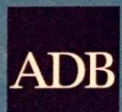


Asia-LAC Supply Chains

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Shaping the Future

of the Asia–Latin America and
the Caribbean Relationship



- ADB, ADBI, and IDB publication, 2012
- Underscore vast potential for inter-regional cooperation
- Analyze economic ties between Asia and LAC:
 - trade, investment, FTAs, political cooperation

3 waves of cross-pacific economic relationship

- But before it: 15th c. 'conquistadores' sailing west (in search of Asian spices) only to discover America
- 1st wave: post WW2: Japan: major investor and buyer of natural resources; supplier of industrial goods
- 2nd wave: resource-scarce NIEs (70s-80s)- ROK, CT, HK, Singapore
- 3rd wave: PRC and India – Asia is now LAC's second largest trading partner

Trade relationship: geographic and product concentration

- From Asia: mostly PRC, Japan, ROK, and India with PRC having the lion share
- From LAC: mostly Brazil, Mexico, Chile, and Argentina
- Commodity-for-manufacturing:
 - LAC: concentrated in iron ore, copper, soy, oil...
 - Asia: wide range of manufactured goods

Trade architecture

- Over 30 FTAs
- Most active: Chile, Peru, Panama
- Most active in Asia: Singapore, CT, PRC, Japan
- CPTPP-11 spans both regions
- Dream Beyond FTAs: sectoral agreements e.g. transport infrastructure, fiscal incentives for direct shipping / direct flights to lower cost

Asia-LAC investment

- ◉ Asian investment in LAC dwarfed by figures going to OFCs-
> hard to discern final investment destination
- ◉ Excluding OFCs, still show fast growth of Asian investment in LAC
 - ◉ But there is a big gap between trade share and investment share
 - ◉ Concentrated in Brazil and Mexico
 - ◉ Japan/ ROK investments in manufacturing; PRC into mining
 - ◉ Few investments of LAC into Asia, mainly to PRC and India
- ◉ Value chain insertion examples through JV to secure raw materials; forward integration strategy – to supply auto manufacturers.

Top sectors of interest for investors

To Asian investors

Source	Top sectors
Japan	Auto OEM, parts and components, consumer electronics, electronic components
PRC	Metals, auto OEM, communications, indl machines
India	Software/IT services, business services, pharma

To LAC investors

Source	Top sectors
Brazil	Finl services; metals, food and tobacco, auto components
Chile	Finl services, traspo
Mexico	Leisure and entertainment, food and tobacco, auto components

Based on number of projects. Source: fdimarkets.com

Cooperation

- ◉ APEC, TPP-11, FEALAC
- ◉ BRICS
- ◉ UN, WTO, G-20
- ◉ Other multilateral fora
- ◉ High potential areas for cooperation:
infrastructure, climate change, poverty
reduction, natural disaster cooperation,
financial regulation, trade facilitation and
supply chain

