

## CEO EXECUTIVE NEWS

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# Efficacy of the new Trans-Pacific Alliance



## How effective will the new Latin American and Asian Partnership be in boosting trade?

In October 2015, twelve countries from the Pacific Region signed a multilateral free trade agreement aimed at boosting trade and investment. These countries represent 40% of the global economy and one third of world exports. They are comprised of three Latin American countries, which are listed in the Trans-Pacific Partnership (TPP) as: Chile, Mexico and Peru. In addition, other countries like Colombia are also planning to join this alliance. The question therefore is will this partnership boost the trade between the two Pacific Regions?

The influencing factors involved, which are cover in more detail below, include: The current deficit in the trade balance, a high dependence on commodities and the challenge in overcoming cultural disparities.

### A Deficit in the Trade Balance

According to the ALADI (Latin American Integration Association), CAF (Latin American Development Bank) and CEPAL (The United Nations Economic Commission for Latin America and the Caribbean, known as ECLAC, UNECLAC or in Spanish CEPAL, a United Nations regional commission to encourage economic cooperation) in the first semester of 2014, the trade deficit of Latin America with Asia Pacific was USD 38 billion.

Only Brazil, Chile and Venezuela have a trade surplus with the Asia Pacific (APAC). The remaining countries of Latin America have a large deficit. This is led by Mexico whose deficit with Asia is around USD 50 billion.

The main Asian trade partner with Latin America is China, however, China has not signed the TPP. In 2014, trade with China increased by 5.5%, whilst the trade with rest of Asia decreased. Therefore, it is astounding to note that 70% of the whole Latin American trade deficit with APAC, is



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with China. This suggests that the Trans Pacific Partnership (TPP) itself, won't bring more equity to the trade balance between Latin America and Asia. To achieve this equity, it will need the Latin American governments to adopt internal policies that foster exports from the region. High Dependence on Commodities Latin America needs to explore other markets rather than commodities. The region needs to consider the Asian Market as a consumer rather than as a producer, which only imports commodities, such as minerals, from Latin America. Mexico is leading in exporting non-commodity goods. The country is the largest exporter in the world of flat screens and the fourth of computers, microphones and speakers. The biggest market share for these products is US and then Canada.

### The role of Small and Medium Enterprises

As mentioned, Latin America needs to make a shift towards exports from Latin American countries to Asia. This shift has to be from natural resources, which are low value products, produce by few large firms, to high value added products. Latin American governments have seen the opportunity to make this shift by investing in Small and Middle Size Enterprises (SME's), since their products have higher value. Hence, increasing the participation of the Latin American SME's in the trade with Asia should be one of the priorities of the Latin American governments.

On the other hand, foreign companies who want to expand their operations in Latin America should evaluate the value of SME's in the value chain. According to ECLAC, these SME's represent 35% – 40% of Latin America's GDP and amount to

90 – 98% of all the firms in the region. Therefore, SME's are attractive for Merger and Acquisition deals, since they provide higher flexibility to the Supply Chain. However, the foreign direct investment from Asia in Latin America amounts to only USD 9 billion compared to USD 158 billion from the United States, with Japan being the biggest investor from Asia. This indicates that Asian companies' investment in Latin America remains low and there are big opportunities for partnership among the regions.

There are different factors influencing the current trade situation of Latin America with Asia. Soft factors, such as cultural differences, may be challenging attempts to boost trade in the region and reducing the deficit in the trade balance.

### Do cultural differences play a role?

Other Free Trade Agreements were already in place among some of the countries, like the North American Free Trade Agreement (NAFTA), Association of Southeast Asian Nations (ASEAN), the Pacific Alliance recently created, and the Community of Latin American and Caribbean States (CELAC) to name a few. Despite these trade agreements, trade balances continue to show high inequality.

Javier Huerta, Latin Department Manager at CWCC (an advisory firm), affirms, "One of the challenges of the bilateral investment, is the mutual lack of trust among the different cultures. There is a lack of knowledge in Latin America about Asia, specifically about China". The large geographical distance and the lack of direct flights are contributors that explain why China's market and culture are unfamiliar to many Latin Americans. Therefore, both Regions

## News

### Logistics Executive Group Middle East appoints Katharina Albert to head its Corporate Advisory & Supply Chain Consulting business.

