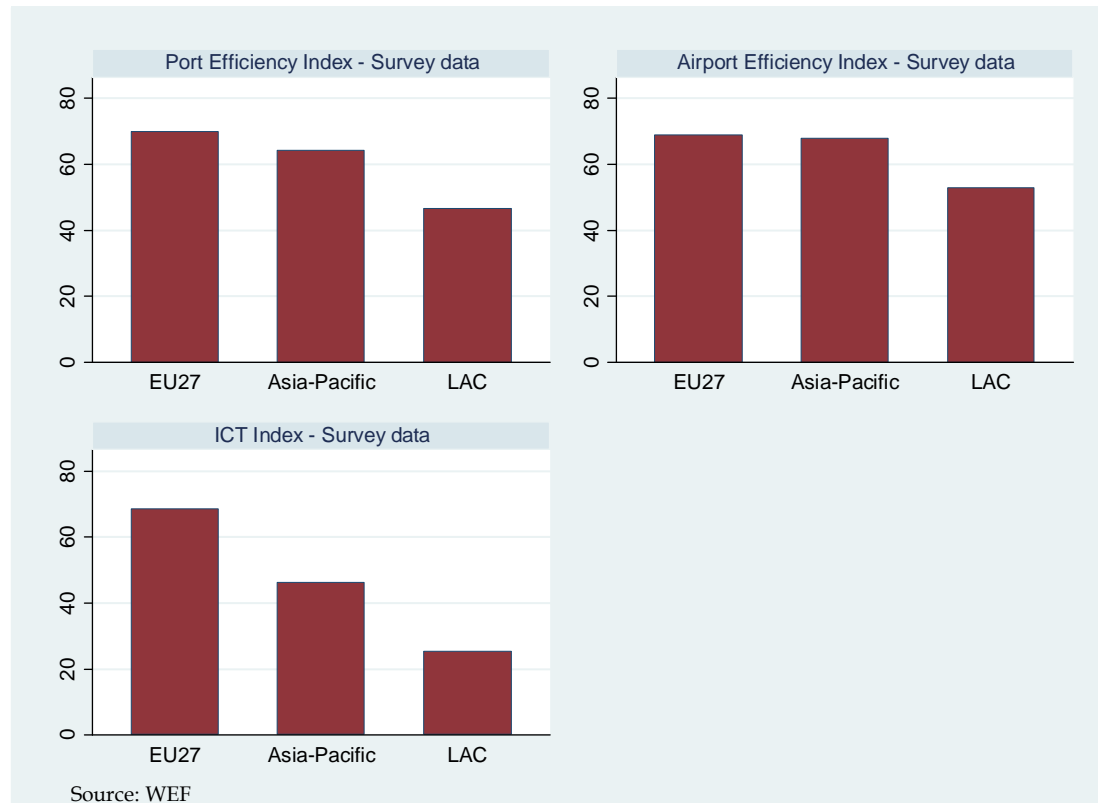
- On average LAC's participation in GVCs is small relative to other regions, but there is substantial heterogeneity within the region



Economic Rationale Behind the Unbundling of Production

- Firms may unbundle their production processes as long as the saved production costs arising from the fragmentation process compensate the additional costs of coordinating remotely located production blocks plus the costs of moving these production blocks around

