

*PECC Trade Forum Meeting*

*(Lima, 17-19 May 2002)*

# **Effects of RTAs in Investment Location and Trade Patterns**

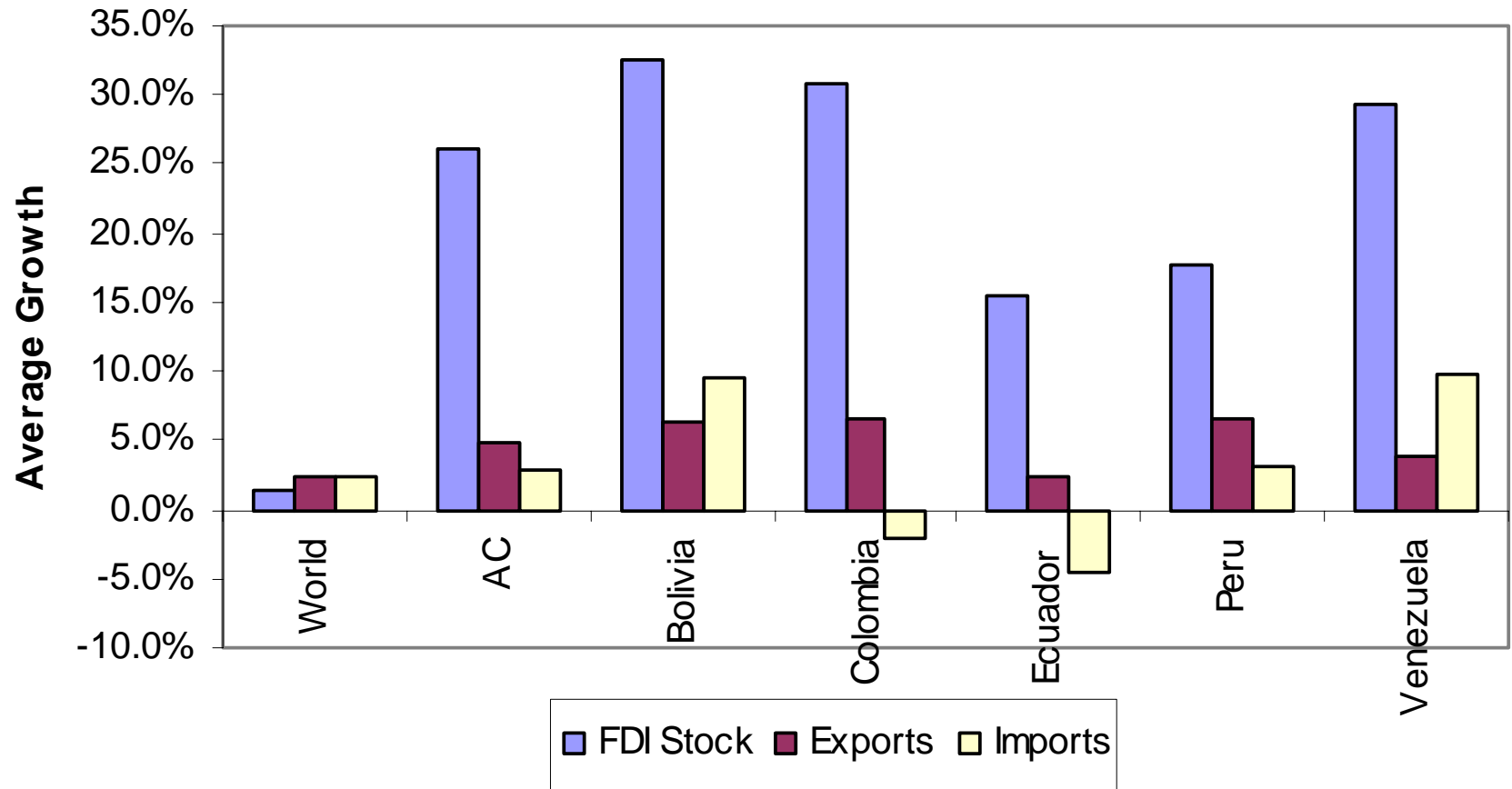
## **The Andean Community Case**

*Fernando Gonzalez-Vigil*

*Carlos Kuriyama Shishido*

*( Universidad del Pacifico )*

## FDI Inward Stock and Trade Growth in the Andean Community (1994-1999)



Sources: UNCTAD, DATA INTAL and United Nations

# Venezuela attracted more FDI in primary sectors. Colombia did it in manufacturing and most service activities...

## Andean Community: Accumulated FDI Inflows by Industry (1994-99)

US\$ million and shares in percentages

	Accumulated FDI Andean Community		Shares				
			Bolivia	Colombia	Ecuador	Peru	Venezuela
Agriculture, forestry and fishing	296	100%	1.4%	44.6%	12.8%	13.2%	28.0%
Mining and petroleum	16,385	100%	9.8%	9.9%	17.8%	7.0%	55.5%
Manufacturing industry	8,279	100%	3.7%	51.8%	2.6%	11.8%	30.1%
Electricity, gas and water	5,384	100%	5.9%	62.2%	0.0%	28.4%	3.4%
Construction	900	100%	61.0%	18.2%	1.9%	6.0%	12.9%
Trade, hotels and restaurants	1,747	100%	1.9%	49.7%	13.6%	20.8%	14.1%
Transport and communications	4,417	100%	16.8%	20.7%	3.1%	54.8%	4.6%
Financial and business sector	7,498	100%	3.0%	50.6%	0.7%	17.0%	28.7%
Social services	421	100%	0.0%	97.6%	0.2%	0.0%	2.1%
Not specified	9,159	100%	0.0%	0.0%	1.3%	74.2%	24.6%
<b>Total FDI</b>	<b>54,486</b>	<b>100%</b>	<b>7.0%</b>	<b>28.5%</b>	<b>6.8%</b>	<b>26.8%</b>	<b>30.9%</b>

Sources: Andean Community; Banco Central de Bolivia; Banco de la República - Colombia; Banco Central de Ecuador

Comisión Nacional de Inversiones y Tecnologías Extranjeras - Peru; Superintendencia de Inversiones Extranjeras - Venezuela



