

Prospects for Regional Cooperation between Latin America and Caribbean and Asia Pacific: Perspective from East Asia

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1. Introduction

The success of the East Asian region during the past four decades and its proven resilience during times of crisis demonstrate that regional integration, supported by both openness and regional cooperation, is a key factor in sustaining growth and development. The East Asian region's phenomenal success is once again threatened, this time by the current financial crisis which has led to an economic slowdown, if not recession, across the globe. In general, governments in the region are conscious that closing national borders in response could only lead to inefficiencies and lower the chances of riding out of, and bouncing back from the crisis. As such, the economies in the region continue to remain open and governments perceive instead a need for an even deeper regional cooperation to help manage shared risks and common interests. Even areas which most governments have been disinclined to put on the table, such as investment and services, are becoming more open to discussion.

The 1997 Asian financial crisis has started, for the East Asian region, rounds of bilateral and plurilateral agreements and has created mechanisms for regional cooperation, particularly the ASEAN + 1, ASEAN plus Three (APT), and the East Asian Summit (EAS). The regional cooperation initiatives helped spur trade, investment and financial reforms to deepen Asia's growing and wide-ranging links. At the national level, regional cooperation helped lock-in reforms in member economies to create a coherent and efficient environment for doing business. At the global level, regional cooperation helped Asia, especially the developing economy members, secure a role in decision making in various issues relating to the region's economy and politics. Asia's outstanding economic performance could be attributable to its pursuit of open and flexible regionalism.

Latin American countries and the Caribbean, on the other hand, had not displayed the same success as Asia Pacific in integrating its economies and securing a stronger role in the global economy. Unlike Asia-Pacific, in particular East Asia, Latin America and Caribbean has not embraced open regionalism and has not been aggressive enough in looking for third markets (ECLAC:2008). Up to now, trade issues remain controversial in South America and have been

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met by dissent by some sectors. Latin American markets remain fragmented and the business environment needs to be restructured to make it more attractive to FDI.

The idea of linking the dynamic Asia Pacific with Latin America and the Caribbean has been explored in various fora. The main challenge remains to be how to strengthen trade and investment links between the two regions. Lack of coherent and sustained policies, poor infrastructure support, and high cost of transportation had dampened previous attempts to tie up the two regions.

There are lots of opportunities awaiting the two regions once appropriate policy and support are in place. The potential is vast, especially in infrastructure, energy, banking, tourism and logistics sectors. The efforts to expand trans-regional cooperation would not only be valuable to further improve the regional value chain, but could also be an important step in enhancing innovation and competitiveness, especially for Latin America and the Caribbean. Moreover, the array of opportunities has taken new shape in the light of the current global financial crisis. New prospects would surely arise from efforts of governments and industries seeking ways to deal with the crisis if there were a more effective link between the two regions.

Interregional cooperation, especially between two regions divided not only by geographic distance, but by a disparity in economics, politics, culture and history, would be very challenging. Nonetheless, it is certainly worth considering, given mutual benefits that can be derived from this cooperation.

This paper explores the potential for regional cooperation between Asia Pacific and Latin America and the Caribbean. The first section provides an overview of regionalism and how it evolved as a strategy to manage regional externalities. The second section provides a background on Asian regionalism and the factors for its success. The third section deals with prospects for interregional cooperation between Asia Pacific and Latin American countries and the Caribbean. The fourth section provides the conclusion and some recommendations to enhance partnership between the two regions.

2. An overview of the evolving global economic architecture

Global economic integration was hastened after World War II, as the period of peace and reconstruction made possible the increase of economic activities. Foreign trade steadily climbed and by 1960, the total ratio of foreign trade to gross domestic product (GDP) stood at 25 percent. Multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) further quickened globalization, followed by liberalization of trade and investments and improvements in infrastructure and technological developments, creating a climate more conducive for foreign trade.(Urata:2002) Alongside this development was the increasing interest

in regionalism, as countries considered to be natural trading partners coalesce and formed economic blocs. As of May 2009, 247 RTAs from different parts of the globe are in force under the GATT/WTO regime.

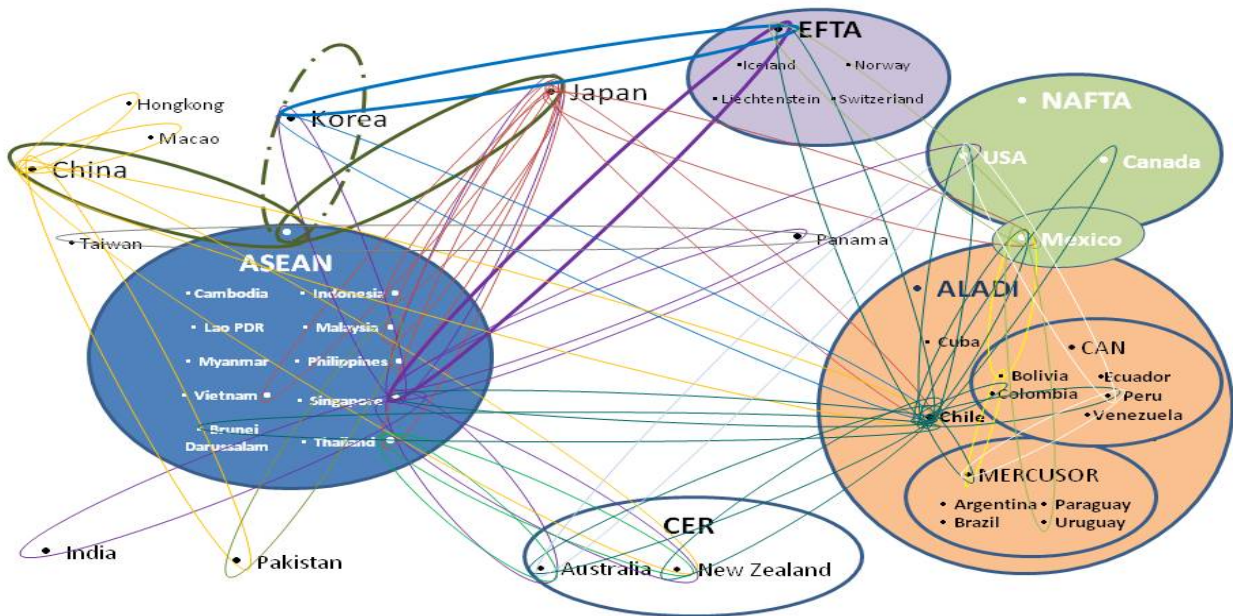
Table 1 . RTAs in Force, sorted by Type of Agreement (May 2009)

	Enabling clause	GATS Art. V	GATT Art. XXIV	Grand total
Customs Union	6		7	13
Customs Union - Accession	0		6	6
Economic Integration Agreement		61		61
Economic Integration Agreement - Accession		6		6
Free Trade Agreement	9		137	146
Free Trade Agreement - Accession	0		2	2
Preferential Trade Agreement	12			12
Preferential Trade Agreement - Accession	1			1
Grand total	28	67	152	247

Source: WTO

Much has been said about the risks in regional trading arrangements (RTAs). By the sheer number of RTAs alone, there would result an intricate web of overlapping arrangements and varying Rules of Origin (ROOs) that could complicate the global trading order. (See Figure 1.) Moreover, RTAs foster preferential treatment that could later pose as potential stumbling blocs to multilateralism.

Figure 1. RTAs/FTAs in Effect in the East Asia and Latin America/Caribbean region



It is significant to note that regionalism, at first, was not found acceptable by the architects of the global economic system. Coming out from the protectionist regime of the Great Depression in the 1930s that led to global financial and trade collapse, regional blocs were then viewed to be potentially harmful to multilateral trade and financial systems and GATT's principle of non-discrimination. The major economies – US and Japan particularly-- were sceptical about regionalism and wary of its impact on global trade. Having suffered from trade discrimination, Japan was not enthused by the growing popularity of regionalism.

Despite these risks, the trend in RTAs and regionalism continues. From a political economy perspective, the explanation is that there are natural economic groups and strategic partners that gravitate toward each other, whether because of geography, economic agenda, or as a consequence of political events.

The scepticism started to die down as the global economic architecture was restructured in the second half of the 20th century. The bipolar economy created by US and Europe began to loosen, and by the 1970s, a third bloc emerged – the East Asian economic bloc in the 1970s. The 1980s saw the rise of other economic blocs, such as the South American bloc as Argentina, Paraguay, Uruguay and Brazil increased their trade shares. Similarly, African trade gained strength as trade with South Africa and its near neighbours, Malawi and Zimbabwe, expanded. By the 1990s, with the break up of the Soviet Union, trade started to gravitate towards Europe. Trading patterns and economic relations between and among the different blocs intensified and diversified. In this string of events, an important development was the establishment of East Asia as a solid economic bloc which permanently changed the global economic landscape. (Evans, et al:2004)

Much of the evidence suggests that East Asia has and will continue to have a fundamental stake in both regional and global integration. (ADB, 2008). The East Asian economic bloc expanded its membership later on to include Australia, New Zealand and other countries in the Pacific—creating the Asia Pacific economic bloc, thereby further increasing its total world trade share.

Regional cooperation in East Asia was further intensified when Financial crisis hit the region in 1997. In the absence of official measures to respond to the crisis, East Asia created a forum to work together and discuss the issues and solutions to the market failures, providing an even larger role for regional cooperation. (ADB:2008)

Over time, regional cooperation had become an important instrument in providing solutions, opportunities and institutions to address pressing economic and social issues that cannot be solved at the national level or are not addressed in an international forum. The table below shows the role and function undertaken by East Asia Regional Cooperation in solving economic, as well as social and environmental issues in the region. In the presence of the global financial and

economic meltdown, regional cooperation had become an important measure in managing the impact of the crisis. (Table 2)

Table 2. Analytical Framework for Regional Cooperation

Analytical Framework for Regional Cooperation			
	Manage Regional Spillover and Externalities	Provide Regional Public Goods	Address Regional Coordination Problems
Trade and Investment	Establish Compatible Product Standards	Maintain an open, predictable and fair framework for trade and cross-border investment	Represent regional views in global trade and investment forums Facilitate investment in infrastructure (hard and soft) for connectivity
Financial markets	Establish rules to protect against financial contagion Establish compatible financial regulations	Establish institutions and reserves to avert and manage financial crises Improve the legal and informational environment for regional investment	Represent regional views in global financial forums Develop compatible trading platforms and institutions
Macroeconomic policy	Coordinate macroeconomic and exchange rate policies	Monitor macroeconomic activity, trends and risks	Facilitate solutions to global imbalances and other macroeconomic issues
Social and environmental policy	Control cross-border environmental externalities Ensure fair treatment of migrant workers	Prevent or manage spread of diseases and other public threats Pool know-how and experience on policy-making Share environmental technology	Generate concerted commitment to Millenium Development Goals Promote social progress through regional initiatives

Source: Asian Development Bank

Finally, regionalism within this framework of regional cooperation would help minimize the risks of preferential arrangements and the complex web created by its proliferation.