Effects of trade war

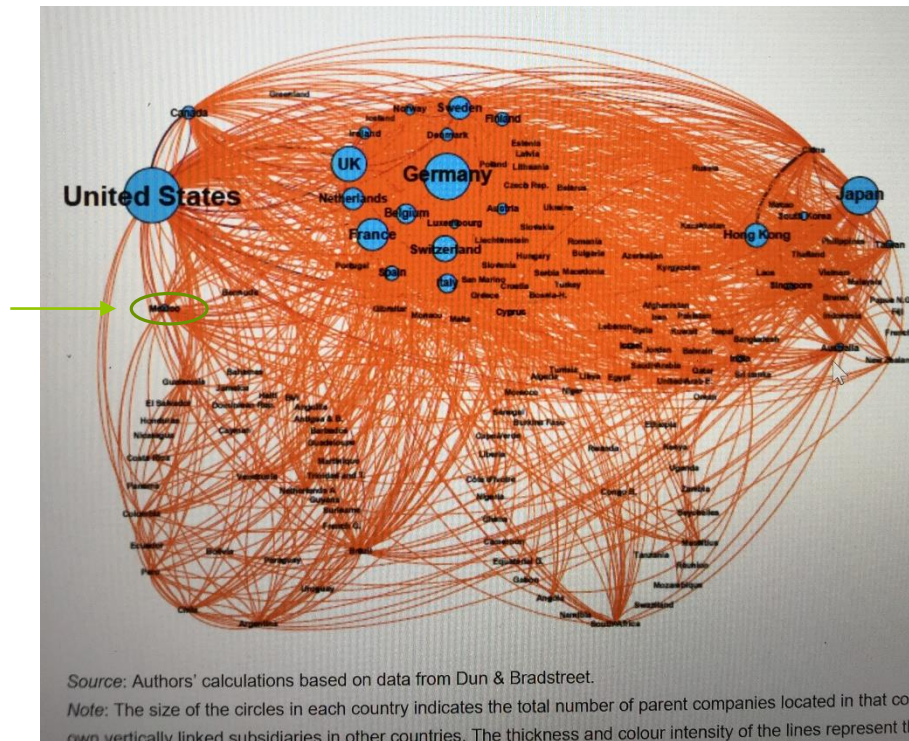
- ◉ Breaking of supply chain; geographic diversification strategy, e.g. Apple suppliers – 15-30% capacity shift out of China
- ◉ Increase in production cost
- ◉ Slower economic growth in China will affect LAC export to China, its major Asian market
- ◉ Investors will:
 - ◉ Factor in international politics to a much greater degree than before, and not just consider cost, speed, and efficiency
 - ◉ Potential rise of regional supply chain

Effects of trade war

- Beneficiaries
 - Asia: Malaysia, Vietnam;
 - Philippines and Indonesia; Laos, Myanmar
 - India
 - LAC especially Mexico (proximity to US)
- Higher cost and loss of scale efficiencies
 - Setting up new sources of supply will take time: qualifying new producers; Shenzhen ecosystem of suppliers difficult to replace

Network of parents and vertically linked subsidiaries

- a proxy of participation in GVCs led by multinationals.
- With the exception of Mexico, the participation of LAC is clearly marginal.