## Andean Community: Accumulated FDI Inflows in the Manufacturing Sector (1994-99)

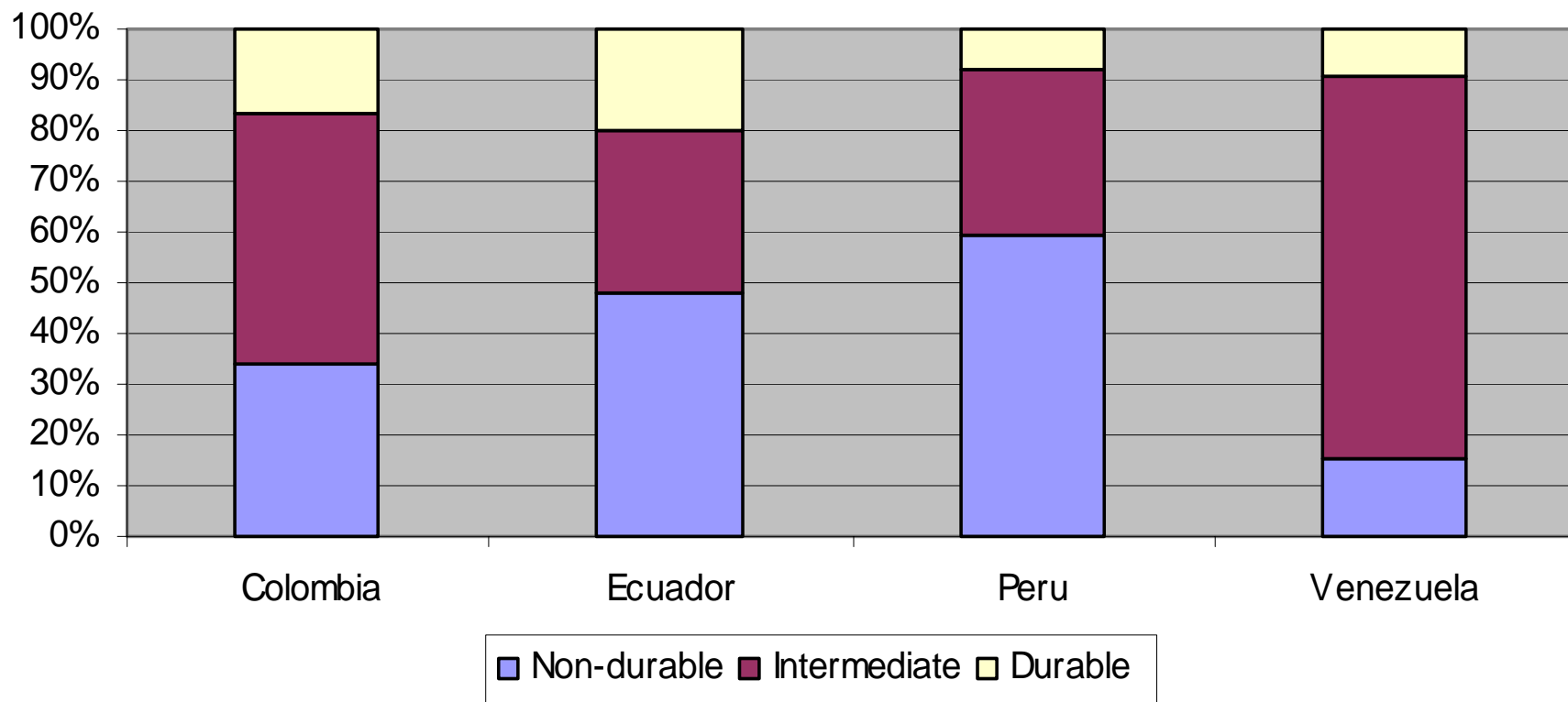
US\$ million

ISIC rev. 2	AC-4 *	Colombia	Ecuador	Peru	Venezuela
	Inflows	Inflows	Inflows	Inflows	Inflows
<b>Total Manufacturing</b>	<b>7,975</b>	<b>4,290</b>	<b>214</b>	<b>977</b>	<b>2,493</b>
<i>Food, beverages and tobacco (311-314)</i>	1754	913	78	503	261
<i>Textiles, clothing and leather (321-324)</i>	184	121	6	24	33
<i>Wood and wood products (331-332)</i>	16	-6	6	2	14
<i>Publishing, printing and media (341-342)</i>	579	431	13	54	81
<i>Chemical, rubber, plastic products and fuels (351-356)</i>	1876	1,246	55	294	282
<i>Non-metallic mineral products (361-369)</i>	1030	721	8	14	287
<i>Basic metal products (371-372)</i>	1456	137	6	7	1,306
<i>Fabricated metal products, machinery (381-385)</i>	992	662	27	79	225
<i>Other manufacturing (390)</i>	87	66	15	2	5

\* Disaggregated Data on Bolivia's FDI Inflows in the manufacturing sector are not available

Sources: Andean Community; Banco de la Republica - Colombia; Banco Central de Ecuador; Comisión Nacional de Inversiones y Tecnologías Extranjeras - Peru; Superintendencia de Inversiones Extranjeras - Venezuela

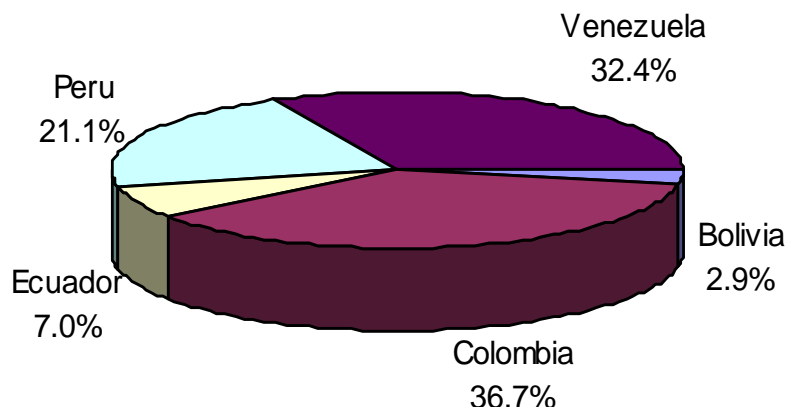
## AC-4: FDI in the Manufacturing Sector by kind of Goods (1994-99)



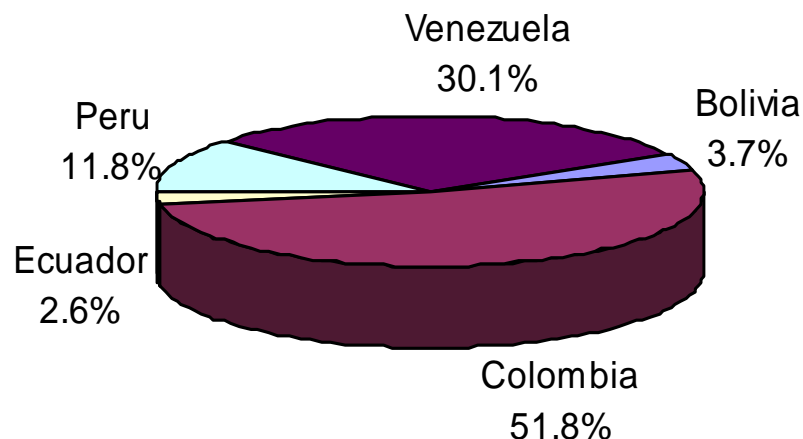
Sources: IMF; Banco de la República - Colombia; Banco Central de Ecuador; Comisión Nacional de Inversiones y Tecnologías Extranjeras - Perú; Superintendencia de Inversiones Extranjeras - Venezuela

# Andean Community: Size of Economies and Share of FDI attracted by the Manufacturing Sector (1994-99)

## Contribution to Andean GDP



## Distribution of FDI in the Manufacturing Sector



Sources: IMF; Banco Central de Bolivia; Banco de la República - Colombia; Banco Central de Ecuador; Comisión Nacional de Inversiones y Tecnologías Extranjeras - Perú; Superintendencia de Inversiones Extranjeras - Venezuela



Colombia & Venezuela: main exporters of manufactures;  
Peru, Ecuador & Bolivia: higher shares as importers...

**Andean Community: Total Trade by industry \***  
**US\$ million and shares in percentages**

ISIC rev. 2	Total AC		Bolivia		Colombia		Ecuador		Peru		Venezuela	
	X	M	X	M	X	M	X	M	X	M	X	M
31	3,826	2,953	4.8	3.3	41.5	29.4	20.6	9.4	24.6	24.5	8.5	33.4
32	1,603	1,659	3.3	3.3	56.2	36.3	4.4	9.3	30.3	15.8	5.8	35.2
33	181	171	35.4	4.3	14.3	26.9	29.8	8.3	16.0	21.0	4.5	39.5
34	455	1,616	6.5	3.7	49.5	34.5	4.5	11.7	10.4	19.1	29.1	31.0
35	14,308	7,223	0.4	3.6	18.6	38.9	6.8	12.4	2.4	19.8	71.8	25.4
36	646	552	0.6	4.7	58.6	30.5	2.8	15.6	4.9	20.6	33.1	28.7
37	3,037	2,342	3.2	4.3	8.2	36.0	0.6	12.9	41.2	14.5	46.9	32.4
38	1,524	17,027	5.9	5.1	31.2	34.0	7.5	10.2	9.6	17.9	45.7	32.7
39	253	626	13.9	4.2	45.1	34.7	4.5	12.0	21.1	19.3	15.4	29.8
<b>Total Industry</b>	<b>25,833</b>	<b>34,169</b>	<b>2.4</b>	<b>4.4</b>	<b>25.6</b>	<b>34.8</b>	<b>8.0</b>	<b>10.9</b>	<b>12.9</b>	<b>18.7</b>	<b>51.1</b>	<b>31.2</b>

\* Average annual trade between 1994 and 1999

Source: DATA INTAL

Colombia and Venezuela explain nearly 80% of the subregional manufacturing exports; and Peru and Ecuador weight more as intra-AC importers...