3. Overview of Asian Regionalism

The core of Asian regionalism is East Asia ---- where economic cooperation started and first gained success. Huge amount of literature have been devoted in understanding and emulating the economic success of East Asia. While it still has obstacles to hurdle in terms of human resource development, infrastructure, and governance, it has undoubtedly taken an important role in the global economy. East Asia's share of world output had risen substantially over the past two decades, overtaking the United States and capturing a large size of world exports, matching that of North America. (Drysdale:2005)

The growth and deepening integration of the East Asian region is the result of three huge waves of trade and industrial transformation. The First wave occurred with the rise of Japan and its emergence as a major industrial power. The Second wave was led by the newly industrializing economies (NIEs) of Northeast and Southeast Asia in the late 1970s and 1980s. The third wave was brought by the rise of China. These three major events restructured the economic

architecture of East Asia, making it an economic powerhouse and cornering almost a quarter of world output. (Drysdale, 2005)

East Asia had grown more rapidly and steadily than any other region in the world. Intra regional trade in Asia Pacific accounts for 54% of the region's total trade, surpassing intraregional trade in NAFTA and approaching the level of European Union. (Table 3)

Table 3. Asia Pacific Intraregional Trade by Geographic Grouping

ASIA-PACIFIC INTRAREGIONAL TRADE BY GEOGRAPHIC GROUPING^a							
(Percentage of the region's total trade)							
Geographic Grouping	1980	1985	1990	1995	2000	2003	2006
Within ASEAN (10) ^b	17.9	20.3	18.8	24.0	24.7	26.6	27.2
Within ASEAN+3 ^c	30.2	30.2	29.4	37.6	37.3	39.0	38.3
Within ASEAN+3+Hong Kong China +Chinese Taipei	34.1	37.1	43.1	51.9	52.1	55.4	54.5
Memo: European Union (27)	61.5	60.0	66.8	66.9	66.3	68.1	65.8
NAFTA	33.8	38.7	37.9	43.1	48.8	47.4	44.3
MERCOSUR	11.1	7.2	10.9	19.2	20.7	14.7	15.7
Andean Community (5) ^d		3.3	5.4	12.4	10.8	10.8	9.1
CACM ^e		...	12.1	15.6	17.5	17.6	10.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE).

^a The share in intraregional trade is defined as the percentage of intraregional trade with respect to the total trade of the region in question, based on export data. It is calculated as follows: $X_{ii} / \{(X_{iw} + X_{wi})/2\}$, where X_{ii} refers to exports from region i to the same region, X_{iw} represents exports from region i to the world, and X_{wi} represents world exports to region i . A higher percentage indicates a higher level of dependency on intraregional trade.

^b ASEAN (10) consists of Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

^c ASEAN +3 includes the 10 ASEAN countries plus China, Japan and the Republic of Korea.

^d Andean Community (5) includes the Bolivarian Republic of Venezuela.

^e Due to a different methodology used, the coefficient of CACM intra-subregional trade differs substantially from that shown in figure IV.10 in chapter IV.

Trade and investment is East Asia's economic lifeblood for the past decades and its source of growth. Investment inflow in Asia Pacific had also surpassed NAFTA in recent years. Export and import in merchandise trade is among the highest in the world and had overtaken NAFTA in terms of trade volume and share in world total. Asia Pacific had shown the highest growth rate in international trade for the periods 2000-2006 and had consistently established itself as the second strongest economic bloc since 2000, next to European Union. Consolidation of Asia Pacific economies is a huge factor in further strengthening the region. (Tables 4 and 5)

Table 4. Inward Foreign Direct Investment

Inward foreign direct investment

	FDI stock		FDI stock				FDI net inflows		FDI net inflows			
	Million US dollars		% of GDP				Million US dollars		% of GDP			
	2007		90-95	96-00	01-05	2007	2007		90-95	96-00	01-05	2007
Asia and the Pacific	3,362,327		7.5	11.8	15.9	22.3	372,367		0.8	1.5	1.6	2.5
ASEAN	550,786		20.4	36.7	42.9	42.9	60,513		3.5	4.5	3.8	4.7
ASEAN+3	1,130,353						169,211					
ASEAN+6	1,590,166						217,194					
ECO	229,472		5.4	9.1	13.8	20.5	35,522		0.5	0.8	1.9	3.2
SAARC	105,729		2.0	4.5	5.8	7.4	29,866		0.3	0.7	1.0	2.1
Latin America & Carib.	1,140,007		10.5	18.1	32.0	32.4	126,266		1.2	3.9	3.3	3.5
Other world regions												
Africa	393,429		14.4	21.3	28.1	30.3	52,982		0.9	1.7	2.8	4.1
Europe	7,362,272		10.7	16.7	31.9	41.1	870,478		1.0	3.3	2.8	4.9
North America	2,615,076		8.0	10.8	14.5	17.2	341,529		0.7	2.3	1.0	2.2
Other countries/areas	334,970		11.6	12.4	16.6	24.7	69,701		0.6	1.3	2.7	5.3
World	15,210,560		9.3	14.0	21.5	27.9	1,833,324		0.9	2.7	2.0	3.4

Source: Statistical Yearbook for Asia and the Pacific 2008 (Table 20.1) <http://www.unescap.org/stat/data/syb2008/20-Financing-for-development.asp>

Table 5. Growth in International Trade

Growth in international trade

	Average annual growth rate of imports of merchandise			Average annual growth rate of exports of merchandise		
	% per annum			% per annum		
	90-95	95-00	00-06	90-95	95-00	00-06
Asia and the Pacific	9.8	2.9	13.3	9.9	4.7	12.9
ASEAN	15.6	0.6	10.1	16.2	5.5	10.1
ECO		5.1	18.4		7.2	18.0
SAARC	9.1	5.3	20.5	11.4	6.7	15.9
Latin America & Carib.	12.8	8.4	8.3	11.6	9.2	11.1
Other world regions						
Africa		1.0	13.3		6.5	10.2
Europe	4.4	3.1	11.6	6.1	2.1	11.4
North America	8.1	9.9	7.2	8.3	6.4	5.1
Other countries/areas		5.1	10.1		9.0	12.3
World	7.0	4.7	10.9	7.7	4.3	10.9

Source: Statistical Yearbook for Asia and the Pacific 2008 (Table 21.3) <http://www.unescap.org/stat/data/syb2008>

The industrial and trade transformation of East Asia over the last half century is the result of policy initiatives and market forces that opened up trade and investments in the countries. This created the opportunity to more dynamically link the economies in the international production chain and also provided an environment conducive for sustained FDI flow.

The initial phase of liberalization took place in the 1980s and 1990s, as countries in East Asia embarked on unilateral liberalization of trade and FDI policies and deregulation in domestic economic activities. This is part of the commitment to World Bank and IMF for more comprehensive structural reform policies in exchange for obtaining economic assistance, and also from the realization on the part of the East Asian countries that liberalization and deregulation would promote economic growth.

Meanwhile, policies toward FDI liberalization started around mid-1980s as countries began to realize that FDI inflows would promote economic growth. Some of the measures undertaken were reduction of the number of sectors and industries on the negative list and relaxing the limits on foreign equity ownership. A number of economies also introduced tax holidays or tax breaks to encourage more FDI inflow. (Urata:2008:15).

As regionalization developed, liberalization of trade and FDI also further progressed in East Asia. In 1992, ASEAN member countries created the ASEAN Free Trade Area (AFTA), purposely to enhance trade and FDI flow in the region. AFTA is considered the centrepiece of the ASEAN economic integration policy and provided the impetus to explore subregional cooperation.

Another regional framework that facilitated trade and FDI liberalization in East Asia is the Asia Pacific Economic Cooperation (APEC) forum. APEC provided the venue for East Asian countries to engage North and South America and Oceania in economic dialogue and to create a venue to discuss issues vital to economic development in the region. While its basic principle is based on voluntarism, the Bogor goals for full liberalization of trade and FDI by 2010 for developed economy members and by 2020 for developing economy members had been well integrated in member countries' economic agenda. To date, APEC-member countries have made significant strides in liberalizing trade and FDI.

Several studies had been devoted to understand the shape of East Asia's economic architecture. (Kawai, 2007; Urata, 2005; Soesastro, 2006; Nanto, 2008). Analysts agree that the development of the East Asian regionalism is propelled by three factors: i) market-driven economic integration, ii) negotiated trade liberalization initiatives, and the iii) regional financial cooperation initiatives following the Asian Financial Crisis. The East Asia integration process started as market-led integration and progressed into an institution-led process as East Asia pursued bilateral and plurilateral FTAs and financial cooperation initiatives.

a. De Facto economic integration in East Asia

The initial phase of economic integration in East Asia was pushed by market-driven forces of cross-border trade, FDI and finance. The simultaneous expansion and reinforcement between trade and FDI, or what has been referred to as the trade-FDI nexus, (Urata:2005; Kawaii:2005) was largely determined by the establishment of regional production networks and supply chains by multinational corporations, otherwise known as “Factory Asia” (Soesastro:2006). By the end of 1990s, the intensity of regional trade in East Asia is already comparable to that of EU and NAFTA and East Asia was also slowly veering away from its dependence on the American and European markets. The dependence is expected to further decline as demand for final products within East Asia continues to grow. (Kawai:2007)

Meanwhile, rapid FDI inflow in East Asia is largely attributable to favourable economic environments and the abundant supply of high-quality, low wage labor. FDI inflows to East Asia over the past decades have grown rapidly, even at a rate much faster than the region’s growth in trade.

Many of these FDI movements were intraregional – from Japan and the NIEs, to ASEAN and PRC, and from ASEAN and to PRC. Multinational manufacturing corporations played an important role in enhancing economic integration. The increasing MNCs from Japan, and later on, from the NIEs were key a factor in linking East Asia in the global production chain as they divide their production process into several sub-processes and relocate them in different countries in accordance to their comparative advantage. Such business arrangements have promoted vertical intra-industry trade within East Asia in capital equipment, parts and components, intermediate inputs, semi-finished goods, and finished manufactured products. (Kawaii:2007:2-3)

China plays a key role in the international product fragmentation and the regional production network in general. China’s dynamic role on intra-regional trade has changed the structure of East Asia, and to a large extent created a positive boost for ASEAN as it tries to keep up with competition from China.

China shows bigger influence in the region as it poses to capture a substantial portion of FDI inflow and outflow and bolstered intra-industry and intraregional trade growth. About half of the increase in East Asia’s share in world trade has been accounted for by China. The rise of China has further expanded “Factory Asia” and established what is referred to as the new pattern of “triangular trade” involving increased Chinese imports from East Asia and Chinese exports to third markets. (Soesastro, 2006)

In addition to trade and investment integration, financial markets are also rapidly integrating as a result of deregulation of domestic financial systems, opening of financial services, and progressive relaxation of capital and exchange control. Commercial banks in developed countries operated abroad and portfolio investments have significantly strengthened linkages among the

region's financial markets. At the same time, commercial banks in emerging economies have also expanded operations with their neighbours. However, compared to trade and FDI integration, financial integration in East Asia was less pronounced because apart from Japan, Hongkong, China and Singapore, most East Asian economies still impose capital and exchange restrictions and other barriers, which impede free flows of financial capital. Moreover, many of these emerging East Asian economies still have underdeveloped financial systems that are unable to attract investors. (Kawai, 2007).

b. De Jure Integration: Proliferation of Free Trade Agreement in East Asia

East Asia is a dynamic participant in Free Trade Agreements. As of June 2009, thirty one FTAs had been in effect, while fifty one are currently being negotiated. (Table 7) There a number of reasons cited behind the surge in FTA in East Asia. While the growth of bilateral agreements in East Asia is seen as a response to the sluggish progress of the WTO rounds of negotiation (as FTAs proved to be more convenient and conclusion usually come swifter in a plurilateral or bilateral setting and even provides more flexibility in scope), there are other reasons pointed out such as keeping up with the rapid expansion of FTAs in other parts of the world, promoting domestic structural reforms, avoiding another crisis similar to that of the 1997 Financial Crisis and as a response to rivalry among East Asian economies over market access in potential FTA partners' market as well as competition for leadership role in the region. (Urata: 2008)

Lately, there is also an on-going trend to seek partnership outside of the region, particularly India, EU, US and South America. Japan, South Korea and PRC had been actively engaged in bilateral agreements, with Japan becoming one of the most dynamic FTA movers in the world.