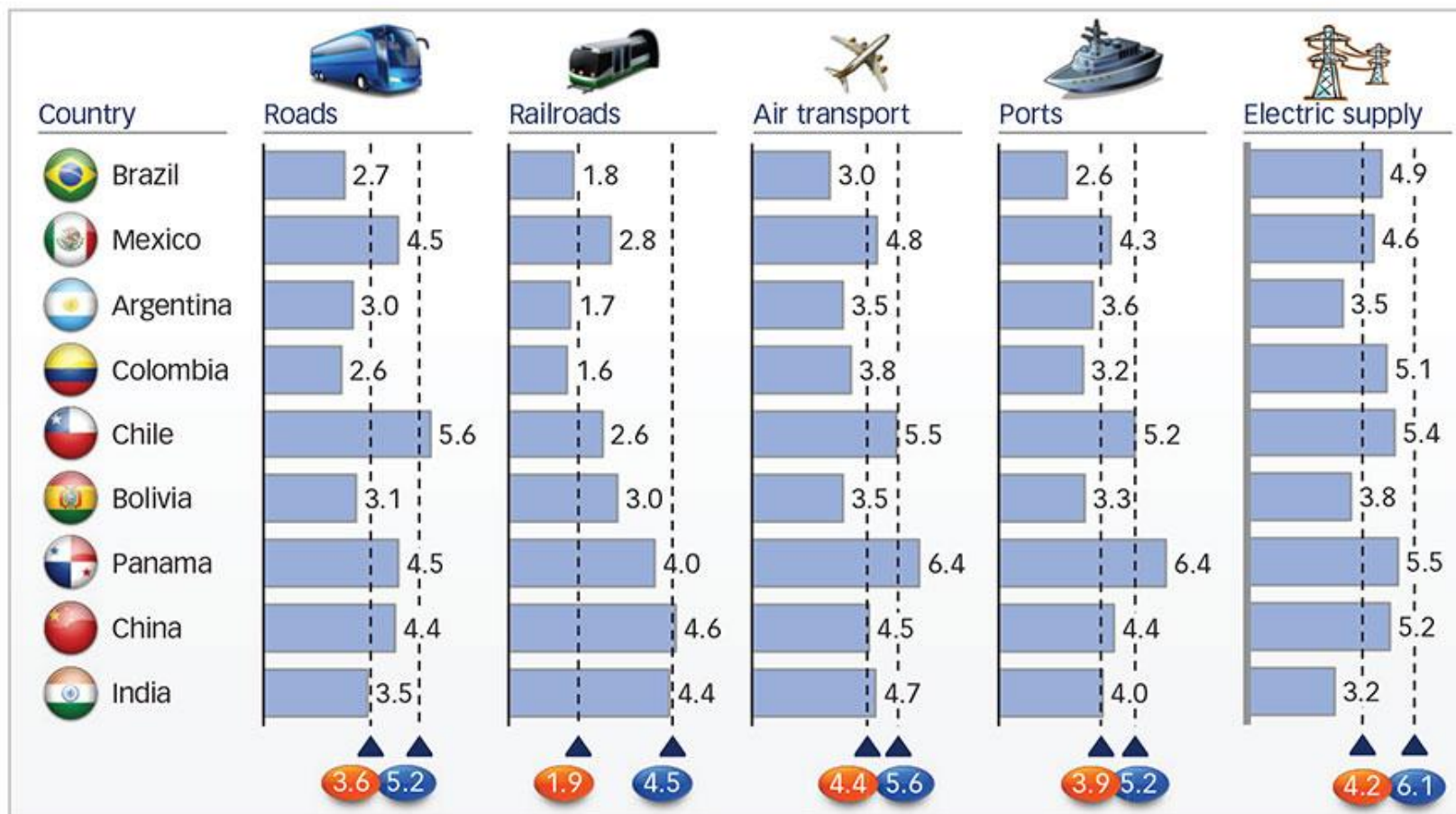


Factors limiting GVC participations

- Poor transport and logistics infrastructure.
 - Cost of shipping to HK or China Mainland is less than shipping within LAC; mostly by road (more expensive)
- High trade costs
 - (GVC requires multiple import/export; protectionism increases cost)
- Contractual frictions
- Lack of information;
- certification and standards (micro –level analysis)

[FIGURE 1] LATIN AMERICA'S INFRASTRUCTURE QUALITY FALLS SHORT

(Comparison of selected countries' World Economic Forum infrastructure quality index scores¹ and OECD average²)