# Andean Community: Intra-Subregional Trade by Industry\*

US\$ million and shares in percentages

ISIC rev. 2	Total AC		Bolivia		Colombia		Ecuador		Peru		Venezuela	
	X	M	X	M	X	M	X	M	X	M	X	M
31	590	587	19.9	1.6	34.4	44.5	12.1	13.2	7.1	20.7	26.6	20.0
32	416	313	5.0	4.5	64.3	24.5	7.3	14.1	12.8	12.8	10.6	44.2
33	30	28	3.2	1.5	35.4	34.6	44.3	5.7	6.9	18.7	10.2	39.5
34	201	197	0.9	4.3	62.3	25.9	5.6	27.2	3.9	19.1	27.3	23.6
35	1,280	1,387	0.4	2.9	44.4	31.1	9.3	15.1	4.7	38.3	41.2	12.6
36	110	118	1.8	3.7	44.3	36.3	9.2	24.5	5.5	22.3	39.1	13.2
37	488	495	0.5	2.5	9.6	52.9	3.0	14.2	28.8	12.9	58.1	17.4
38	792	800	1.8	2.4	36.9	46.7	11.3	18.6	4.2	7.4	45.8	24.8
39	75	66	0.7	5.8	63.8	20.6	5.4	26.3	8.4	18.2	21.6	29.2
<b>Total Industry</b>	<b>3,981</b>	<b>3,990</b>	<b>4.1</b>	<b>2.8</b>	<b>40.5</b>	<b>38.1</b>	<b>9.1</b>	<b>16.3</b>	<b>8.8</b>	<b>22.5</b>	<b>37.5</b>	<b>20.2</b>

\* Average annual trade between 1994 and 1999. Due to statistical discrepancies between trade partners, export and import values do not match up.

Source: DATA INTAL



# Relocation of Intra-AC flows:

## Net Inflows: Bolivia, Colombia and Venezuela

## Net Outflows: Ecuador and Peru

**Andean Community: Intraregional FDI flows (1994-99) \***

**US\$ million**

Origin \ Destination	Bolivia	Colombia	Ecuador	Peru	Venezuela	Total	% by origin
Bolivia		2	0	1	0	3	0.4%
Colombia	32		40	68	174	314	38.5%
Ecuador	0	150		5	69	224	27.5%
Peru	54	30	0		0	84	10.3%
Venezuela	5	176	10	-1		190	23.3%
Total	91	358	50	73	243	815	100.0%
% by destination	11.2%	43.9%	6.1%	9.0%	29.8%	100.0%	