Kawai (2007) sums up the characteristics of these East Asian FTA into either bilateral (between two countries) or plurilateral (agreement among three or more countries); outwardly oriented (seeking partnership outside of the region); with WTO plus coverage or covering issues beyond trade and services liberalization, most especially economic and technical cooperation; and consisting of multiple rules of origin as most FTAs in East Asia take on a combination of three types of ROO rather than applying a single rule.

Additionally, Kawai noted that East Asian FTAs cover issues beyond trade, investment and services liberalization. Japan's bilateral initiative, called the Economic Partnership Agreement (EPA), referred to as "new age FTA" typically includes trade facilitation and cooperation. China's bilateral FTA with individual ASEAN countries likewise focus on economic and technical cooperation, with a more lenient schedule for tariff liberalization. This type of FTA aims to address the asymmetry in economic size and development between partner countries.

Table 6. Major FTAs Involving East Asian Economies as of June 2009

Major FTAs Involving East Asian Economies as of June 2009

In effect	In negotiation	In negotiation
Bangkok Treaty (1976)	Japan-Korea	Australia-GCC
AFTA (1992)	Japan GCC	Australia-Korea
Singapore-NZ (2001)	Japan-Brunei*	China-Hongkong
Japan-Singapore (2002)		China-Iceland
Singapore-Australia (2001)	Japan-India	Chile-Viet Nam
Singapore-EFTA (2003)	Japan-Australia	India-EU
Singapore-US (2004)	Korea-US*	India-ECC
Korea-Chile (2004)	Korea-Canada	India-Korea
China-Hongkong (2004)	Korea-India	India-Malaysia
China-Macao (2004)	Korea-Mexico	Indonesia-Pakistan
Taiwan-Panama (2004)	Korea-EU	Korea-New Zealand
Singapore-Jordan (2004)	Korea-ASEAN (ex. Thailand**)	Malaysia-Chile
Japan-Mexico (2005)	China-Australia	Malaysia-India
China-ASEAN (2005)	China-GCC	Singapore-GCC
Thailand-Australia (2005)	China-SACUFTA	Singapore-Pakistan
Thailand-NZ (2005)	China-Singapore	Singapore-Ukraine
Singapore-India (2005)	Malaysia-Australia	Thailand-Bahrain
Korea-Singapore (2006)	Malaysia-NZ	Thailand-European
Japan-Malaysia (2006)	Malaysia-US	Thailand-Peru
Korea-EFTA (2006)	Singapore-Canada	
Japan-Chile (2007)	Singapore-Mexico	
Japan-Thailand (2007)	Singapore-Egypt	
Singapore-India (2007)	Singapore-Qatar	
Singapore-Panama (2007)	Singapore-Peru	
China-Chile (2007)	Thailand-India*	
China-NZ (2008)	Thailand-EFTA	
China-Pakistan (2008)	Thailand-Australia	
Malaysia-Pakistan (2008)	Thailand-US	
Japan-Philippines (2008)	Hong Kong-New Zealand	
Japan-ASEAN (2008)	Taiwan-El Salvador	
Japan -Indonesia (2008)	Taiwan-Guatemala	
Japan -Vietnam (2008)	Taiwan-Nicaragua	
	Taiwan-Paraguay	

Source:Urata: 2008, updates fromADB-ARIC (<http://www.bilaterals.org/negotiations> and;
<http://aric.adb.org./ftas>)

Notes:** indicates that treaty has been signed and waiting for ratification of respective legislative bodies.
*indicates that the negotiation reached an agreement

Recap on Asian regionalism

There is ongoing debate about the merits of preferential trading arrangements. In East Asia, however, there seems to evolve a more cautious approach and a deliberate effort to stay within WTO principle and open regionalism, mindful of the need for RTAs become building blocs to multilateralism and possibly stem its proliferation in the region. RTA initiatives in East Asia, tend to work within a regional cooperation framework seeking solutions, opportunities and institutions to address issues beyond trade and investments, covering as well social and environmental issues in the region.

Asian regionalism is characterized by open, gradual and flexible systems that are responsive to the region's varying economic, political and cultural realities. It does not follow a single track or fixed deadline, but is rather multi-track and multi-speed, to factor in the economic and political diversity of the member economies. It also takes on a bottom-up approach. While some analysts refer to this as shallow integration, if EU or NAFTA are to be made as yardsticks, these characteristics had also been lauded as necessary and desirable features of the Asian regionalism model to provide the foundation for wider collaboration and deeper partnerships in the long run. (ADB:2008)

Asian regionalism is the product of economic interaction and outward oriented growth strategies, reinforced by integration in policy and technology, which have been generating new opportunities for intra- regional and inter-regional cooperation. The Asian Financial Crisis in 1997 highlighted the deep connections among economies in the region. The Crisis has been referred to as the watershed of regionalism in Asia and all the more magnified the interdependence of countries in the region. It also showed the importance of creating sound institutions and good governance to sustain economic growth. (ADB:2008)

c. Regional Financial Cooperation and Integration

Sustained regional growth and integration in trade and investment increase the need to strengthen the regional financial architecture. Indeed, several financial cooperation and integration initiatives had been undertaken in the region.

Even before the 1997 Crisis, ASEAN Finance Ministers had already agreed to work together on three important issues: strengthening the supervisory and regulatory framework of the banking sector; liberalize the financial services; and evaluate the utility of the ASEAN Swap Arrangement (Soesastro, 2006).

Following the crisis, interest on financial cooperation intensified. Efforts towards increased risk allocation made East Asia the first region to actively pursue measures to establish a group based on monetary and financial cooperation. The regional economies embarked on several initiatives to strengthen the regional financial architecture, consisting of three pillars: regional economic surveillance, liquidity support facility, and the Asian Bond market development. (Kawai, 2007)

Several regional surveillance measures had been launched in East Asia following the financial crisis. The most prominent, to date, is the ASEAN + 3 finance ministers' Economic Review and Policy Dialogue (ERPD) process launched in May 2000. ASEAN + 3 ERPD aims to prevent another financial crisis by creating channels for information sharing, exchange of views, assessment of economic conditions and policies, and potential for collaboration on financial, monetary, and fiscal issues of common interest.

The Chiang Mai Initiative is considered to be the centrepiece of the liquidity support facility in East Asia and aims to address short-term liquidity needs in the event of a financial crisis or contagion and to supplement the existing financial arrangements. The CMI has two elements: the ASEAN Swap Arrangement (ASA), and the network of sixteen bilateral swap arrangements (BSAs) among ASEAN+3 members. Programs to link CMI with IMF programs are currently underway to supplement the region's limited capacity to produce and enforce adjustment programs in the event of a crisis.

The idea of creating a regional bond fund crystallized after the Financial Crisis as East Asia saw the need to develop local currency bond markets as an alternative source of financing to lessen the region's heavy dependence on banks. The basic idea was to create a channel to mobilize the region's vast pool of savings to be intermediated directly to the region's long-term investment, without going through the financial centres outside of the region. Among the initiatives undertaken at the regional level are the Asian Bond Fund (ABF) initiative and the Asian Bond Markets Initiative (ABMI). Both were under the auspices of EMEAP (Executives' Meeting of East Asia and Pacific Central Banks) and ASEAN + 3 finance ministers. Alongside these initiatives are the APEC Finance Ministers' process and the Asia-Cooperation Dialogue (ACD) process which aim to support the Asian bond market development.

4. Cooperation Beyond the Region: Prospects for an East Asia-LAC Economic Partnership

Asia Pacific and Latin America is characterized by wide disparity --- economically, politically and culturally. Asia Pacific is a densely populated region, comprising of 61% of the global population. In stark contrast, Latin America's population is barely 9% of the total global population. Asia Pacific's share to the world's GDP is almost at 30%, surpassing NAFTA and almost as close to that of European Union, while Latin America has a modest share of 5.7% to total world output. Share of Asia in World Merchandise Trade is more than a quarter of the

world's total at 28%, while Latin America's share is only at 5%. In World Services Trade, Asia likewise corners almost a quarter of trade in services at 22%, while Latin America and the Caribbean's share remained small at 3%. (Refer to Tables 7-11 below)

Despite the high growth rate, Asia Pacific is characterized by wide income gaps, as it is home to the richest and poorest sectors in the world if North and South Asia are to be included. Asia Pacific's GDP per capita is at \$2,600, which is much smaller than that of Latin America's \$3,600.

Table 7. Population by Region

	Population					Population growth rate				Share to World Population				
	Total population					Per cent per annum				Per cent Share				
	Thousands					90-95	95-00	00-05	2007	1990	1995	2000	2005	2007
Asia and the Pacific	3 276 348	3 535 812	3 775 064	3 992 091	4 077 125	1.5	1.3	1.1	1.1	61.9	61.8	61.6	61.3	61.1
ASEAN	439 834	480 438	519 178	556 602	571 345	1.8	1.6	1.4	1.3	8.3	8.4	8.5	8.5	8.6
ASEAN+3	1 755 309	1 864 649	1 962 954	2 045 347	2 076 166					33.2	32.6	32.1	31.4	31.1
ASEAN+6	2 635 789	2 840 676	3 032 182	3 204 158	3 270 103					49.8	49.7	49.5	49.2	49.0
ECO	297 291	332 144	362 824	392 281	405 412	2.2	1.8	1.6	1.7	5.6	5.8	5.9	6.0	6.1
SAARC	1 135 885	1 267 107	1 394 732	1 517 979	1 567 187	2.2	1.9	1.7	1.6	21.5	22.2	22.8	23.3	23.5
Latin America & Carib.	444 271	483 860	523 048	557 979	572 206	1.7	1.6	1.3	1.3	8.4	8.5	8.5	8.6	8.6
Other world regions														
Africa	637 421	726 334	820 959	922 011	964 973	2.6	2.5	2.3	2.3	12.0	12.7	13.4	14.2	14.5
Europe	572 707	579 389	581 078	587 134	588 785	0.2	0.1	0.2	0.1	10.8	10.1	9.5	9.0	8.8
North America	283 920	299 670	315 672	332 245	338 831	1.1	1.0	1.0	1.0	5.4	5.2	5.2	5.1	5.1
Other countries/areas	80 211	93 980	108 303	123 292	129 305	3.2	2.9	2.6	2.4	1.5	1.6	1.8	1.9	1.9
World	5 294 879	5 719 045	6 124 123	6 514 751	6 671 226	1.6	1.4	1.2	1.2	100.0	100.0	100.0	100.0	100.0