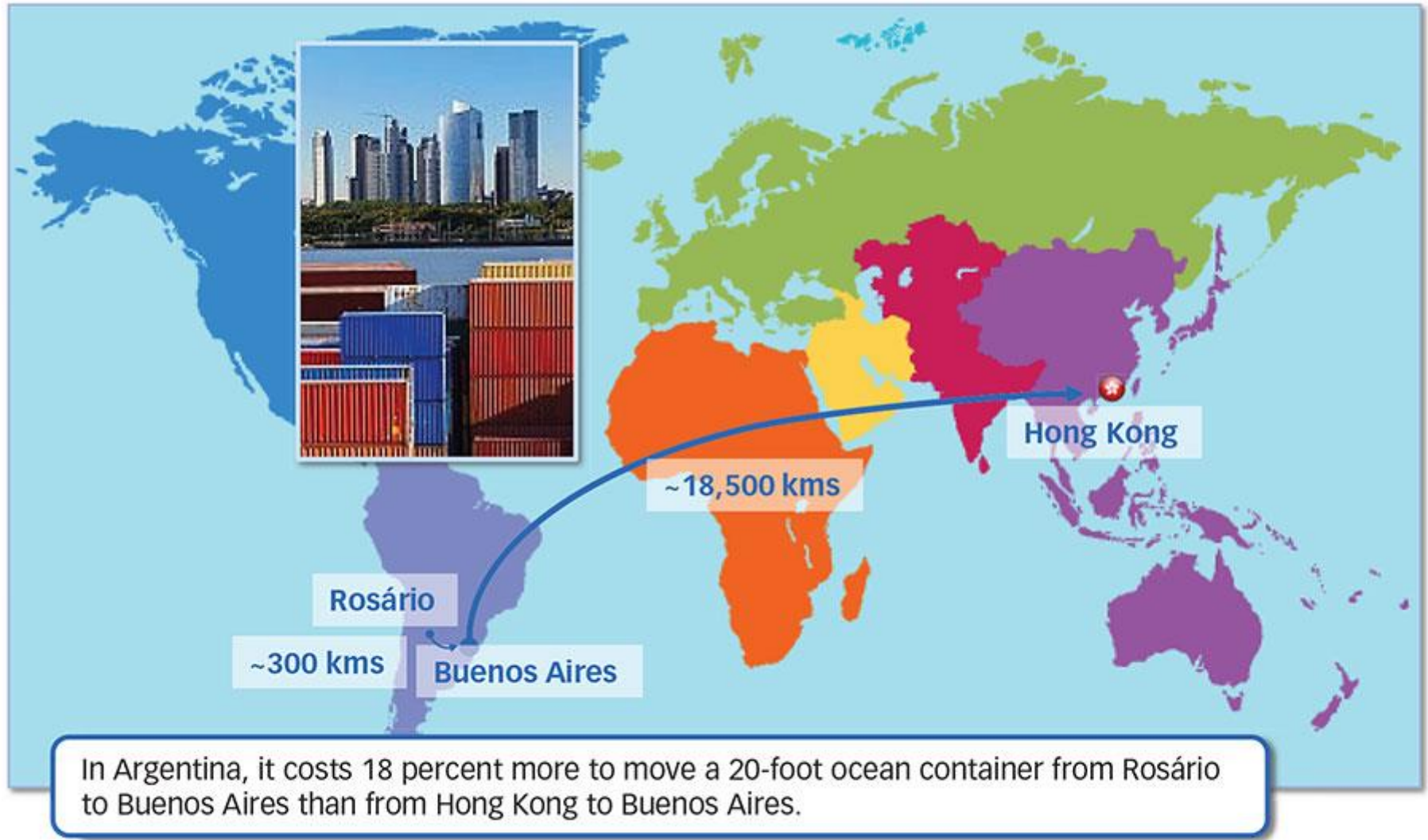
Latin America and the Caribbean
 OECD

¹ Index based on surveys regarding the infrastructure quality in each dimension (1 = extremely underdeveloped/poor, 7 = extensive and efficient by international standards/excellent)

² Average index comprising Organization for Economic Cooperation and Development member countries

[SOURCE: WORLD ECONOMIC FORUM *GLOBAL COMPETITIVENESS REPORT* (2012-2013); MCKINSEY & COMPANY ANALYSIS]

[FIGURE 2] LOCAL TRANSPORTATION COSTS CAN BE SIGNIFICANT



[SOURCE: IPROFESIONAL.COM—COMEX, MARCH 27, 2013; MCKINSEY & COMPANY ANALYSIS]