\* Accumulated flows. Based on FDI inflows reported by each Andean country

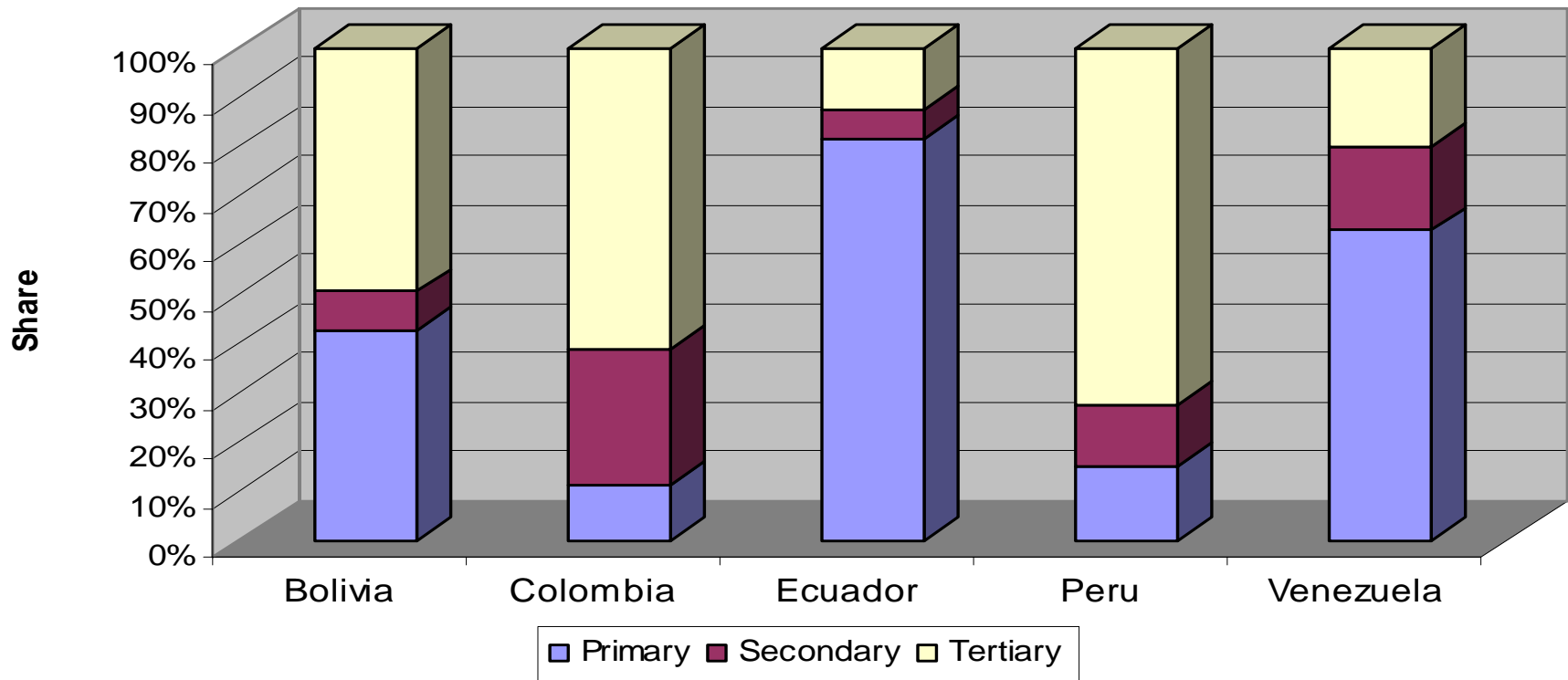
Source: Andean Community

# **Manufacturing FDI: to Colombia, mostly**

## **Services FDI: leads in Peru, Colombia and Bolivia**

### **Primary FDI: leads in Ecuador and Venezuela**

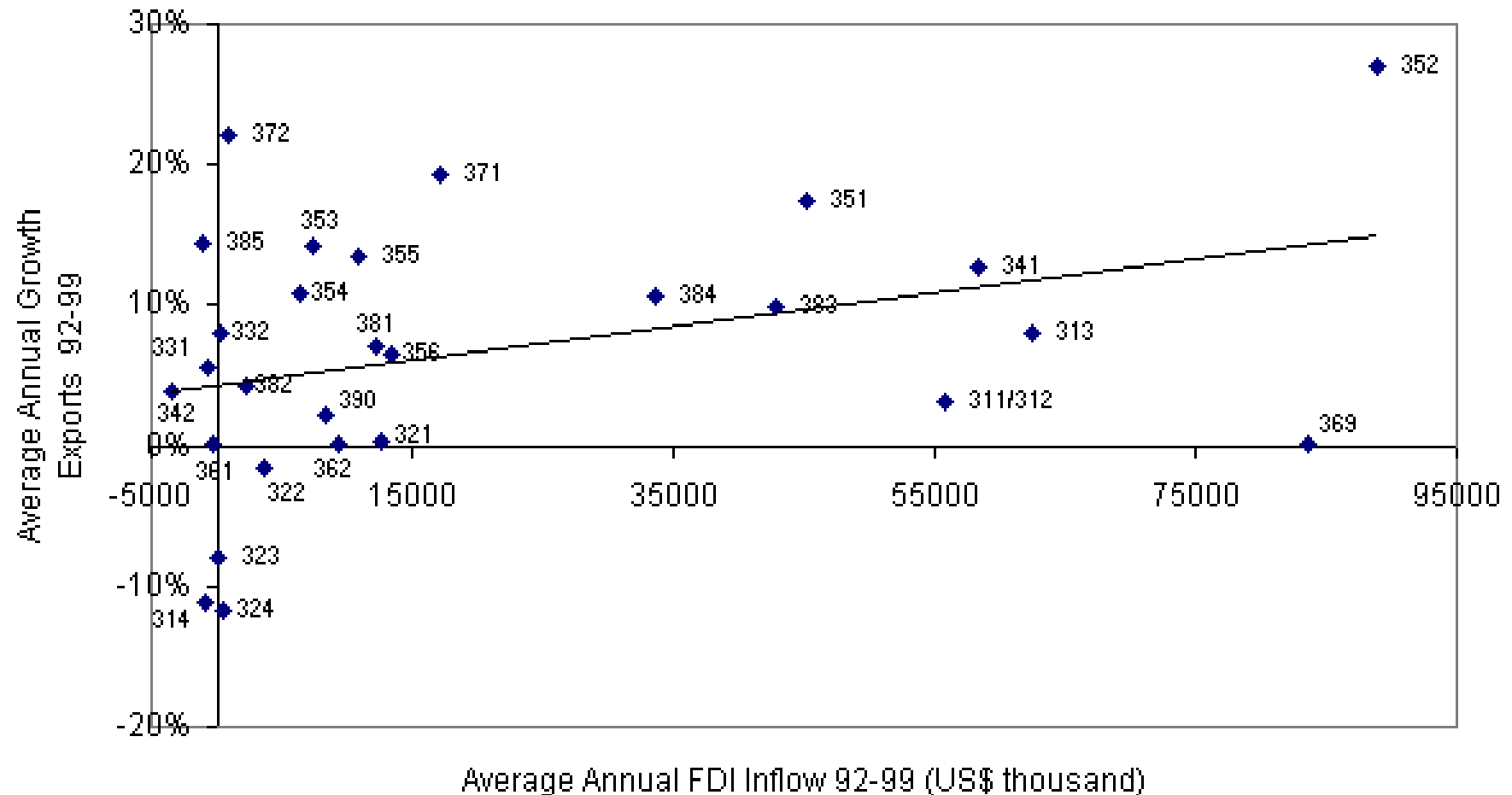
**Distribution of Registered FDI Inflows in the Andean Countries by Economic Sector (1994-99)**



Sources: Andean Community; Banco Central de Bolivia; Banco de la Republica - Colombia; Banco Central de Ecuador; Comisión Nacional de Inversiones y Tecnologías Extranjeras - Peru; Superintendencia de Inversiones Extranjeras - Venezuela

# Some significant correlations between FDI and trade flows in the AC...

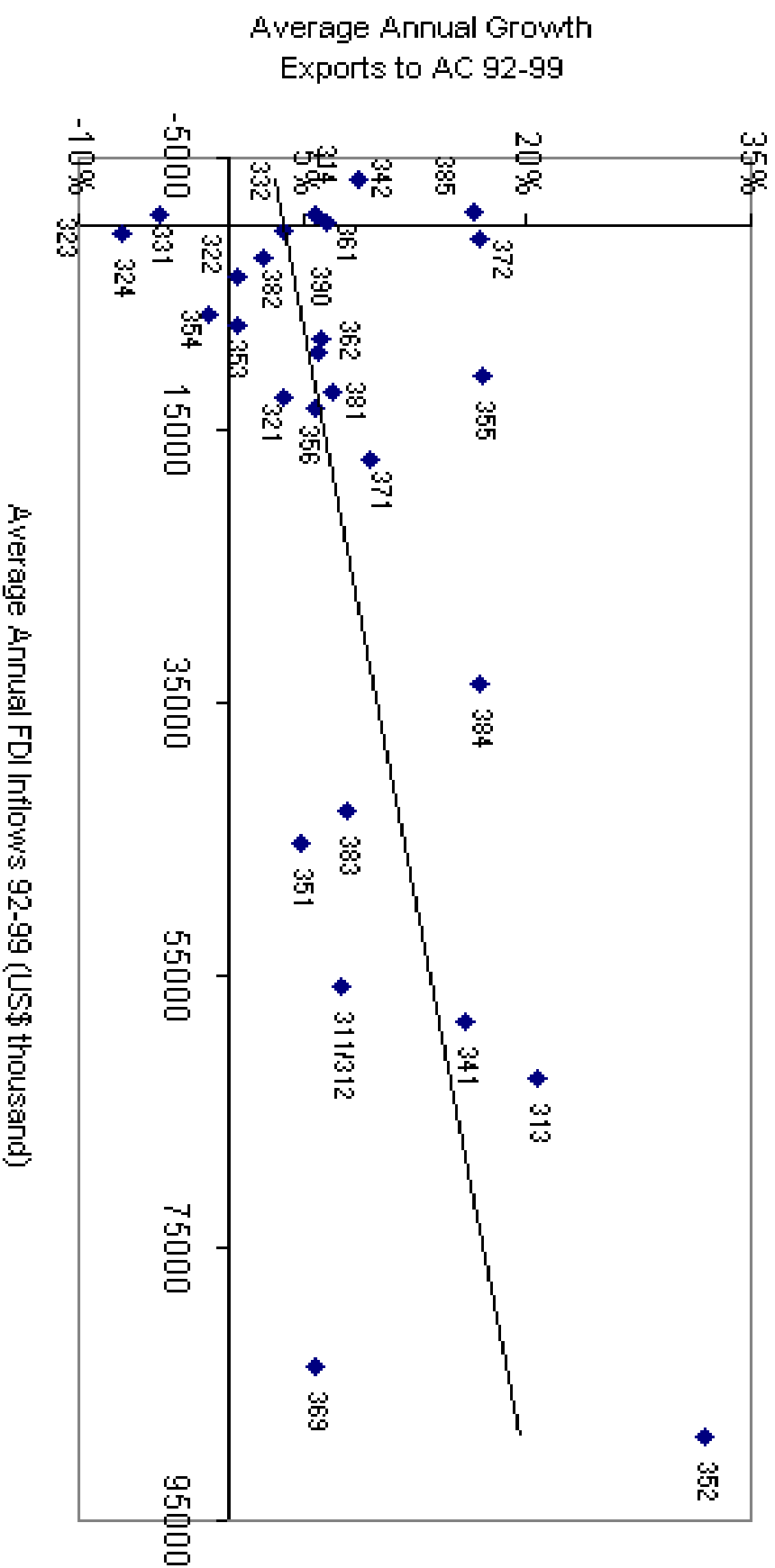
Colombia: FDI Inflows and Exports by Industry 1992 - 1999  
ISIC rev. 2