Source: Statistical Yearbook for Asia and the Pacific 2008 (Table 1.1) <http://www.unescap.org/stat/data/syb2008/1-Demographic-trends.asp>

Table 8. GDP by Region

Gross domestic product (GDP)

	Gross domestic product (GDP) average annual GDP (1990 US dollars) growth rate Share to World GDP														
	Million 1990 US Dollars					Million US Dollars		Per cent per annum				Per cent Share			
	1990	1995	2000	2005	2007	2007	90-95	95-00	00-05	2007	1990	1995	2000	2005	2007
Asia and the Pacific	822,428	1,658,283	3,711,429	4,93,570	6,10,208	6,053,430	2.7	3.0	4.2	5.8	26.3	27.0	26.5	28.5	29.5
ASEAN	355,373	513,689	582,419	742,005	836,502	1,285,240	7.6	2.5	5.0	6.3	1.6	2.1	2.0	2.2	2.3
ASEAN+3	4,041,912	4,873,946	5,566,126	6,702,122	7,432,600	10,022,003					18.2	19.7	19.1	20.1	20.6
ASEAN+6	4,731,772	5,720,088	6,635,128	8,086,859	9,006,292	12,239,472					21.4	23.2	22.8	24.2	25.0
ECO	359,760	396,144	473,955	617,956	698,664	1,119,536	1.9	3.7	5.4	6.1	1.6	1.6	1.6	1.9	1.9
SAARC	430,806	548,995	710,890	984,022	1,158,288	1,428,393	5.0	5.3	6.7	8.2	1.9	2.2	2.4	3.0	3.2
Latin America & Carib.	196,941	405,877	635,481	861,230	1,061,522	1,444,444	3.3	3.1	2.6	5.2	5.4	5.7	5.6	5.6	5.7
Other world regions															
Africa	495,198	523,199	627,279	808,217	906,043	1,300,531	1.1	3.7	5.2	6.1	2.2	2.1	2.2	2.4	2.5
Europe	7,925,788	8,352,489	9,605,590	10,464,264	11,083,499	12,916,649	1.1	2.8	1.7	2.8	35.8	33.8	33.0	31.4	30.8
North America	6,342,977	7,144,028	8,749,390	10,821,580	13,327,845	15,210,028	2.4	4.1	2.3	2.2	28.6	28.9	30.1	29.4	28.7
Other countries/areas	363,184	361,663	442,068	543,319	606,305	1,160,619	3.6	4.1	4.2	5.2	1.4	1.5	1.5	1.6	1.7
World	22,148,922	27,678,920	39,080,803	53,354,836	63,997,458	83,982,222	2.2	3.3	2.8	3.8	100.0	100.0	100.0	100.0	100.0

Source: Statistical Yearbook for Asia and the Pacific 2008 (Table 15.2) <http://www.unescap.org/stat/data/syb2008/15-Economic-growth.asp>

Table 9. GDP per Capita by Region

Gross domestic product per capita

	GDP per capita					2005 PPP dollars	Average annual GDP per capita (1990 US dollars) growth rate			
	1990 US Dollars						Per cent per annum			
	1990	1995	2000	2005	2007		90-95	95-00	00-05	2007
Asia and the Pacific	1,777	1,883	2,043	2,378	2,603	5,797	1.2	1.6	3.1	4.7
ASEAN	808	1,069	1,122	1,333	1,464	4,570	5.8	1.0	3.5	4.9
ASEAN+3	31,745	36,140	39,056	43,574	46,452	64,586				
ASEAN+6	63,915	71,257	78,448	87,780	92,520	125,501				
ECO	1,210	1,193	1,306	1,575	1,723	6,089	-0.3	1.8	3.8	4.4
SAARC	379	433	510	648	739	2,418	2.7	3.3	4.9	6.5
Latin America & Carib.	2,700	2,912	3,133	3,342	3,610	9,184	1.5	1.5	1.3	3.9
Other world regions										
Africa	765	721	765	877	940	2,547	-1.2	1.2	2.8	3.7
Europe	13,687	14,419	16,535	17,827	18,829	25,434	1.0	2.8	1.5	2.7
North America	22,341	23,840	27,717	29,562	30,481	42,543	1.3	3.1	1.3	1.2
Other countries/areas	3,684	3,849	4,082	4,407	4,690	10,926	0.9	1.2	1.5	2.7
World	4,183	4,315	4,749	5,120	5,396	9,373	0.6	1.9	1.5	2.6

Source: Statistical Yearbook for Asia and the Pacific 2008 (Table 15.2) <http://www.unescap.org/stat/data/syb2008/15-Economic-growth.asp>

Table 10. Share of Asian and LAC in World Merchandise Trade, 2007

Share of Asian and Latin American Countries in World Merchandise Trade, 2007			
	Value (billions of dollars)	Share in sum of Asia and LAC	World Share
Asia	3798	83.2	28
Japan	713	15.6	5.3
China	1218	26.7	9
Republic of Korea	372	8.1	2.7
Chinese Taipei	246	5.4	1.8
Singapore (domestic exports)	156	3.4	1.1
India	145	3.2	1.1
Other Asia	1194	26.1	8.8
Latin America and the Caribbean	768	16.8	5.7
Brazil	161	3.5	1.2
Mexico	272	6	2
Other LAC	335	7.3	2.5
Asia and Latin America and the Caribbean	4566	100	33.6
World	13570		100

Source: ECLAC, citing WTO

Table 11. Share of Asian and LAC in World Services Trade, 2007

Share of Asian and Latin American Countries in World Services Trade, 2007			
	Value (billions of dollars)	Share in sum of Asia and LAC	World Share
Asia	745	87.3	22.9
Japan	136	15.9	4.2
China	127	14.9	3.9
Newly Industrialized Economies	243	28.5	7.5
India	86	10.1	2.6
Other Asia	153	17.9	4.7
Latin America and the Caribbean	108	12.7	3.3
Brazil	23	2.7	0.7
Mexico	17	2	0.5
Other LAC	68	8	2.1
Asia and Latin America and the Caribbean	853	100	26.2
World	3260		100

Source: ECLAC, citing WTO

The tariff levels between the two regions are also generally on opposite sides of the world average. East Asian countries have generally lower tariff protection than Latin America and Caribbean countries on average. However, Japan and Korea have very much higher tariffs in agricultural products. (Table 12)

Country	MFN applied tariff	MFN applied tariff	MFN applied tariff
	All Goods	Agricultural	Non-Agricultural
Year	2006-2008 Latest	2006-2008 Latest	2006-2008 Latest
China	5.33	11.40	5.05
Korea, Rep.	8.20	65.30	4.40
Japan	4.75	29.36	1.37
ASEAN Average	4.60	6.51	4.57
East Asia- Pacific Average	4.89	8.23	4.69
Latin America and Caribbean Average	7.84	13.34	6.97
World	7.19	13.54	6.48

*Source: World Trade Indicators, 2008, World Bank
(<http://info.worldbank.org/etools/wti2008/3a.asp?>)*

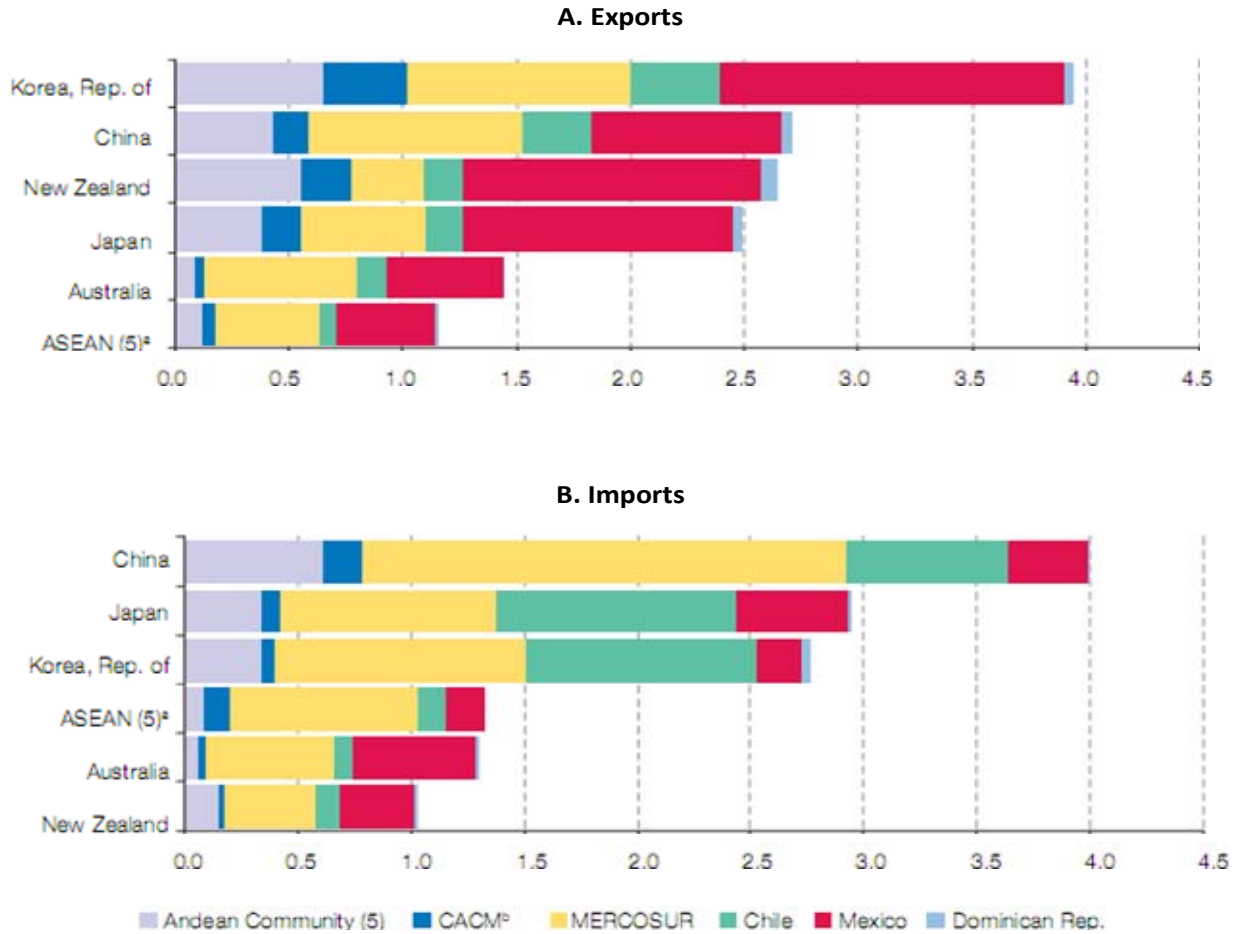
Until more recently, economic relations between Asia Pacific and Latin American and Caribbean countries are almost non-existent and the two regions did not have much opportunity for dialogue and cooperation. APEC provided this opportunity, and also information exchange between the two regions. At present, however, this has not resulted to anything eventful in economic relations between the two countries, and no sustained cooperation efforts had really been achieved.

China's entry into the global economy created a new dynamism to Asia Pacific and Latin America's relationship. China is seen to play an important role in increasing trade relations between the two regions. As of 2007, China gained market share in 21 economies and had become one of the top 5 exporters in Argentina, Brazil, Chile and Mexico. China also dominated import share from a large group of Latin American countries and the Caribbean, becoming a top 5 importer in all 23 of them. (see Table 13)

Table 13. Ranking of China, Japan and Republic of Korea in Latin America and Caribbean's Trade

Figure 2.