The Quality of Logistics Infrastructure

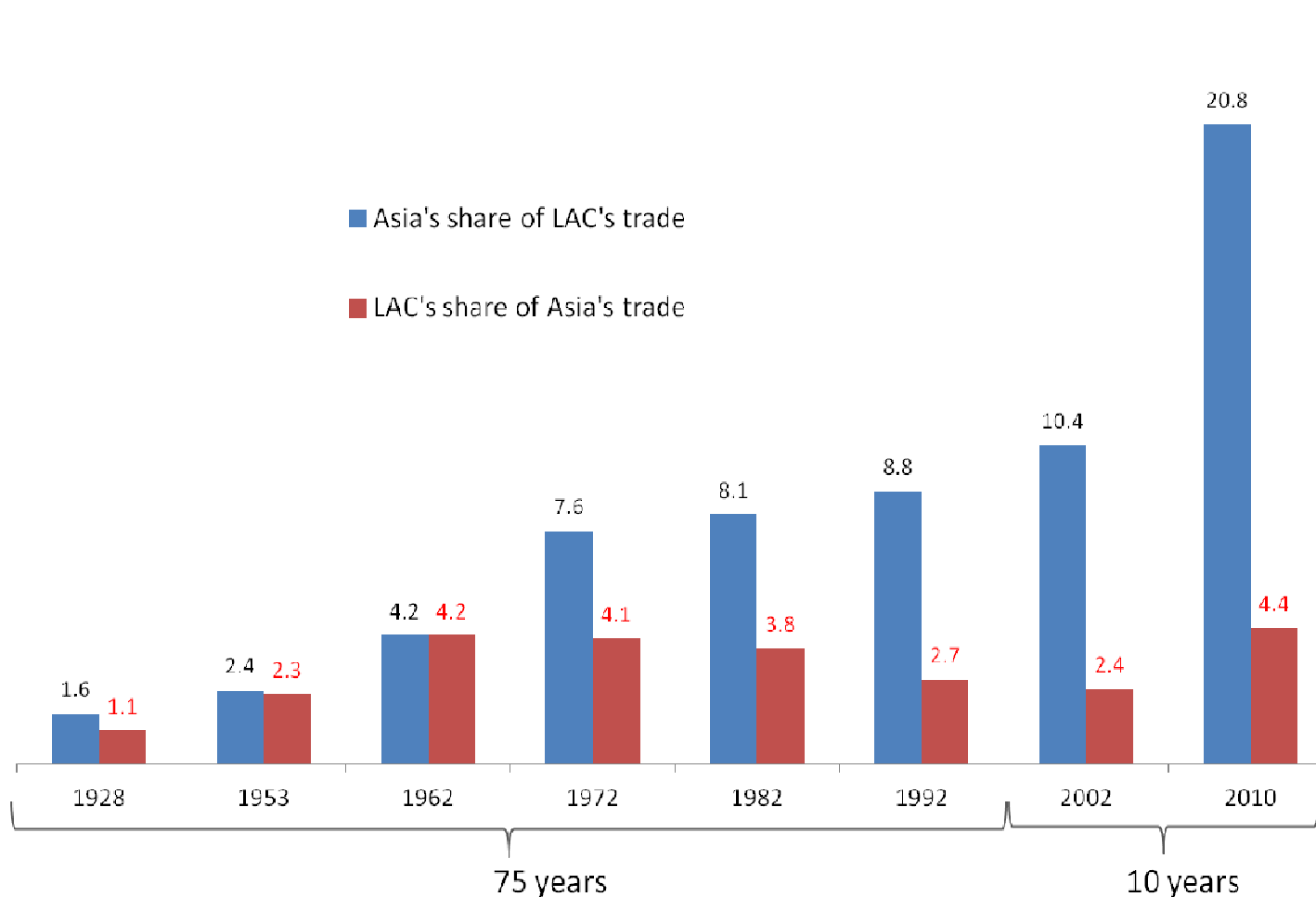


Shaping the Future of the Asia—LAC Relationship



Asia's share of LAC's trade doubled in one decade

Asia's and LAC's shares of each other's Trade. 1928-2010 (%)