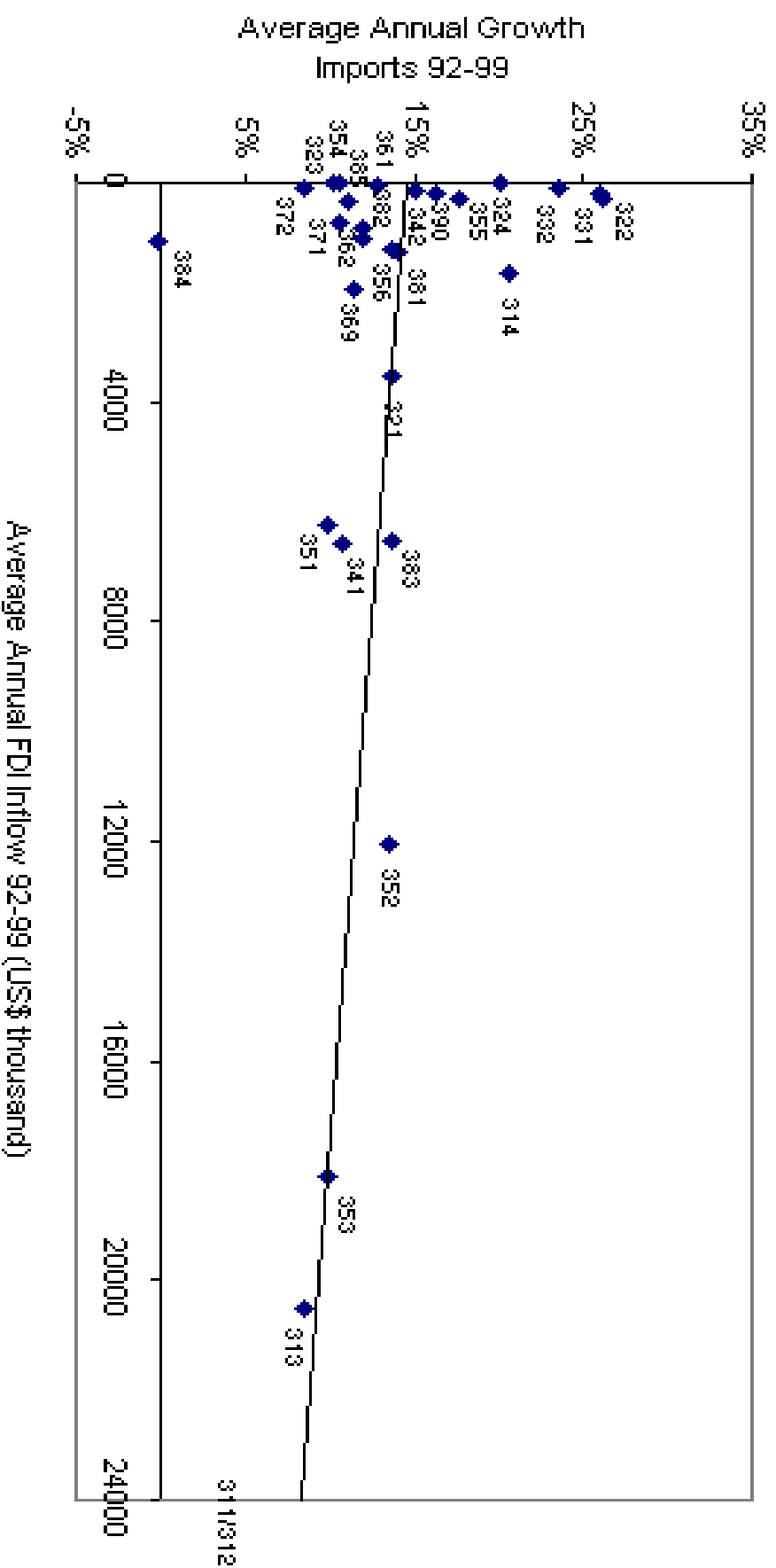


# Colombia: FDI Inflows and Exports to Andean Community by industry 1992 - 1999

## ISIC rev. 2

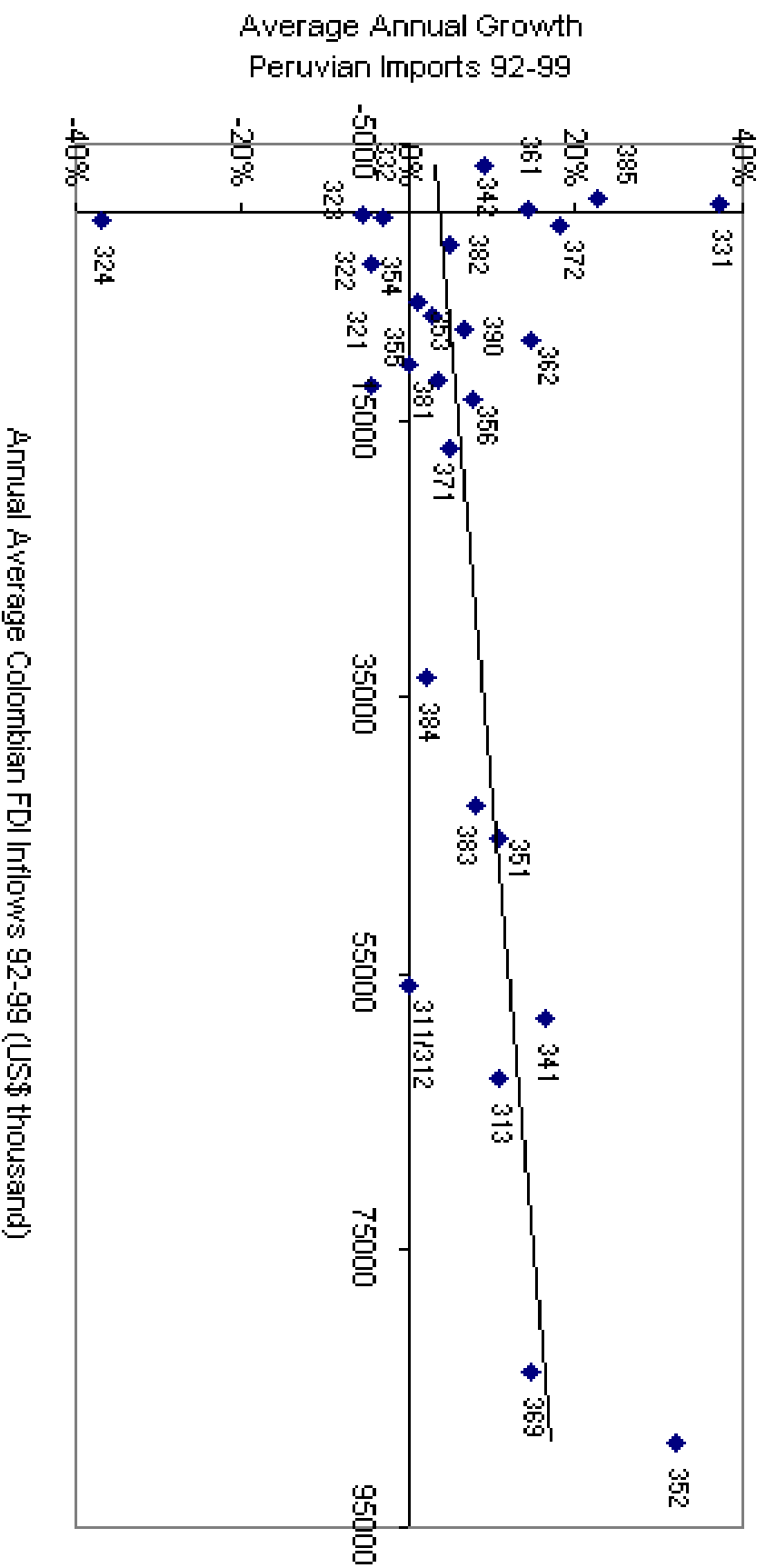


# Perú: FDI Inflows and Imports by Industry 1992 - 1999 ISIC rev. 2



## Colombian FDI Inflows and Peruvian Imports from Colombia by Industry 1992 - 1999

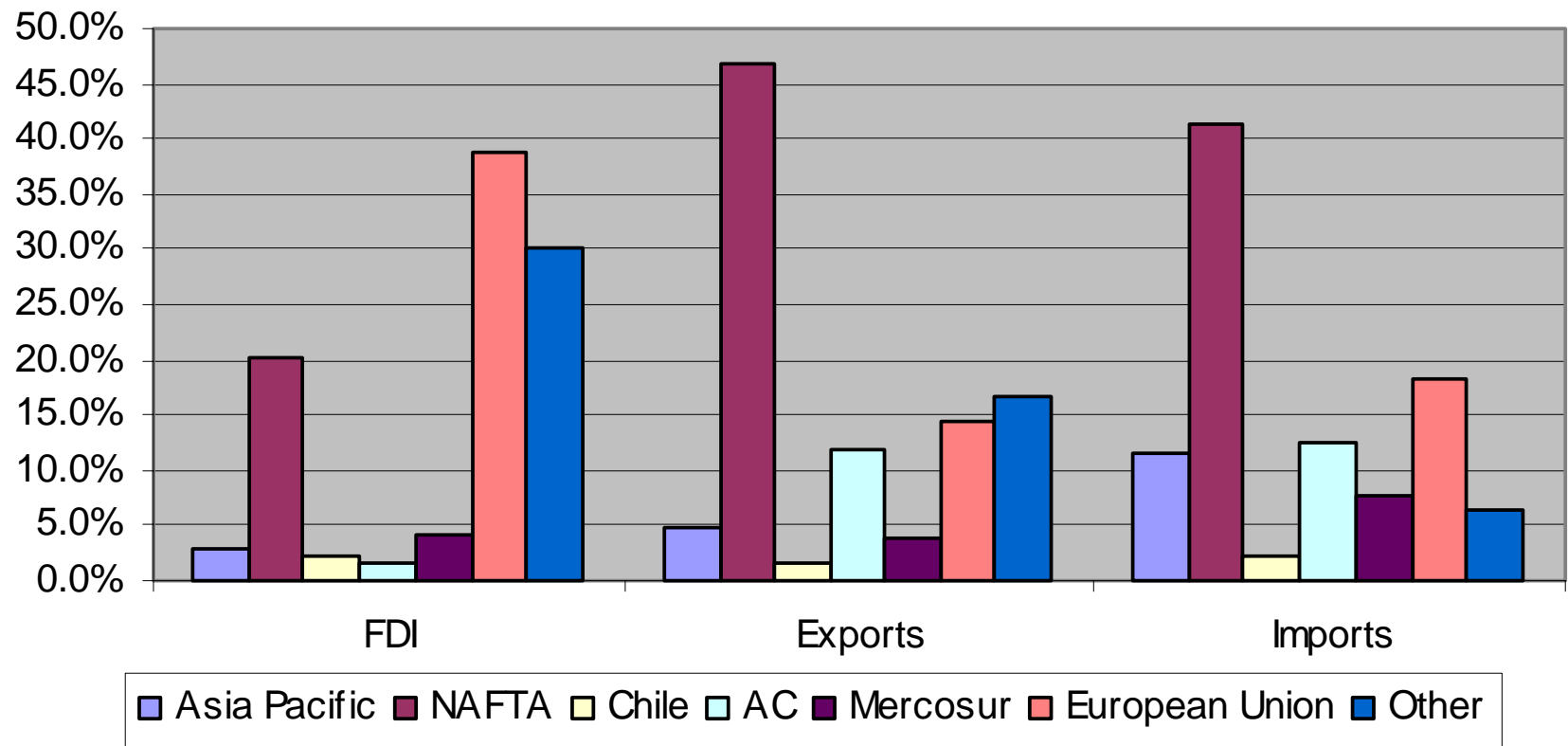
