

Gateway to the west

By Ulric Rindebro

The Chinese economy and its industrial sector have become very lucrative for major mineral exporters Chile and Peru, but their over-dependence on this one market also carries risks, especially given the current trade and political tensions between the US and China.

Gregory Fealy, a professor at the Australian National University and renowned expert on Southeast Asia, says the Pacific Alliance countries should diversify their exports to Asia by focusing on the fast-growing nations that make up the Association of Southeast Asian Nations (ASEAN): Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Pacific Alliance members such as Chile and Peru have very little trade with Southeast Asia, Fealy points out. Mercosur is the biggest trading partner in terms of blocs, with Brazil being the single largest trading partner for ASEAN nations in South America.

Fealy noted that ASEAN will soon become the fifth largest economy in the world and the growth of the middle class in several Southeast Asian nations is "explosive," with Indonesia alone estimated to have a middle class of more than 100mn people.

What to sell to ASEAN?

Fealy said that countries like Indonesia and Thailand are expanding their industrial production bases, especially car manufacturing and vehicle assembly, and therefore need raw materials that countries like Chile and Peru can provide, including copper.

The fast-growing middle class in countries such as Indonesia, the Philippines and Thailand also offers a great opportunity for Chile and Peru to export a wide range of agriculture products.

Fealy noted that as people join the middle class their consumption patterns start to change and they begin to consume more imported dairy products, grain, and fruits and vegetables. He said New Zealand has been very good at selling such products to the emerging middle classes of the ASEAN countries at high prices, and nations like Chile and Peru, who enjoy a reputation for very high-quality food production, could do the same.

Bilateral or Bloc-wide FTAs?

Fealy said that signing bilateral trade agreements with ASEAN nations instead of a PA-wide trade agreement with ASEAN would probably be the best and fastest way for Chile – which already has a bilateral free trade agreement with Indonesia – and Peru to increase their exports to Southeast Asia.

A free trade agreement with the whole ASEAN bloc, such as the one that Australia and New Zealand have, can be a very slow process, as ASEAN is a consensus-driven organization where all the 10 members have to agree for any bloc-based FTA to be signed.

Chile will host the next Asia-Pacific Economic Cooperation (APEC) summit in November, which could represent an excellent opportunity for high-level engagement on trade issues, as several ASEAN and PA countries are members of APEC, Fealy note