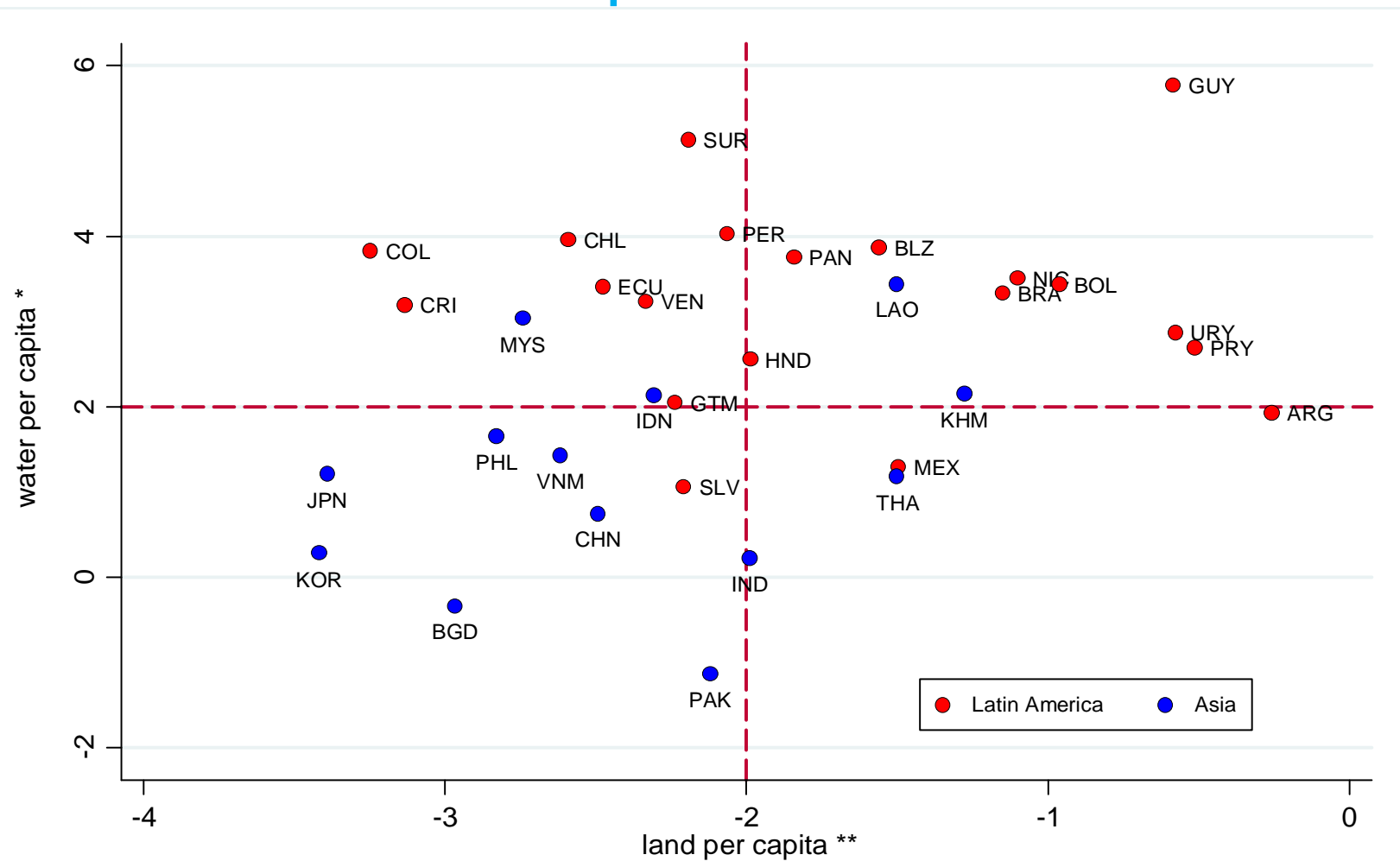
✓ Asia has become LAC's second highest trading partner, behind the U.S. (34%)

✓ In 2011, Asia-LAC trade reached an estimated US\$ 442 billion

Asia's share of LAC's trade is defined as: $(\text{LAC's imports from Asia} + \text{LAC's exports to Asia}) / (\text{LAC's total imports} + \text{LAC's total exports})$