### ISIC rev. 2





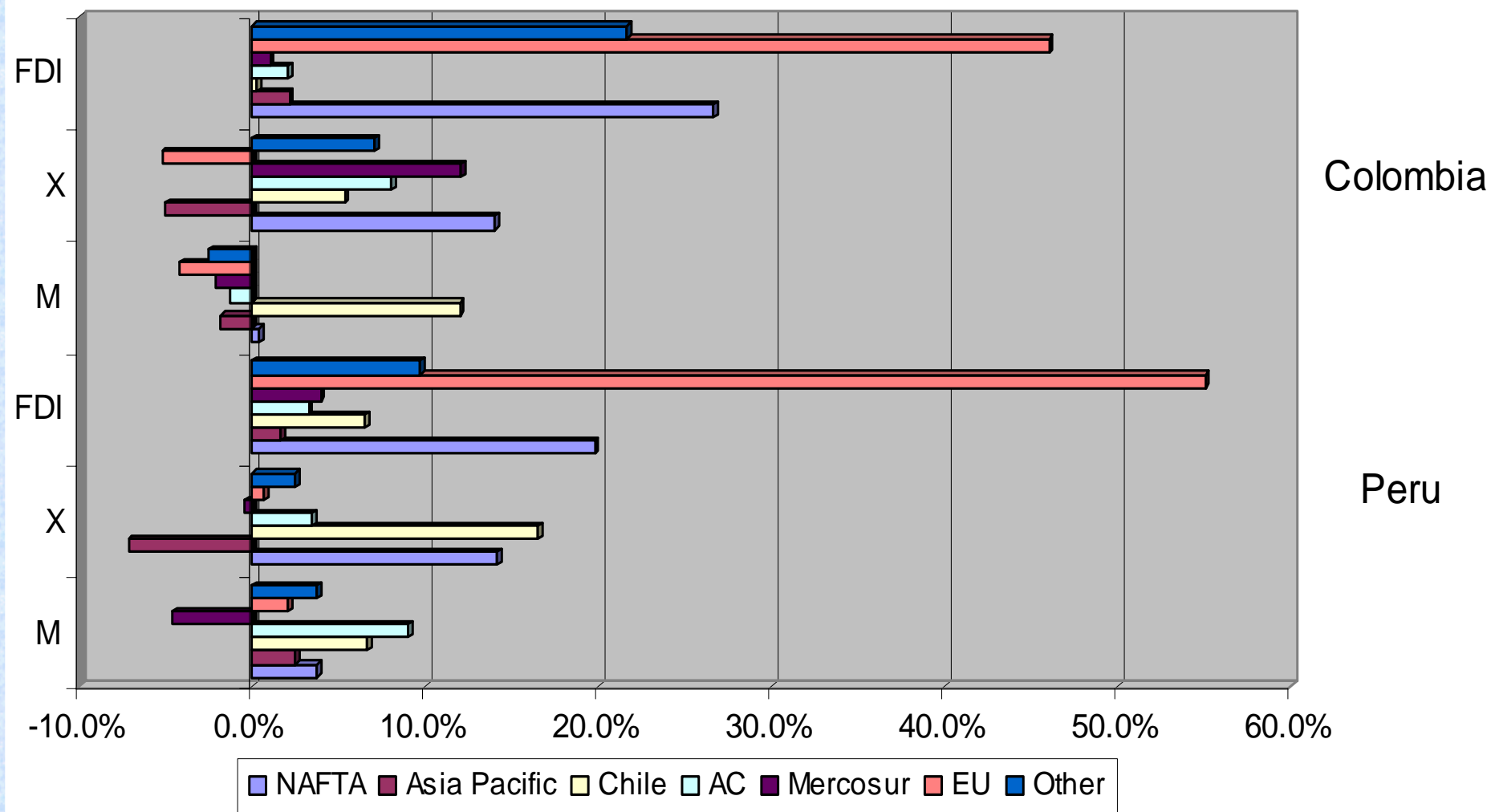
# EU is the main investor in the AC, whereas NAFTA is the first AC's trade partner...

**Regional Distribution of FDI Inflows and Trade in the Andean Community (1994-99)**



Source: Andean Community; DATA INTAL

## Colombia and Peru: Regional Distribution of FDI Inflows to Tradable Sectors and Average Trade Growth by Partner (1994-99)