Contractual friction

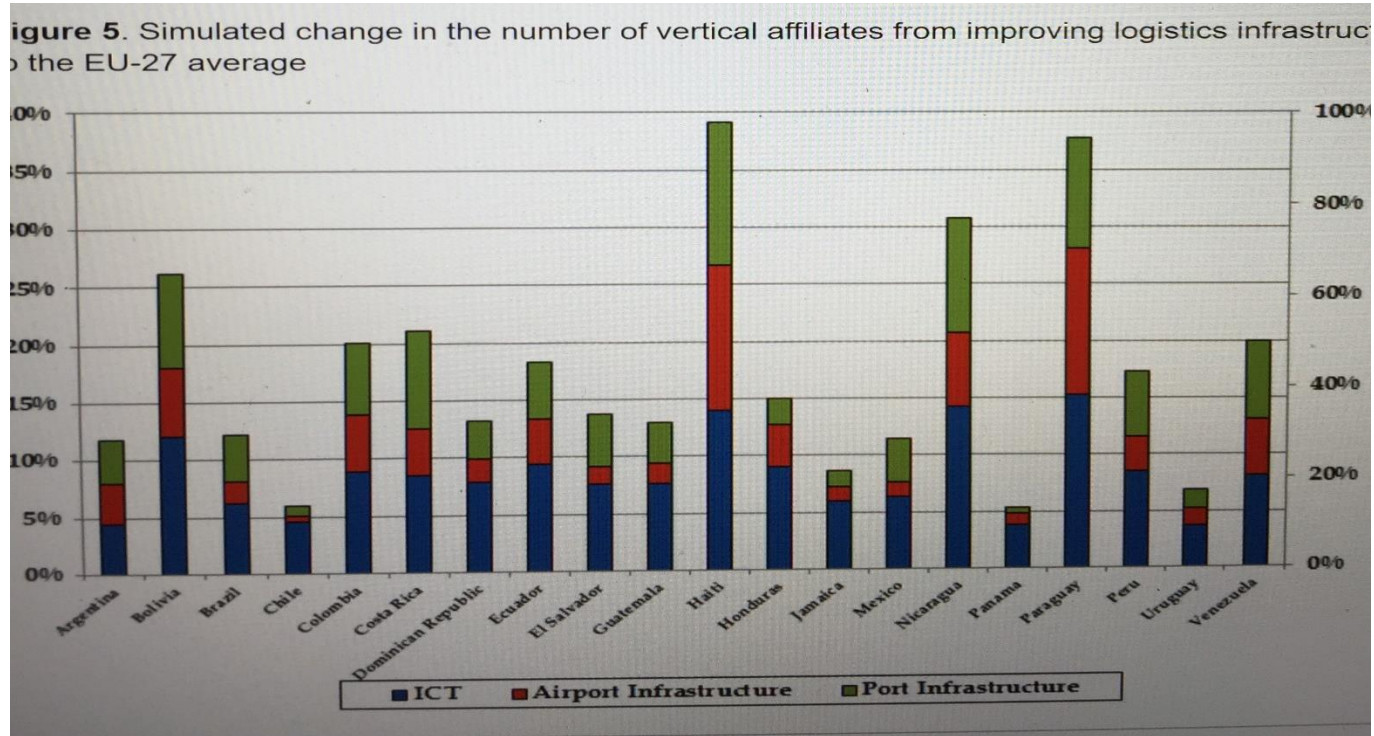
	World	LAC	AP	EU-27
# procedures to enforce a contract	36.3	38.3	33.2	31.6
Days to enforce contract	604	733	399	541
Cost to enforce a contract (% of claims)	31.6	31	30.5	21

Factors that help firms succeed in participating in GVC

- ◉ Prior exposure to international practices and markets
- ◉ Niche-targeting; rely on firm comparative advantage
- ◉ Accumulation of capabilities and use of certifications as evidence (signal) of proficiency
- ◉ Continuing to learn and improve capabilities after joining GVC
- ◉ Collaboration with peers to address common challenges

Source: IDB, Synchronized Factories

Predicted increase in vertical affiliates from infrastructure improvement



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Thank You!

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[FIGURE 4] LATIN AMERICA'S SUPPLY CHAIN MATURITY GAPS

Gaps in Latin America's supply chain maturity are largest in areas that are critical to managing the complexities of the region.

Median SCM Maturity Assessment Tool Results by Region¹

1 = lowest, 5 = highest

Dimension



- Supply chain risk is higher in Latin America than in developed markets, yet the region's ability to manage risk is significantly lower.
- Forecasting is critical in Latin America given regional complexity and market growth, however, forecasting maturity significantly lags developed markets.

- Latin America
- USA/Canada
- Europe

1. Median scores by region, McKinsey's SC360 tool, consumer packaged goods (CPG) industry

2. Average of median scores by region, McKinsey's SC360 tool, consumer packaged goods (CPG) industry

3. www.istoedinheiro.com.br

[FIGURE 3] TYPICAL LATIN AMERICAN SUPPLY CHAIN CLUSTERS

Latin America's challenges

- **Different time zones**—5 different time zones provide 13 consecutive hours of work coverage in the region
- **Different languages, cultures, and politics**—for example, differences in language and regulations in Central America lead to multiple labeling
- **Long distances**—transporting items with low value-add increases total costs
- **Geographical barriers**—for example, mountain passes between Argentina and Chile can close due to heavy snow, making lead times and inventory management challenging
- **Various free-trade agreements**—range from subregional pacts to agreements between two countries; terms of agreements can lead to different product counts per case and different sizes based on the country, increasing portfolio complexity

Typical configuration of Latin American organizations