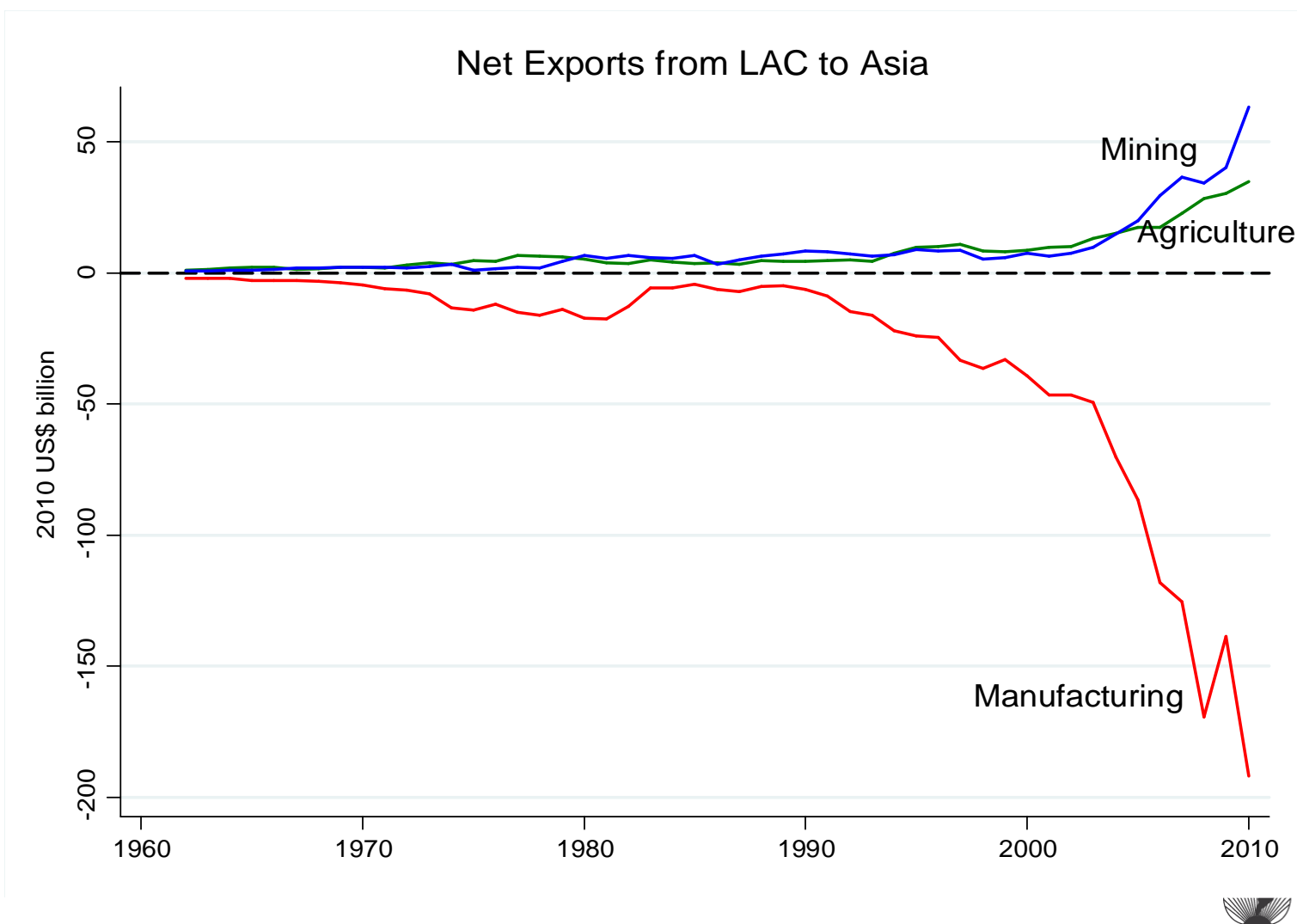
Behind these trends lie comparative advantages and resource complementarities



* log(fresh water, thousands of cubic meters per capita)

** log(arable land, sq km per capita)

This results in a deepening commodities-for-manufacturing-goods pattern of trade



Beyond the commodities-for-manufacturing-goods trade there are opportunities for diversification. Trade cost, however, need to come down.