In move bringing further expertise to our Middle East business, experienced Supply Chain business leader, Katharina Albert has joined the Dubai team as Practice Leader EMEA – Corporate Advisory & Supply Chain Consulting. Katharine is a leading expert in the areas of material and supply chain flow simulation, SC optimisation, network design and is a cost modelling expert with more than 8 years of experience in the logistics, manufacturing, aviation and oil & gas sector. She holds a Master's degree in Systems Engineering & Industrial Management from Germany and has been based in the Middle East since 2011 in the field of business and supply chain performance consulting. She will lead our business supply chain consulting business unit.

### Logistics Executive Group launches Certified Logistics Professional Accreditation program

Logistics Executive Group with the Logistics and Supply Chain Management Society (LSCMS) has partnered to offer the Certified Logistics Professional Accreditation program across its global markets. LSCMS launched the CLP and CLE program in 2000. In partnership with Logistics Executive Group and with the emphasis on collaboration with other industry bodies, associations, groups and societies, the CLP Certification is the benchmark of excellence for measuring capability and proficiency within the profession of Logistics and Supply Chain Management. As a professional certification, the CLP enables employees in the logistics industry to develop their capability more effectively, and in doing so assist in defining the logistics profession. The emphasis on continual improvement of knowledge and skills is timely for an industry that requires skilled personnel to reflect and underpin its importance to our global economy.

To discover more about the Certified Logistics Professional standard and how to qualify, please refer to the link below:

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have local stereotypes about the other, which restrain them from establishing workable trade partnerships.

Javier, who advises Latin American companies that want to establish their footprint in Hong Kong and China, encourages his clients to learn more about their target markets. Of high relevance are skills that enable them to learn how to earn their Asian partner's trust in order to close a deal. To tackle this challenge, several summits like the China-LAC Business Summit, have been created to promote economic and trade cooperation with Latin America and the Caribbean region. It is therefore very important to have an understanding of each country's culture and market. Being able to develop the skills to manage cultural differences is an essential competency to gain in this diverse, global marketplace.

Another challenge is the language barrier as a large percentage of the population in Latin America and China do not speak the common business language of English. This is why companies like IFB International Freightbridge are teaching Spanish to employees who are responsible for operations with Latin America. In addition, "hiring Latin Americans in China has improved the communication among the operations function there", according to Jack Han, Regional Director for Latin America.

Javier and Claudia Lopez from Kerry Logistics, agree that finding the right partner in Latin America is another key variable. There is a complexity in the supply chain in Latin America due to, among others things, the noticeable gaps

in infrastructure, which increase transportation costs and lead times. Therefore, "finding domestic, logistics providers and offering products that are new in Latin America, (an example of which is Kerry Logistics' offering of Integrated Logistics)", have a significant impact on increasing margins. The Ti-Logistics Executive Latin America Report has a detailed SWOT analysis of the Domestic Logistics Providers, as well as country profiles analysis with the respective vertical markets opportunities that denote this.

Without a doubt, the TPP brings new opportunities for boosting the trade among Latin America and Asia. However governments and companies need to identify strengths and weaknesses and overcome the existing challenges which include the four areas mentioned above: the deficit in the trade balance, the current high dependence on commodities, low participation of SME's in the trade between the regions and cultural barriers in or to make the best out of this alliance. The opportunities of a successful partnership between the two regions are endlessly and overall there is a lot of optimism that this agreement will be highly successful.

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## Author Profile



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Camila holds a MSc. in Operations and Supply Chain Management and a Bachelor in Chemical Engineering. She has previous experience in a multinational chemical company, which provides expertise in the areas of: Supply Chain, Operations, Process Improvement, Quality Management, Manufacturing, and Chemical industry. Furthermore, she has experience in the Latin American market.

Camila is based in our Hong Kong Regional Headquarters and works as Regional Consultant for the North East Asia Region. She speaks English and Spanish.

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