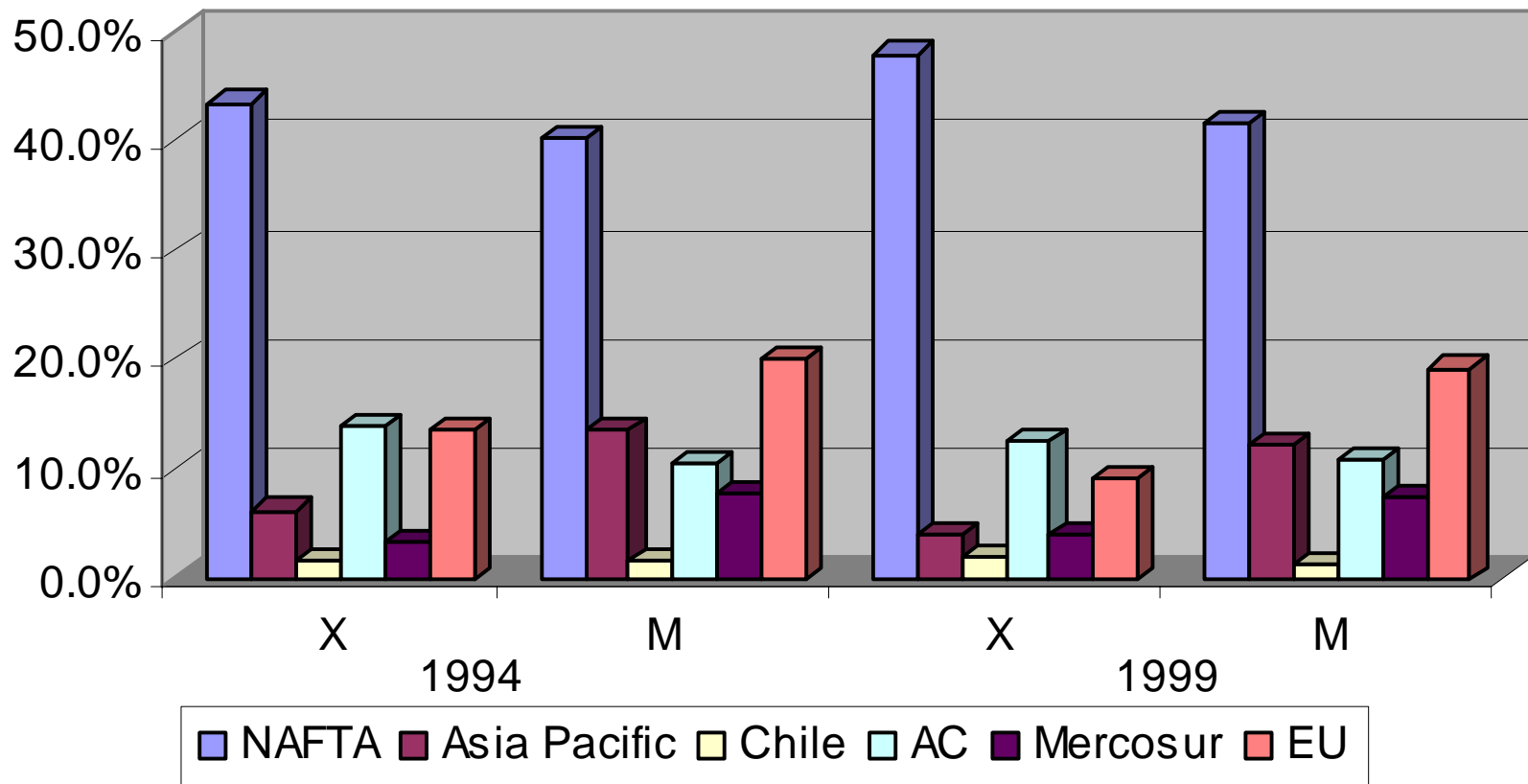


Trade of manufactures:

Main AC's exports: to NAFTA, AC

Main AC's imports: from NAFTA, EU and Asia Pacific

**Andean Community Trade: Distribution of Manufactures  
by Region**



Source: DATA INTAL



# In the US market: Colombia, Peru and Chile have gained ground. Ecuador lost it. What if a Chile - USA FTA?

**Andean Community and Chile: Exports to USA**  
**US\$ million and shares in percentages**

	AC+Chile	Bolivia	Colombia	Ecuador	Peru	Venezuela	Chile
<b>Total Year 1999</b>	<b>21694</b>	<b>2.1%</b>	<b>25.8%</b>	<b>6.9%</b>	<b>6.7%</b>	<b>44.9%</b>	<b>13.6%</b>
<b>Difference between 1999 and 1994</b>							
Agriculture, hunting, forestry and fishing	763	-0.3%	-4.7%	-3.6%	1.5%	0.5%	6.6%
Mining, quarrying and petroleum	1415	0.2%	14.5%	-2.2%	0.7%	-13.0%	-0.1%
Food, beverages and tobacco	150	-0.5%	1.5%	-11.0%	-5.4%	2.4%	13.1%
Textiles, clothing and leather	47	0.5%	-19.5%	-1.0%	24.6%	0.1%	-4.7%
Wood and wood products	317	-8.2%	1.3%	-0.1%	3.6%	-1.3%	4.6%
Publishing, printing and media	-29	-18.3%	4.4%	0.8%	4.6%	9.0%	-0.6%
Chemical, rubber, plastic products and fuels	2794	0.0%	17.0%	-2.3%	0.5%	-15.6%	0.4%
Non-metallic mineral products	55	0.0%	-21.5%	0.9%	2.6%	16.4%	1.6%
Basic metal products	564	-3.1%	-1.4%	0.0%	16.2%	-8.5%	-3.1%
Fabricated metal products, machinery	415	29.2%	-11.2%	0.8%	-0.1%	-14.5%	-4.2%
Other manufacturing	-47	-18.4%	2.7%	2.6%	10.6%	3.8%	-1.2%
<b>Total</b>	<b>6445</b>	<b>0.3%</b>	<b>6.9%</b>	<b>-3.0%</b>	<b>2.1%</b>	<b>-8.2%</b>	<b>1.9%</b>

Source: DATA INTAL

# In the Korean market: Ecuador main winner

## Chile main loser

### What if a Chile - Korea FTA?

**Andean Community and Chile: Exports to Korea**  
**US\$ million and shares in percentages**

	AC+Chile	Bolivia	Colombia	Ecuador	Peru	Venezuela	Chile
<b>Total year 1999</b>	<b>822</b>	<b>0.0%</b>	<b>4.8%</b>	<b>25.9%</b>	<b>4.7%</b>	<b>1.3%</b>	<b>63.3%</b>
<b>Difference between 1999 and 1994</b>							
Agriculture, hunting, forestry and fishing	-16	-0.1%	-4.1%	-0.9%	-0.6%	0.2%	5.4%
Mining, quarrying and petroleum	83	-2.7%	0.0%	89.4%	-5.2%	-3.6%	-77.9%
Food, beverages and tobacco	-4	0.0%	-8.5%	-0.9%	-0.2%	0.4%	9.2%
Wood and wood products	-59	0.0%	0.0%	-0.2%	0.0%	0.0%	0.2%
Publishing, printing and media	1	0.0%	0.0%	0.2%	0.0%	0.0%	-0.2%
Chemical, rubber, plastic products and fuels	139	0.0%	1.6%	87.0%	-2.0%	-1.4%	-85.2%
Basic metal products	47	0.0%	4.3%	0.0%	-4.2%	-3.3%	3.2%
Fabricated metal products, machinery	1	0.0%	4.3%	0.2%	-10.4%	-2.1%	8.0%
Other manufacturing	-5	-6.8%	17.2%	7.3%	11.6%	1.1%	-30.3%
<b>Total</b>	<b>186</b>	<b>-0.1%</b>	<b>0.3%</b>	<b>25.2%</b>	<b>-2.8%</b>	<b>-2.0%</b>	<b>-20.6%</b>

Source: DATA INTAL

# In the New Zealander market: Ecuador main winner

## What if a Chile - NZ FTA?

Andean Community and Chile: Exports to New Zealand  
US\$ million and shares in percentages

	AC+Chile	Bolivia	Colombia	Ecuador	Peru	Venezuela	Chile
<b>Total year 1999</b>	<b>37</b>	<b>0.4%</b>	<b>7.4%</b>	<b>50.5%</b>	<b>11.0%</b>	<b>4.5%</b>	<b>26.2%</b>
<b>Difference between 1999 and 1994</b>							
Agriculture, hunting, forestry and fishing	11	0.0%	-0.8%	17.5%	-0.5%	0.8%	-17.1%
Food, beverages and tobacco	3	0.0%	-2.5%	5.7%	-9.5%	0.9%	5.4%
Chemical, rubber, plastic products and fuels	1	1.4%	-26.8%	-0.3%	4.9%	30.3%	-9.5%
Basic metal products	1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other goods	2	2.7%	-4.9%	-1.5%	-2.5%	-9.0%	15.2%
<b>Total</b>	<b>18</b>	<b>0.4%</b>	<b>-3.7%</b>	<b>11.6%</b>	<b>-2.9%</b>	<b>1.7%</b>	<b>-7.2%</b>