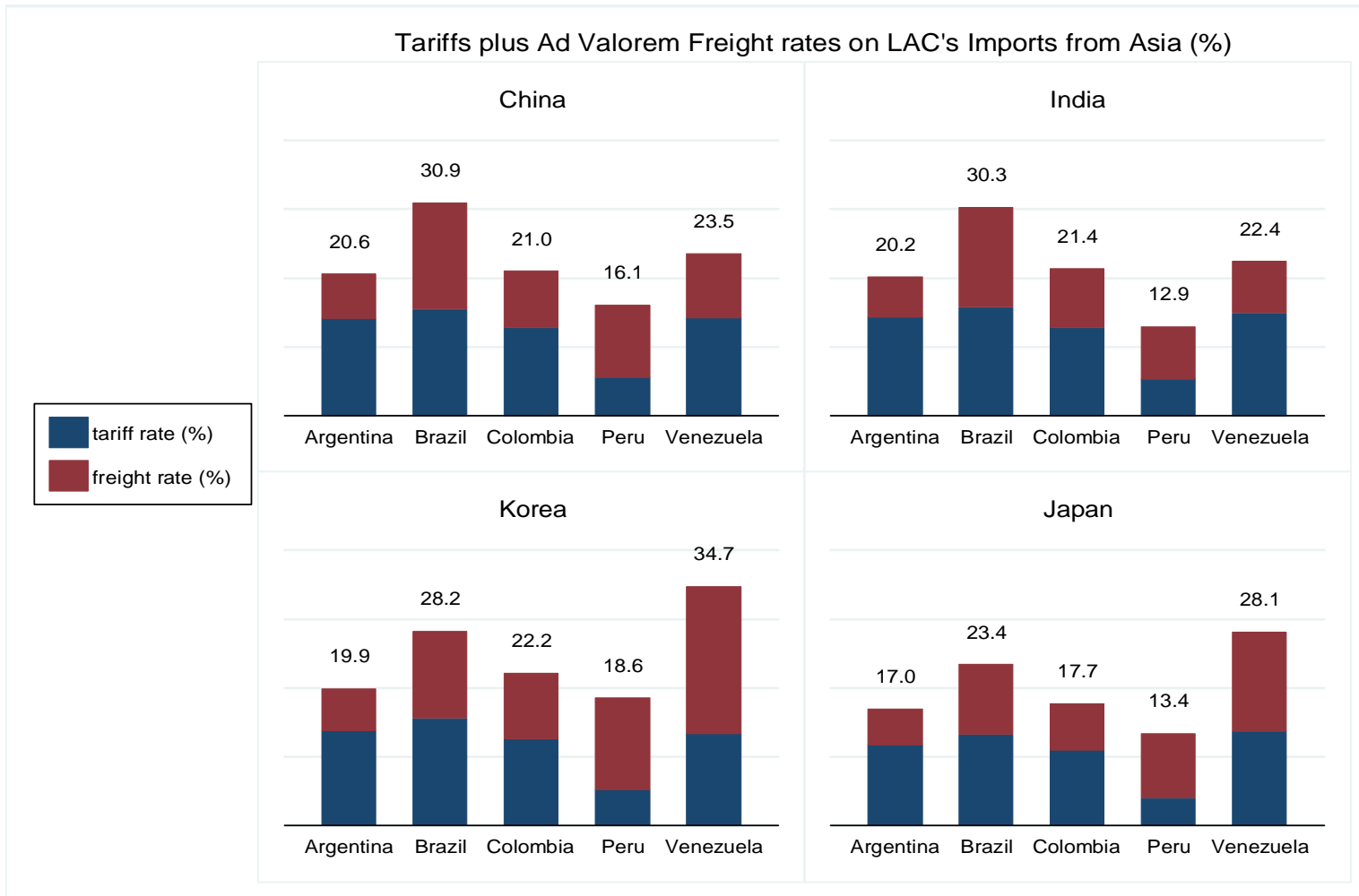
Asia's tariffs on LAC's exports (%)