Selected Countries and Grouping of the Asia-Pacific Region: Share of Latin American and Caribbean Countries and Groupings in Total Exports and Imports, Average 2004-2006



Source: p. 54 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific: The Link With APEC*, ECLAC (November 2008)

The United States remains Latin America and Caribbean's top export destination, with close to half of its exports at 45% going to the United States. The European Union and the Asia Pacific only captured 14% and 11% of the exports, respectively. Chile was the top exporter in 2007, with 39% of its exports headed to Asia Pacific. (Table 14)

Table 14. Latin America and Caribbean Exports by Major Exports Region, 2007

Latin American and Caribbean Exports, By Major Exports Region, 2007 a/							
	United States	European Union (27)	Asia and the Pacific b/	Latin America and the Caribbean	Rest of the World	World	
Latin America and the Caribbean	45.4	14	11.2	18.4	11.1	100.0	
Argentina	7.8	17.5	17.1	38.8	18.8	100.0	
Bolivia	8.9	7.7	8.4	61.4	13.7	100.0	
Brazil	15.8	25.2	16.1	25.4	17.6	100.0	
Chile	12.3	22.9	39.5	16.3	9	100.0	
Colombia	36.9	15.2	4.1	35.5	8.3	100.0	
Costa Rica	37.2	14.4	20.7	24.6	3.1	100.0	
Cuba c/	0	31.8	18.8	11.1	38.2	100.0	
Ecuador	43.5	12.7	3.2	32.5	8.1	100.0	
El Salvador	50.6	6.3	1.2	39.2	2.7	100.0	
Guatemala	42.7	5.2	3.2	41.3	7.7	100.0	
Honduras	58.9	16.3	0.9	20.6	3.4	100.0	
Mexico	82.2	5.3	3	6	3.4	100.0	
Nicaragua	62.7	7.2	1.5	22.4	6.2	100.0	
Panama	39.8	33.5	1.8	18.7	6.1	100.0	
Paraguay	2	6.9	3.5	72.1	15.5	100.0	
Peru	19.1	17.1	19.2	18.4	26.2	100.0	
Dominican Republic	65.6	12.6	2.1	4.9	14.8	100.0	
Uruguay	11	18.5	8.6	37.1	24.9	100.0	
Venezuela (Bolivarian Rep. Of) c/	52.9	10	5.1	15.1	17	100.0	
CARICOM c/	47.9	13.1	3.2	22.4	13.5	100.0	
	Greater than 40%		greater than 15%	hit less than 40%			
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official country information and estimates based on IMF Direction of Trade Statistics (DOTS) online							
a/ Preliminary figures							
b/ Includes not only the 12 Asia-Pacific Economies but also other countries in developing Asia.							
c/ Estimates by the Economic Commission for Latin America and the Caribbean (ECLAC)							

Even with the entry of China and efficiency seeking firms coming from Japan and NIEs, economic partnership still varies depending on which part of Latin America and Caribbean one is looking at. MERCOSUR, with the exception of Paraguay, has become an important export market in the past years. The Andean Community's share increased in the mid 1990s, but has since then declined to an almost insignificant share, except for Peru. For Central American countries, Asia's share in the market is negligible at less than 4% of the total exports, except for Costa Rica, which sells 20% of its exports to Asia Pacific. On the other hand, Chile and Brazil stood out as the biggest trade partners of Asia Pacific in the Latin America and Caribbean, with 40% and 16% of their total exports, respectively in 2007, going to Asia Pacific. In stark contrast,

Mexico, only has 3% of its exports going to Asia Pacific, given that the bulk of its trade goes to the United States. (ECLAC: 2008).

In terms of trade composition, the Asia Pacific export basket consists mainly of manufactures, especially in the intermediate and high technology product categories. Almost half of all Asia Pacific exports are captured by the region itself in 2006, while non-Asia Pacific countries were secondary export destination. On the other hand, Latin America and Caribbean is characterized by intraregional trade, with intermediate and high technology manufactures figuring significantly. In contrast, trade between the two regions is dominated by inter-industrial commodities. Exports of Latin America and Caribbean from East Asia are mostly primary products, while Asia Pacific exports high tech manufactures to the region. (Table 15) Unless trade diversification is achieved, this could present an impediment to future biregional trade and investment. (ECLAC, 2008)

Table 15.

Latin America and Asia-Pacific: Trade by Regions and Products by Technology Intensity, 2006 (Percentages)																
Products by Technological Intensity	Asia-Pacific								Asia-Pacific							
	Export Matrix								Export Distribution by region and sector							
	LAC*	United States	European Union**	Asia Pacific***	China	Japan	Others	Total	LAC	United States	European Union	Asia Pacific	China	Japan	Others	Total
Primary Products	0.1	0.5	0.6	4.5	0.8	1.7	1.3	7	3	2.6	4.3	9.3	9.2	21.1	8.2	7
NRB Manufactures	0.3	1.4	1.4	7.6	1.4	1.3	2	12.6	7.1	7.8	9.5	15.5	15.8	16.7	13.2	12.6
Low Tech Manufactures	0.6	3.9	2.8	6.3	0.7	1.5	3.3	17	17	22	19.5	12.9	8	19.4	21.8	17
Medium Tech Manufactures	1.6	6.2	4.3	12.3	2.7	1.3	6.1	30.6	45.1	34.7	29.9	25.3	30.5	16.4	39.8	30.6
High Tech Manufactures	0.8	5.5	4.8	16.3	2.9	1.8	2.4	29.9	23.3	30.9	33.4	33.5	32.8	23.2	15.9	29.9
Other Transactions	0.1	0.3	0.4	1.3	0.2	0.1	0.7	2.9	4.1	1.8	2.9	2.6	2.5	1	4.8	2.9
Total	3.6	17.9	14.5	48.7	8.7	7.9	15.3	100	100	100	100	100	100	100	100	100
Products by Technological Intensity	Latin America and the Caribbean								Latin America and the Caribbean							
	Export Matrix								Export Distribution by region and sector							
	LAC	United States	European Union	Asia Pacific	China	Japan	Others	Total	LAC	United States	European Union	Asia Pacific	China	Japan	Others	Total
Primary Products	3.5	12.6	5.8	5.6	2.2	1.7	7.3	34.8	20.9	26.5	46.1	58.5	61.8	73	54.5	34.8
NRB Manufactures	4	5.7	3.6	2.3	0.8	0.4	2.5	18.1	23.7	12	28.9	23.8	22.8	17.8	18.7	18.1
Low Tech Manufactures	1.9	5.1	0.7	0.3	0.1	0	0.4	8.4	11.5	10.7	5.2	3.5	3.7	1	2.7	8.4
Medium Tech Manufactures	5.5	14.2	1.9	0.9	0.2	0.1	1.3	23.8	33	29.7	15	8.9	6.9	6.3	10	23.8
High Tech Manufactures	1.6	9.2	0.5	0.5	0.2	0	0.6	12.5	9.8	19.3	4.4	5.1	4.8	1.8	4.5	12.5
Other Transactions	0.2	0.9	0	0	0	0	1.3	2.4	1.2	1.8	0.3	0.1	0	0.1	9.6	2.4
Total	16.7	47.8	12.5	9.6	3.6	2.3	13.4	100	100	100	100	100	100	100	100	100

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of United Nations Commodity Trade Database (COMTRADE)

*LAC consists of 33 countries in the region

**The European Union includes 15 countries

***Asia-Pacific includes Chinese Taipei and Hong Kong China

Overall, the level of biregional trade between Latin America and Asia Pacific is still low based on the Grubel Lloyd Index (GLI)* scores in 2006. However, some increase in biregional trade can be seen in Mexico, Costa Rica, Argentina and Brazil. (See Table 16.) On the Asia Pacific's side, Singapore and Australia are moving into IIT with Latin America. The products trade range from high and medium technology goods, to low technology products. High technology goods traded involve electrical apparatus, parts and accessories, microcircuits, automatic data

* The Grubel-Lloyd Index is a widely used indicator to measure the extent of intra-industry trade as opposed to the inter industry trade. High intra-industry trade will bring the GL index equal to one. Lack of intra-industry trade will bring the GL index to zero. The index varies from zero (all inter-industry trade) to one (all intra-industry trade), and the sum over the shares of the two mutually exclusive forms of trade amounts to one in each country's aggregate trade.(Lee, 2004)

processing machines, quality control instruments. Medium technology goods traded are products that fall under general machinery, while low technology products include textile, yarn and iron and steel products. (ECLAC:2008)

Table 16. Grubel Lloyd Indices for Some LAC Countries with Asia Pacific, 2006

Intra-Industry Trade Relations of Some Latin American and Caribbean Countries with Asia-Pacific, 2006 (Grubel Lloyd Indices)											
Partners	Australia	China	Indonesia	Japan	Malaysia	New Zealand	Philippines	Rep. of Korea	Singapore	Thailand	Vietnam
Countries											
Argentina	0.08	0.03	0.02	0.02	0.01	0.17	0.00	0.03	0.13	0.02	0.01
Bolivia	0.01	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.02	0.00	0.00
Brazil	0.07	0.08	0.05	0.06	0.02	0.14	0.02	0.05	0.18	0.05	0.06
Chile	0.08	0.01	0.00	0.00	0.01	0.02	0.03	0.01	0.02	0.01	0.00
Colombia	0.18	0.02	0.02	0.01	0.00	0.03	0.01	0.00	0.13	0.07	0.06
Costa Rica	0.05	0.10	0.02	0.55	0.19	0.01	0.38	0.09	0.36	0.10	0.01
Dominican Rep.	0.12	0.03	0.00	0.04	0.08	0.01	0.01	0.03	0.27	0.03	...
Ecuador	0.05	0.01	0.01	0.00	0.08	0.02	0.03	0.01	0.19	0.01	0.00
El Salvador	0.00	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00
Guatemala	0.02	0.03	0.03	0.01	0.01	0.00	0.02	0.02	0.03	0.04	0.00
Honduras	0.00	0.10	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.02	0.00
Mexico	0.15	0.27	0.09	0.16	0.24	0.03	0.11	0.09	0.56	0.37	0.02
Nicaragua	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.10
Panama	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.17	0.00	0.00	0.00
Paraguay	0.00	0.00	0.00	0.00	0.00	0.01	0.04	0.00	0.00	0.00	0.00
Peru	0.10	0.01	0.01	0.01	0.00	0.02	0.34	0.02	0.02	0.02	0.00
Uruguay	0.04	0.03	0.11	0.00	0.01	0.05	0.00	0.06	0.03	0.00	0.00
Venezuela (Bol. Ref. of	0.07	0.01	0.01	0.00	0.03	0.00	0.00	0.00	0.00	0.02	0.00
		IGL > 0, 33		IGL > 0, 10 < 0, 33			IGL < 0, 10				

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the United Nations Commodity Trade Database (COMTRADE)

On the whole, what the data show is that generally, trade and investment relations between East Asia and Latin America are still relatively underdeveloped and leaves much room for coordination and closer trade and investment linkages. Significantly, there is a growing awareness of the need and importance to link up, as manifested by the growing number of FTAs that had been signed and being negotiated between the two regions. (See Figure 3.)