Source: DATA INTAL



## In the Andean market: Colombia and Chile are the winners

### What after Chile's bilateral FTAs?

**Andean Community and Chile: Exports to the Andean Zone**  
**US\$ million and shares in percentages**

	AC+Chile	Bolivia	Colombia	Ecuador	Peru	Venezuela	Chile
<b>Total year 1999</b>	<b>4909</b>	<b>5.9%</b>	<b>33.0%</b>	<b>9.0%</b>	<b>7.0%</b>	<b>24.7%</b>	<b>20.4%</b>
<b>Difference between 1999 and 1994</b>	AC+Chile	Bolivia	Colombia	Ecuador	Peru	Venezuela	Chile
Agriculture, hunting, forestry and fishing	127	-5.9%	6.3%	2.8%	-2.2%	-8.3%	7.3%
Mining, quarrying and petroleum	116	0.0%	8.9%	-14.0%	-1.3%	5.7%	0.8%
Food, beverages and tobacco	190	0.9%	5.4%	0.8%	-2.3%	-10.8%	6.0%
Textiles, clothing and leather	-55	3.6%	-7.6%	4.5%	3.7%	-5.4%	1.2%
Wood and wood products	35	1.2%	-19.1%	-2.5%	4.5%	-3.2%	19.2%
Publishing, printing and media	91	-0.1%	8.7%	-0.5%	2.3%	-7.2%	-3.2%
Chemical, rubber, plastic products and fuel	581	-0.3%	1.9%	-1.4%	-0.1%	2.3%	-2.4%
Non-metallic mineral products	-25	1.3%	14.2%	-4.8%	2.5%	-32.6%	19.4%
Basic metal products	-67	-0.2%	7.5%	-0.6%	2.9%	-14.1%	4.4%
Fabricated metal products, machinery	-132	11.5%	17.4%	-4.1%	1.5%	-35.1%	8.8%
Other manufacturing	27	0.5%	-5.6%	-0.4%	4.5%	-1.0%	2.0%
<b>Total</b>	<b>889</b>	<b>1.5%</b>	<b>5.7%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-10.6%</b>	<b>3.8%</b>

Source: DATA INTAL

# In NAFTA, AC's countries face strong competition from other LAIA countries. Some Chilean products (food and minerals) are well-positioned...

## ANDEAN COMMUNITY: Main Products Exported to NAFTA

Average for the 1994-99 period

Product (SITC rev. 3)	US\$ Millior	%	Main AC Exporters				Main LAIA Exporters (excluding AC)*					
<b>Total</b>	<b>18,577</b>	<b>100.0%</b>	<b>VEN</b>	<b>57.5%</b>	<b>COL</b>	<b>22.9%</b>	<b>MEX</b>	<b>473.2%</b>	<b>BRA</b>	<b>58.0%</b>	<b>CHI</b>	<b>16.0%</b>
33 Petroleum, petroleum products and related	12,131	65.3%	VEN	77.0%	COL	15.8%	MEX	58.4%	ARG	4.0%	BRA	1.6%
07 Coffee, tea, cocoa, spices and related	839	4.5%	COL	65.8%	ECU	17.2%	MEX	71.4%	BRA	67.3%	ARG	4.3%
68 Non-ferrous metals	735	4.0%	PER	46.2%	VEN	41.1%	MEX	127.4%	CHI	94.8%	BRA	33.3%
03 Fish, crustaceans, mollucs, preparations	669	3.6%	ECU	75.1%	COL	8.9%	MEX	88.7%	CHI	45.8%	ARG	12.5%
05 Vegetables and fruit	557	3.0%	ECU	52.3%	COL	34.2%	MEX	450.4%	CHI	125.7%	BRA	68.6%
29 Crude animal and vegetable materials	505	2.7%	COL	81.7%	ECU	16.0%	MEX	19.7%	CHI	8.8%	BRA	3.2%
84 Articles of apparel and clothing accesories	482	2.6%	COL	55.9%	PER	39.2%	MEX	941.7%	BRA	18.7%	ARG	8.3%
67 Iron and Steel	314	1.7%	VEN	93.7%	COL	5.7%	BRA	419.7%	MEX	386.4%	ARG	43.7%
89 Miscellaneous manufactured articles	257	1.4%	PER	37.0%	BOL	33.2%	MEX	1200.5%	BRA	48.7%	ARG	25.6%
28 Metalliferous ores and metal scrap	225	1.2%	PER	56.4%	VEN	33.9%	MEX	176.8%	BRA	126.2%	CHI	61.3%

\* The percentages show the proportion between average exports to NAFTA by LAIA countries and Andean Community

Source: DATA INTAL

# If Chile signs trade agreements with East Asian counterparts, Peruvian exports would be the worst hit...

**ANDEAN COMMUNITY: Main Products Exported to East Asia**  
Average for the 1994-99 period

Product (SITC rev. 3)	US\$ million	%	Main AC Exporters				Main LAIA Expoters (excluding AC)*			
<b>Total</b>	<b>2,191</b>	<b>100.0%</b>	<b>PER</b>	<b>49.2%</b>	<b>COL</b>	<b>20.4%</b>	<b>BRA</b>	<b>295.0%</b>	<b>CHI</b>	<b>211.4%</b>
68 Non-ferrous metals	486	22.2%	PER	60.1%	VEN	39.8%	CHI	313.1%	BRA	132.9%
08 Feeding stuff for animals	389	17.8%	PER	97.9%	ECU	2.0%	BRA	94.8%	CHI	84.8%
28 Metalliferous ores and metal scrap	298	13.6%	PER	83.8%	VEN	10.7%	CHI	378.6%	BRA	319.2%
07 Coffee, tea, cocoa, spices and related	298	13.6%	COL	84.0%	PER	10.4%	BRA	99.0%	MEX	5.8%
33 Petroleum, petroleum products and related	163	7.4%	ECU	82.0%	VEN	12.9%	MEX	242.1%	ARG	30.5%
03 Fish, crustaceans, mollucs, preparations	141	6.4%	ECU	61.9%	PER	27.6%	CHI	391.9%	ARG	215.3%
05 Vegetables and fruit	102	4.6%	ECU	92.2%	PER	5.5%	CHI	142.3%	ARG	130.4%
66 Non-metallic mineral manufactures	94	4.3%	COL	99.0%	PER	0.6%	BRA	72.8%	MEX	6.6%
67 Iron and steel	49	2.2%	VEN	65.8%	COL	34.2%	BRA	2273.6%	MEX	789.5%
26 Textile fibres	24	1.1%	PER	83.3%	ECU	9.3%	URU	426.9%	ARG	408.1%
Product (SITC rev. 3)	Main East Asian Importers from AC									
<b>Total</b>	<b>JAP</b>	<b>47.4%</b>	<b>CHN</b>	<b>18.4%</b>	<b>KOR</b>	<b>12.6%</b>				
68 Non-ferrous metals	JAP	64.3%	TWN	17.8%	KOR	6.9%				
08 Feeding stuff for animals	CHN	57.6%	TWN	11.8%	JAP	11.6%				
28 Metalliferous ores and metal scrap	JAP	42.2%	CHN	27.3%	MAL	15.2%				
07 Coffee, tea, cocoa, spices and related	JAP	88.5%	KOR	9.8%	TWN	0.5%				
33 Petroleum, petroleum products and related	KOR	84.1%	JAP	6.7%	SIN	5.7%				
03 Fish, crustaceans, mollucs, preparations	JAP	54.9%	TWN	20.8%	CHN	14.1%				
05 Vegetables and fruit	JAP	51.2%	CHN	44.3%	KOR	2.9%				
66 Non-metallic mineral manufactures	JAP	66.1%	HKG	26.4%	TWN	4.3%				
67 Iron and steel	KOR	43.5%	JAP	29.5%	TWN	15.9%				
26 Textile fibres	CHN	34.5%	JAP	27.2%	KOR	17.0%				

\* The percentages show the proportion between average exports to East Asia by LAIA countries and Andean Community

Source: DATA INTAL