Sector	ASEAN			East Asia			South Asia		
	Caribbean	C. America	S. America	Caribbean	C. America	S. America	Caribbean	C. America	S. America
Mining	0	2	1	0	2	1	8	4	4
Agriculture	17	13	7	16	10	9	38	55	21
Manufactures	5	8	7	5	6	5	11	17	13

LAC's tariffs on Asia's exports (%)

Sector	Caribbean			Central America			South America		
	ASEAN	East Asia	South Asia	ASEAN	East Asia	South Asia	ASEAN	East Asia	South Asia
Mining	7	5	6	4	5	4	6	6	4
Agriculture	16	13	17	10	13	14	11	11	14
Manufactures	10	11	17	6	7	10	8	11	15

High tariffs are compounded by high transport costs



✓ On LAC's imports from Asia, ad valorem freight rates are in most cases comparable to import tariffs.

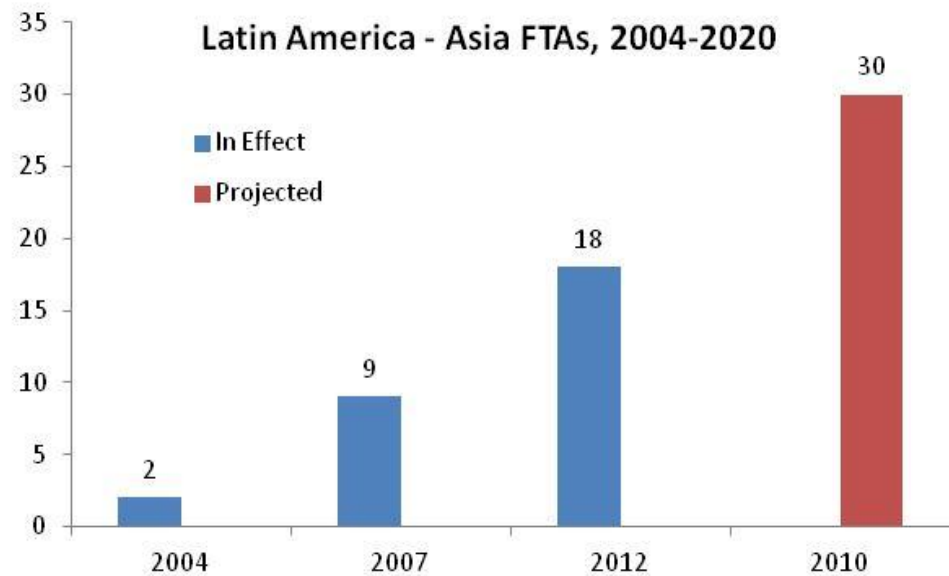
There are ongoing efforts to bring trade costs down: FTAs

✓ Between 2004 and 2011, an average of two FTAs between Asia and LAC took effect each year.

✓ The most proactive governments have been:

Chile (6)	Taipei, China (4)
Peru (4)	Singapore (3)
Panama (2)	PRC (3)
	India (2)
	Japan (2)
	Korea (2)

✓ There are also broader initiatives led by APEC and the Trans-Pacific Partnership