Figure 3

TRANS-PACIFIC NETWORK OF FTAs THAT ARE ALREADY IN FORCE OR IN NEGOTIATION



Source: p. 85 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific: The Link With APEC*, ECLAC (November 2008)

a. Cooperation in the wake of the current global financial crisis

Both Asia Pacific and Latin America and Caribbean are projected to experience economic decline as a result of the global financial crisis. In Asia Pacific, the impact of the crisis was already felt in 2008, with the region experiencing a drop in GDP and an economic slump in 2009. Japan and the NIEs (Singapore, Korea, Hongkong and Taiwan) are projected to be roughly hit, with a projected GDP decline of -6.2% for Japan and -5.6% for NIEs. As a whole, however, Emerging Asia is projected to survive the global crisis, albeit with a drop in the growth rate to 3.3% in 2009 from 6.2% in 2008, and only to regain its growth momentum in 2010 with a growth rate of 5.3%. On the other hand, Latin America and the Caribbean's GDP growth rate is projected to fall to -1.5% in 2009, much lower than the global GDP decline at -1.3%, and only to regain a positive growth in 2010. (Table 17 and Figure 4)

The picture becomes more dismal for Asia Pacific if trade figures are factored in. Trade in both goods and services are projected to decline sharply in 2009. Exports are projected to fall sharply

for NIEs, Developing Asia and ASEAN 5 at -11.9%, -9.1% and -10.1% respectively. Imports are also expected to decline sharply at -13.9% for NIEs, -11.1% for Developing Asia, and -8.8% for ASEAN 5. The year 2009 is projected to be one of the worst years for Asia Pacific economy. On the other hand, trade in Latin America and the Caribbean is also expected to decline in 2009 as export volume is expected to drop to -3.5% and imports to -6.7% (Table 18)

Table 17. Impact of the Global Financial Crisis on Real GDP, annual percent change

Real GDP (Annual percent change)		Projections			
		2007	2008	2009	2010
Emerging Asia¹		9.8	6.8	3.3	5.3
Newly industrialized Asian economies ²		5.7	1.5	-5.6	0.8
Developing Asia ³		10.6	7.7	4.8	6.1
ASEAN 5		6.3	4.9	0.0	2.3
Indonesia		6.3	6.1	2.5	3.5
Malaysia		6.3	4.6	-3.5	1.3
Philippines		7.2	4.6	0.0	1.0
Thailand		4.9	2.6	-3.0	1.0
Vietnam		8.5	6.2	3.3	4.0
North East Asia					
China		13.0	9.0	6.5	7.5
Japan		2.4	-0.6	-6.2	0.5
Korea		5.1	2.2	-4.0	1.5
Other advance economies in Asia					
Singapore		7.8	1.1	10.0	-0.1
Australia		4.0	2.1	-1.4	0.6
New Zealand		3.2	0.3	-2.0	0.5
United States		2.0	1.1	-2.8	0.0
Latin America & Caribbean⁴		5.7	4.2	-1.5	1.6
Other regional groups					
Africa		6.2	5.2	2.0	3.9
Central and eastern Europe		5.4	2.9	-3.7	0.8
European Union		3.1	1.1	-4.0	-0.3
Middle East		6.3	5.9	2.5	3.5
World		5.2	3.2	-1.3	1.9

Notes:

¹ Consists of developing Asia, the newly industrialized Asian economies and Mongolia; figures taken from Table 2.2 (p73 of World Economic Outlook: Crisis and Recovery, April 2009)

² Newly industrialized Asian economies: Composed of 4 countries (Hong Kong SAR, Korea, Singapore, Taiwan Province of China)

³ Developing Asia: Composed of 23 countries (Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Vietnam)

⁴ excluding Cuba, also known as Western Hemisphere region

Source: Table A1, Table A2 and Table A4; World Economic Outlook (WEO), April 2009

Figure 4. Impact of the Global Financial Crisis to Emerging Asia and Latin America and Caribbean's GDP

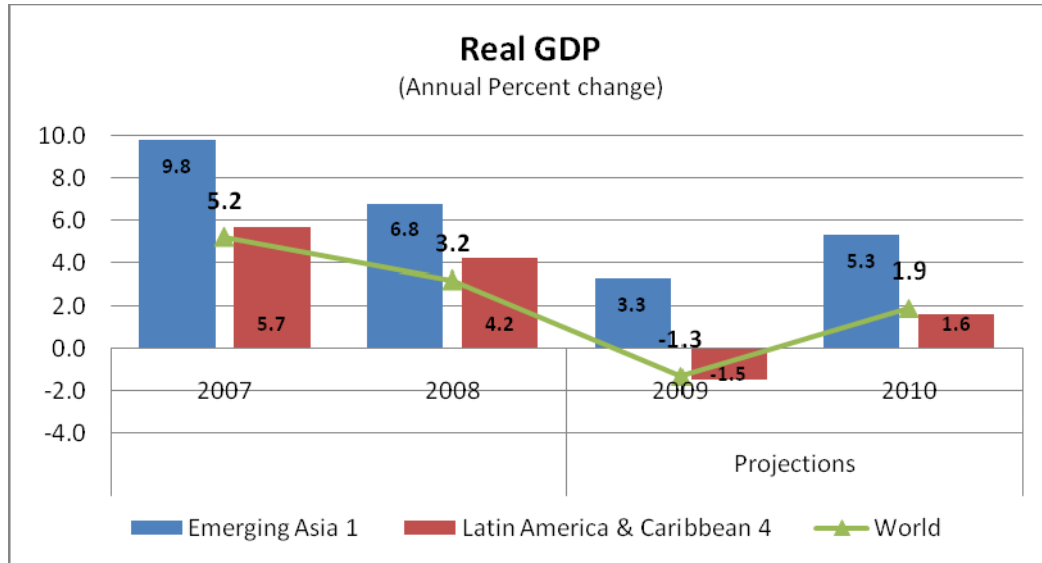


Table 18. Impact of the Global Financial Crisis on Trade in Goods and Services

Trade in Goods and Services								
(Annual percent change)								
	Volume of Trade: Exports				Volume of Trade: Imports			
	2007	2008	Projections		2007	2008	Projections	
			2009	2010			2009	2010
Emerging Asia								
Newly industrialized Asian economies ¹	9.5	0.6	-11.9	0.3	8.7	0.4	-13.9	0.4
Developing Asia ²	15.0	10.4	-9.1	-0.9	11.5	10.3	-11.1	-1.9
ASEAN 5 ³	7.4	3.3	-10.1	3.9	7.7	10.9	-8.8	3.3
Latin America & Caribbean ⁴	4.1	-0.1	-3.5	2.1	13.0	8.3	-6.7	0.6
Other regional groups								
Africa	5.7	-0.5	-2.2	3.9	19.6	11.3	-2.0	5.0
Central and eastern Europe	9.3	6.8	-9.6	2.2	13.7	4.8	-12.9	0.0
Euro area ⁵	6.0	1.3	-12.9	-0.3	5.5	1.4	-11.2	-1.0
Middle East	3.8	7.8	1.3	2.7	13.6	19.9	5.4	3.6
World	7.2	3.2	-11.0	0.7	7.3	3.5	-11.0	0.5
Notes:								
¹ Newly industrialized Asian economies: Composed of 4 countries (Hong Kong SAR, Korea, Singapore, Taiwan Province of China)								
² Developing Asia: Composed of 23 countries (Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Vanuatu, Vietnam)								
³ composed of 5 countries (Indonesia, Malaysia, Philippines, Thailand, Vietnam)								
⁴ excluding Cuba, also known as Western Hemisphere region								
⁵ composed of 16 countries: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, Spain								
Source: World Economic Outlook (WEO) database, April 2009								

With the dismal economic projections ahead in 2009, greater cooperation would be needed in trade, finance and as well as in macroeconomic management to deal with the global financial crisis. Domestic and regulatory reforms have to be introduced, as well as better financial standards, good governance and better safety nets to the vulnerable sectors.

Asia Pacific and Latin America has a lot to learn from each other in managing the impact of the crisis. The Asian Financial Crisis experience instilled in Asia the lesson of regional cooperation as an important factor in overcoming the crisis. Cooperation is necessary in setting regional standards on regulatory measures and in providing a complementary framework for financial reforms. Regional cooperation is also important in further integrating financial markets, especially where market-based processes have failed. Institutionalizing dialogue among the key players in the domestic financial markets is important to strengthen supervision and surveillance, coordinate regulatory frameworks and create minimum, common standards. (ADB:2008)

While Latin America's economic success may not match Asia Pacific, it is significant to note that most of the bigger economies in the region have greatly improved their economic policies and strengthened their institutions for the past years, which could partly explain why the bigger economies of Latin America remain relatively unharmed by the global financial crisis. The major economies of the region have been lauded for its conservative and well-regulated banks and good fiscal management. Chile has currently gained recognition as one of the best managed economies in the world, with Mexico and Brazil not falling far behind. [†]

There are studies which showed that regulatory and institutional factors within economies create bigger constraints to doing business than border measures (international barriers). Behind the border measures such as national policies and institutions pose a bigger challenge in pushing for reforms in harmonizing regulations and standards across economies. (ADB:2008:238); Drysdale, 2007) By addressing behind the border issues through individual initiatives to reform domestic policies and institutions, Latin America is slowly revived. This is one lesson that Asia Pacific could learn from Latin America – how to push domestic reforms and strengthen institutions domestically to ease the constraints in doing business, while maintaining hard-won reputation in the international market.

Models for best practice can be shared by the two regions in pushing for domestic reforms and supporting policies that would mitigate the impact of the crisis. It is also expedient that the regions create policies that would help stimulate regional demands by reducing barriers to trade and investment and reduce costs of doing trans-regional business. The next section discusses some of the constraints to a better business environment between Asia Pacific and Latin America and the Caribbean.

a. Some impediments to economic cooperation[‡]

High Effective Tariffs in Agriculture and Natural Resource Based in Asia Pacific

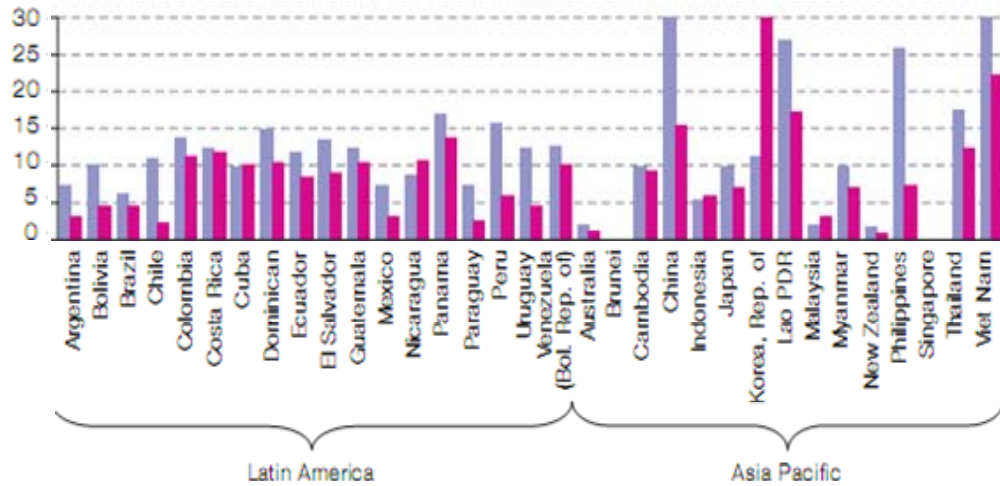
Agriculture is a sensitive sector in Asia Pacific. Asia Pacific countries continue to impose high applied tariffs on its agricultural sector, making market access to agriculture difficult for Latin America. Asia Pacific's tariff on agriculture is higher than Latin America and had even shown an increasing level. Natural resource products are also subject to high ad valorem and tariff quotas. The challenge for Latin America is to engage Asia Pacific in negotiations that would allow Latin America to gain market access to sectors that continue to enjoy high levels of protection.

[†] The Economist. May 2nd-8th 2009. Latin American Economies: That Fragile Thing: A Good reputation.

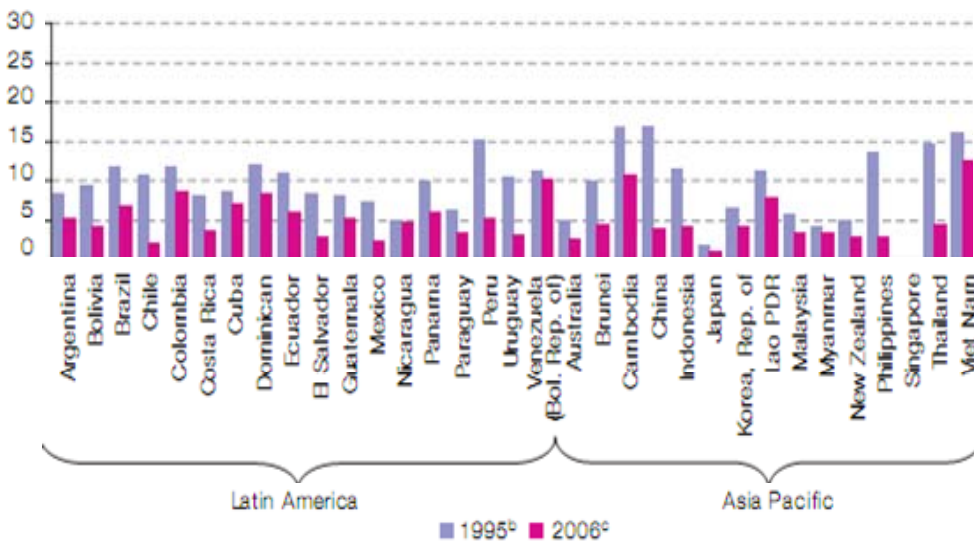
[‡] As cited in ECLAC: 2008

Figure 5. Tariffs Charged to the World for Agricultural and Non Agricultural Products, Latin America and Asia Pacific

TARIFFS CHARGED TO THE WORLD FOR AGRICULTURAL PRODUCTS^a



TARIFFS CHARGED TO THE WORLD FOR NON AGRICULTURAL PRODUCTS^a



a Based on the WTO classification

b Twelve out of the 33 countries considered did not report tariffs for 1995. In those cases, the closest year reported is used

c Four out of 33 countries considered did not report tariffs for 2006. In those cases, the closest year reported is adopted

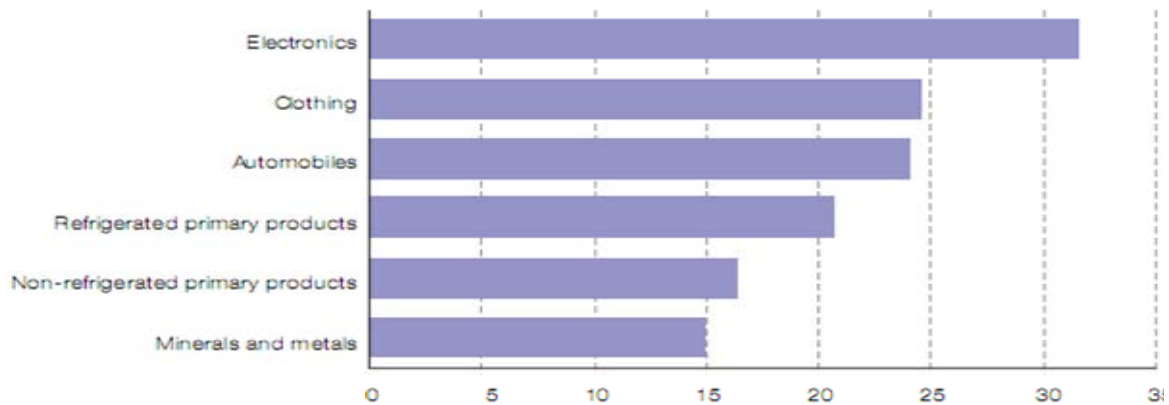
Source: p. 87 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific*
The Link With APEC, ECLAC (November 2008)

High Transport Costs in Latin America and the Caribbean

High transport freight costs put Latin America at a disadvantage in increasing economic partnership with Asia Pacific. Lack of maritime transport connections is one of the major trading barriers between the two regions and could limit growth potentials. The maritime connections between the two regions are not yet adequately developed, unlike other maritime routes in several regions. Direct lines between Latin America and Asia Pacific are available only to and from Chilean ports, while in the rest of the region, several stops must be made in South Africa or other South American countries before setting course to Asia.

Figure 6.

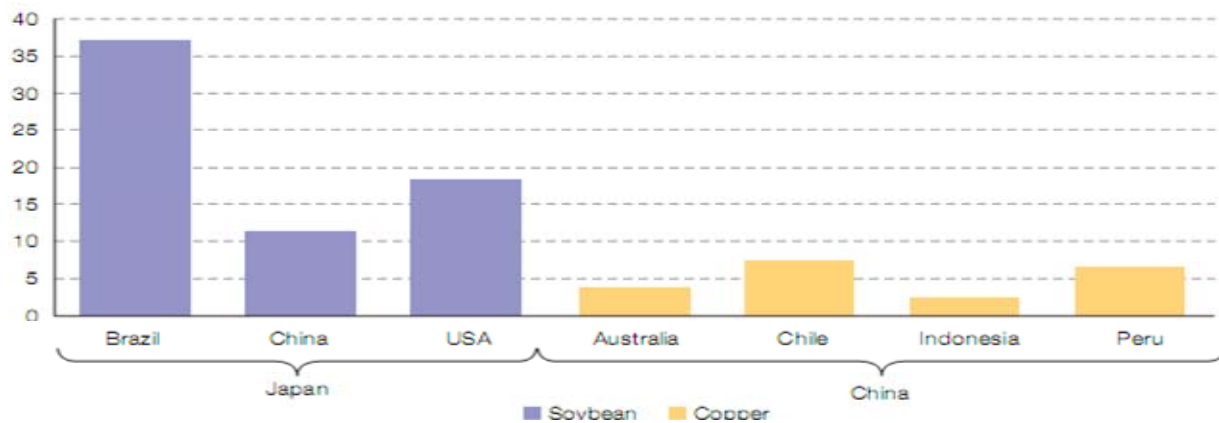
IMPACT OF SHIPPING COSTS ON THE PRINCIPAL SECTORS OF LATIN AMERICAN EXPORTS TO JAPAN^a
(As a percent of the CIF cost of the product)



Source: p. 88 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific: The Link With APEC*, ECLAC (November 2008)

Figure 7.

IMPACT OF SHIPPING SOYBEAN AND COPPER ORE TO JAPAN AND CHINA (2004-2006)
(As a percent of the CIF cost of the product)

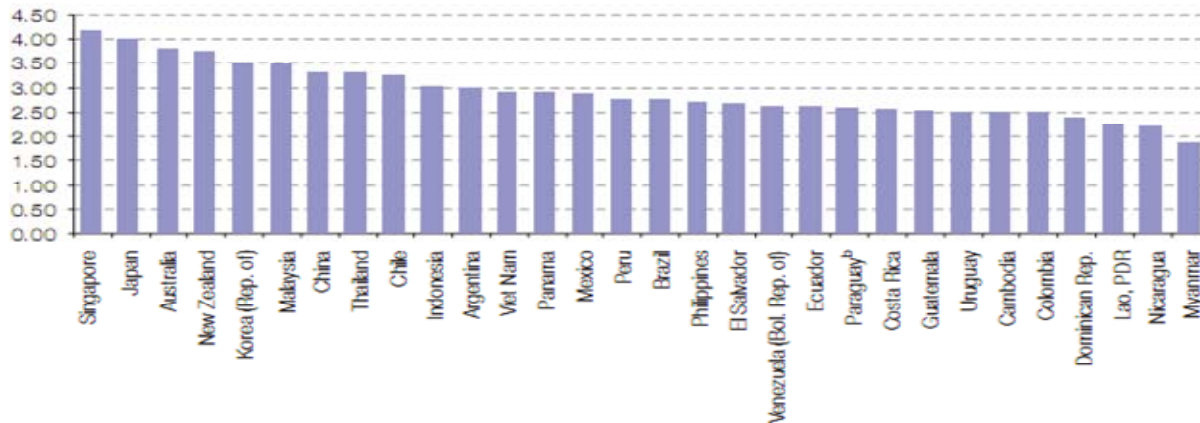


Source: p. 88 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific: The Link With APEC*, ECLAC (November 2008)

Weak Trade Logistics in Latin America and the Caribbean

Latin American countries performed weakly in the Logistics Performance Index developed by the World Bank, given the high logistics costs in the region and the weak port capacities. The two areas in which Latin America underperformed are customs and port infrastructure facilities. Chile and Argentina are top performers in Latin America in customs and port infrastructure facilities and ranked higher than some countries in Southeast Asia. (Figure 7)

Figure 8.
LOGISTICS PERFORMANCE INDEX^a
(Score in the range of 0-5)

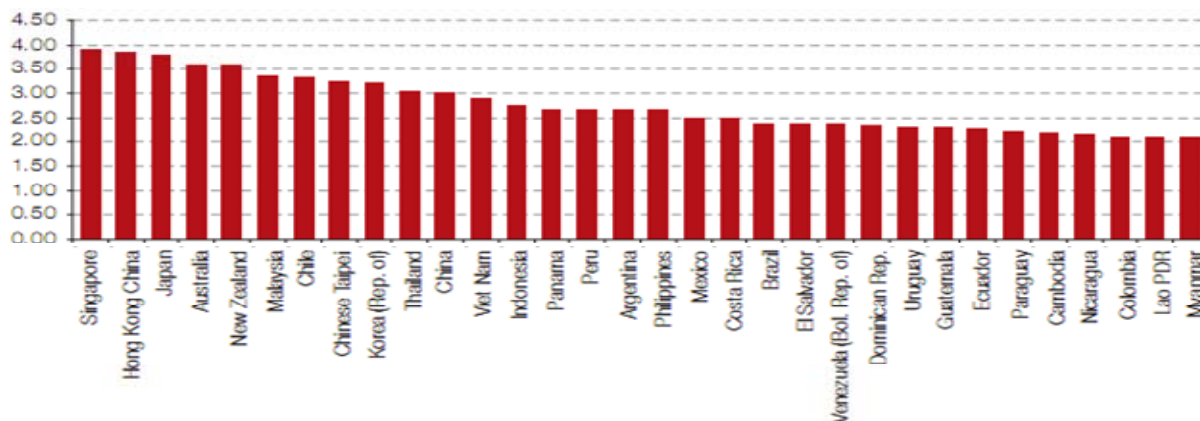


a The study does not provide numbers either for Bolivia, Brunei Darussalam or Cuba

b As Paraguay is a landlocked country, its scores are disputed by studies by authors such as Martines Zarzoso and Hoffman, who rank Paraguay among the last