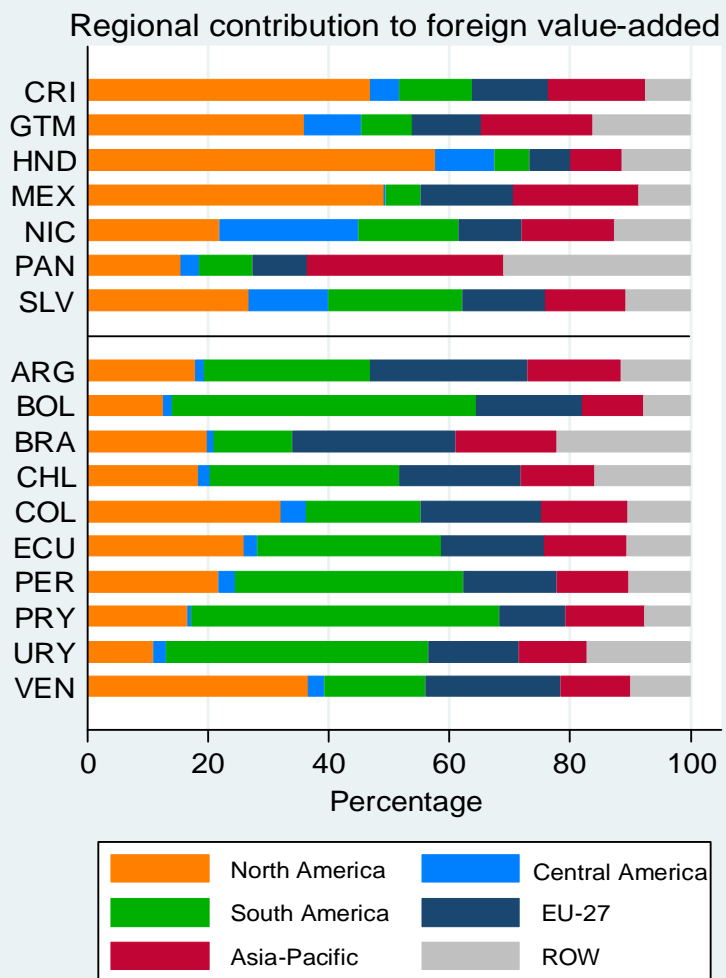
Bringing trade costs down and boosting investment and cooperation

- ✓ For a more balanced and diversified Asia-LAC relationship to become a reality, governments must address high trade costs.
- ✓ FDI can also have an important role to meet the challenges and opportunities brought by the trade surge. Cross-regional FDI has been growing, particularly on the Asian side, but it is still lagging behind trade.
- ✓ Cooperation between the two regions has been increasing in several dimensions reflecting opportunities to share technological and development experiences and to coordinate interests in the international arena.



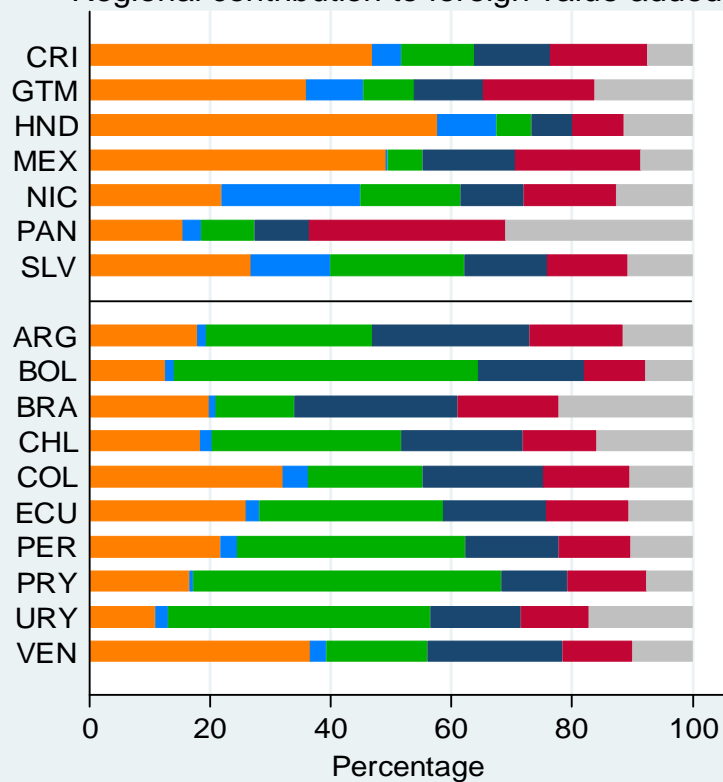
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Regional Linkages



Regional Linkages

Regional contribution to foreign value-added



Regional destination of domestic value-added