Source: p. 89 in *Opportunities for Trade and Investment Between Latin America and Asia-Pacific The Link With APEC*, ECLAC (November 2008)

Figure 9.
CUSTOMS PERFORMANCE INDEX^a
(Score in the range of 0-5)



Quality Control Measures (ISO) in Latin America and the Caribbean

China and Japan account for 70% of all the ISO issued in the two regions in 2006. Latin America, on the other hand, only issued a very small portion of ISO certification between the two regions at 5.5%. Most of the ISO certification comes from Brazil and Argentina. While Quality control measures are not necessarily obligatory, ISO certification is influential in determining competitiveness and influencing buying decisions of consumers. (Table 19)

Table 19. ISO Certifications in 2006, By Standard

ISO CERTIFICATIONS IN 2006, BY STANDARD							
(in absolute numbers, percentages and certifications per million inhabitants)							
ISO Standards	9001	14001	16949	13485	TOTAL	Share	Certifications per million inhabitants
	Quality management systems	Environmental management systems	Quality for automotive production	Sanitary management systems			
China	162 259	18 842	4 758	228	186 087	45.33%	142
Japan	80 518	22 593	939	438	104 488	25.45%	820
Korea (Rep. of)	15 739	5 833	2 621	229	24 422	5.95%	506
Australia	17 440	1 964	127	69	19 600	4.77%	967
Malaysia	6 786	593	275	101	7 755	1.89%	291
Singapore	5 830	716	90	46	6 682	1.63%	1490
Thailand	3 913	1 369	471	32	5 785	1.41%	89
Indonesia	4 783	369	110	6	5 268	1.28%	24
Viet Nam	3 167	189	16	5	3 377	0.82%	40
Philippines	2 007	458	67	21	2 553	0.62%	29
New Zealand	2 150	182	2	7	2 341	0.57%	556
Brunei Darussalam	52	4	0	0	56	0.01%	0
Myanmar	19	0	0	0	19	0.00%	0
Cambodia	10	2	0	0	12	0.00%	1
Lao, PDR	1	0	0	0	1	0.00%	0
Brazil	9 014	2 447	846	40	12 347	3.01%	65
Argentina	9 364	862	307	21	10 554	2.57%	271
Colombia	6 271	296	51	0	6 618	1.61%	142
Mexico	4 636	409	758	25	5 828	1.42%	54
Chile	2 565	375	9	0	2 949	0.72%	179
Uruguay	648	45	9	2	704	0.17%	202
Peru	576	83	2	9	670	0.16%	24
Venezuela (Bol. Rep. of)	535	51	26	0	612	0.15%	23
Ecuador	486	50	6	0	542	0.13%	40
Cuba	363	6	0	0	369	0.09%	33
Costa Rica	186	55	2	4	247	0.06%	56
Bolivia	198	30	0	0	228	0.06%	24
Paraguay	103	4	0	0	107	0.03%	17
Panama	99	5	0	0	104	0.03%	32
El Salvador	96	4	0	0	100	0.02%	14
Guatemala	61	7	0	0	68	0.02%	5
Dominican Rep.	29	2	1	2	34	0.01%	4
Nicaragua	28	3	0	0	31	0.01%	6
Total	339 932	57 848	11 493	1 285	410 558	100.00%	137

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the International Organization for Standardization, The ISO Survey, 2006.

R&D Spending

Compared to R&D spending in Japan and the NIEs, Latin America falls far behind. Factoring in Australia and New Zealand as part of the Asia Pacific, Latin America would need a lot of catching up to do. East Asia and the Pacific, as a whole has more than 722 researchers engaged in R&D per million people, while Latin America only has 256. However, on some aspects of R&D, Latin America fares better than ASEAN countries.

Table 20. Some Research and Development Indicators

SOME RESEARCH AND DEVELOPMENT INDICATORS					
HDI Rank		Patents granted to residents (per million people)	Receipts of royalties and license fees (dollars per person)	Research and development (R&D) expenditure (% of GDP)	Researchers in R & D (per million people)
	Country/region	2000-05 ^a	2005	2000-05 ^a	1990-2005 ^a
3	Australia	31	25.0	1.7	3759
8	Japan	857	138.0	3.1	5287
19	New Zealand	31	627.9	1.8	4301
21	Hong Kong China	5	31.2	0.6	1564
25	New Zealand	96	125.8	2.3	4999
26	Korea, Republic of	1113	38.2	2.6	3187
30	Brunei Darussaleem	0.0	274
63	Malaysia	..	1.1	0.7	299
78	Thailand	1	0.3	0.3	287
81	China	16	0.1	1.4	708
90	Philippines	(.)	0.1	0.1	48
105	Viet Nam	(.)	..	0.2	115
107	Indonesia	..	1.2	0.1	207
128	India	1	(.)	0.8	119
132	Myanmar	..	0	0.1	17
East Asia and the Pacific		..	1.7	1.6	722
38	Argentina	4	1.4	0.4	720
40	Chile	1	3.3	0.6	444
46	Uruguay	1	(.)	0.3	366
48	Costa Rica	..	0	0.4	..
51	Cuba	3	..	0.6	..
52	Mexico	1	0.7	0.4	268
62	Panama	..	0	0.3	97
70	Brazil	1	0.5	1	344
74	Venezuela (Bolivarian Republic of)	1	0	0.3	..
75	Colombia	(.)	0.2	0.2	109
79	Dominican Republic	..	0
87	Peru	(.)	0.1	0.1	226
89	Ecuador	0	0	0.1	50
95	Paraguay	..	33.2	0.1	79
101	Jamaica	1	4.7	0.1	..
103	El Salvador	..	0.4	0.1	47
110	Nicaragua	1	0	0	73
115	Honduras	1	0	0	..
117	Bolivia	..	0.2	0.3	120
118	Guatemala	(.)	(.)
Latin America and the Carrebean		..	1.1	0.6	256
OECD		239	104.2	2.4	3096
WORLD		..	21.6	2.3	..

Source: United Nations Development Programme (UNDP), Human Development Report 2007/2008.

Education Gap Between the Two Regions

Asian countries, with the exception of Thailand and Indonesia, consistently rank high in the Programme for International Student Assessment (PISA) Survey of student skills in science, mathematics and reading. PISA survey covers almost 90% of the world economy in assessing the knowledge and skills of students in three areas. In contrast, Latin America falls far behind, ranking along with Middle East and Eastern Europe.

Table 21. PISA Rankings and Scores, 2006

PROGRAMME FOR INTERNATIONAL STUDENT ASSESSMENT (PISA) RANKINGS AND SCORES, 2006									
A. Science			B. Mathematics			C. Reading			
Rank	Economy	Science	Rank	Economy	Mathematics	Rank	Economy	Reading	
2	Hong Kong China	542	1	Chinese Taipei	549	1	Korea,	556	
4	Chinese Taipei	532	3	Hong Kong China	547	3	Korea, Republic of	536	
6	Japan	531	4	Korea, Republic of	547	5	New	521	
7	New Zealand	530	8	Macao SAR	525	7	Australia	513	
8	Australia	527	10	Japan	523	15	Japan	498	
11	Korea, Republic of	522	11	New Zealand	522	16	Chinese Taipei	496	
17	Macao SAR	511	13	Australia	520	21	Macao SAR	492	
OECD	AVERAGE	500	OECD	AVERAGE	498	OECD	AVERAGE	492	
40	Chile	438	42	Uruguay	427	38	Chile	442	
43	Uruguay	428	44	Thailand	417	41	Thailand	417	
46	Thailand	421	47	Chile	411	42	Uruguay	413	
49	Mexico	410	48	Mexico	406	43	Mexico	410	
50	Indonesia	393	50	Indonesia	391	48	Indonesia	393	
51	Argentina	391	52	Argentina	381	49	Brazil	393	
52	Brazil	390	53	Colombia	370	51	Colombia	385	
53	Colombia	388	54	Brazil	370	53	Argentina	374	

Source: OECD, PISA 2006: Science Competencies for Tomorrow's World.

5. Conclusion

While geographic proximity is important, it no longer stands as the most important factor for countries or regions to engage in cooperation initiatives. A favourable political context and the government's commitment to create an environment conducive for economic growth and development are deemed as essential, if not more essential, than geographic distance when

engaging in regional cooperation. It is in this light that interregional economic partnerships have been explored.

Clearly, there are still a lot that should be done before Asia Pacific and Latin American countries and the Caribbean can engage in meaningful economic partnership. Gaps and bottlenecks exist that need to be addressed. The two regions are characterized by sharp structural and policy differences. Production structures and export capacities have huge differences. Biregional economic links have remained weak and showed little diversification as inter-industry trade still account for trade flows --- with Asia Pacific exporting manufactures and LAC exporting primary commodities to Asia Pacific. As such, there is a need for Latin American countries and the Caribbean to strengthen their trade capacities to make their economies more complementary with Asia Pacific and establish trade and investment partnerships, in addition to trade agreements, which would help economies integrate into the production and export chains of Asia Pacific. Latin America and the Caribbean, as a whole, should work on diversification of products to integrate itself in the supply chain networks of the Asia Pacific region. It should also capitalize on the trade complementarities between the two regions and create partnership for innovation and competitiveness.

Market access, high transportation costs, and weak SMEs had been identified as major obstacles that should be given adequate attention to strengthen partnership between the two regions. One of the biggest challenges for Latin American countries is market access to Asia Pacific. As already shown, Asia Pacific has maintained high protection on its agriculture sector. Latin America should be able to engage Asia Pacific on trade agreements that would bring down tariff levels in Asia's agricultural sector. Trade facilitation initiatives should also be undertaken. Particularly, it is also important to study the maritime and air transport system of the regions, specifically on how to bring down freight costs, alongside studies on export potential and import demands. Finally, it is important to strengthen the SME industry and trade associations to achieve scale economies for SME exporters through clusters or other forms of associations, and explore technical cooperation in technological upgrading and bringing down risks associated with new ventures. (ECLAC, 2008)

Partnership to enhance competitiveness and innovation of Latin America is as important. There are a broad range of issues and agenda that the two regions can work on such as financing to improve infrastructure and logistics, as well as cooperation in non trade areas such as movement of people and other macroeconomic issues that would eventually strengthen trade and investment links.

As an initial step, information exchange and policy dialogue between the two regions should be enhanced, particularly on areas leading to more market opportunities, market access and investments. Free Trade Agreements (FTAs) should also be explored, whether on a bilateral,

subregional or regional level with simplified and harmonized ROOs to ease trade between the two regions.

Existing interregional forum could be used as a platform to advance cooperation between Latin America and the Pacific. APEC could provide the platform with its ECOTECH and TILF agenda. Likewise, the Forum for East Asia-Latin America Cooperation (FEALAC), established in 2001 to serve as a venue for dialogue between the two regions, could potentially have an important role in enhancing partnerships in economic, social and cultural sectors. FEALAC currently has 33 country members in both regions.

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